
**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 September 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 November 6, 2013, 64,666,881 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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
REVENUES	\$ 140,877	\$ 153,826	\$ 423,060	\$ 452,886
OPERATING EXPENSES				
Salaries, wages and benefits	41,498	44,153	126,771	135,827
Fuel	11,356	12,038	38,157	39,962
Maintenance, materials and repairs	24,644	26,751	71,783	75,135
Depreciation and amortization	23,392	21,057	66,077	62,871
Travel	4,409	5,618	13,908	17,162
Rent	6,958	6,745	20,528	18,719
Landing and ramp	2,227	3,877	8,264	11,823
Insurance	1,559	1,944	4,466	5,780
Other operating expenses	8,224	9,348	25,914	27,908
	<u>124,267</u>	<u>131,531</u>	<u>375,868</u>	<u>395,187</u>
OPERATING INCOME	16,610	22,295	47,192	57,699
OTHER INCOME (EXPENSE)				
Interest income	17	38	56	104
Interest expense	(3,814)	(3,668)	(10,500)	(10,886)
Net gain (loss) on derivative instruments	(317)	294	425	956
	<u>(4,114)</u>	<u>(3,336)</u>	<u>(10,019)</u>	<u>(9,826)</u>
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	12,496	18,959	37,173	47,873
INCOME TAX EXPENSE	(4,697)	(7,403)	(13,958)	(18,436)
EARNINGS FROM CONTINUING OPERATIONS	7,799	11,556	23,215	29,437
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	—	(186)	(2)	(576)
NET EARNINGS	<u>\$ 7,799</u>	<u>\$ 11,370</u>	<u>\$ 23,213</u>	<u>\$ 28,861</u>
BASIC EARNINGS PER SHARE				
Continuing operations	\$ 0.12	\$ 0.18	\$ 0.36	\$ 0.46
Discontinued operations	—	—	—	(0.01)
TOTAL BASIC EARNINGS PER SHARE	<u>\$ 0.12</u>	<u>\$ 0.18</u>	<u>\$ 0.36</u>	<u>\$ 0.45</u>
DILUTED EARNINGS PER SHARE				
Continuing operations	\$ 0.12	\$ 0.18	\$ 0.36	\$ 0.46
Discontinued operations	—	—	—	(0.01)
TOTAL DILUTED EARNINGS PER SHARE	<u>\$ 0.12</u>	<u>\$ 0.18</u>	<u>\$ 0.36</u>	<u>\$ 0.45</u>
WEIGHTED AVERAGE SHARES				
Basic	64,052	63,456	63,972	63,439
Diluted	<u>65,036</u>	<u>64,667</u>	<u>64,807</u>	<u>64,478</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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
NET EARNINGS	\$ 7,799	\$ 11,370	\$ 23,213	\$ 28,861
OTHER COMPREHENSIVE INCOME (LOSS):				
Defined Benefit Pension	1,958	1,682	5,874	5,047
Defined Benefit Post-Retirement	(834)	(806)	(2,502)	(2,419)
Gains and Losses on Derivatives	(7)	(9)	(23)	(27)
TOTAL OTHER COMPREHENSIVE INCOME	1,117	867	\$ 3,349	\$ 2,601
TOTAL COMPREHENSIVE INCOME	<u>\$ 8,916</u>	<u>\$ 12,237</u>	<u>\$ 26,562</u>	<u>\$ 31,462</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)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,864	\$ 15,442
Accounts receivable, net of allowance of \$543 in 2013 and \$749 in 2012	45,680	47,858
Inventory	8,952	9,430
Prepaid supplies and other	11,075	8,855
Deferred income taxes	19,154	19,154
Aircraft and engines held for sale	2,491	3,360
TOTAL CURRENT ASSETS	104,216	104,099
Property and equipment, net	848,550	818,924
Other assets	21,427	20,462
Intangibles	4,958	5,146
Goodwill	86,980	86,980
TOTAL ASSETS	\$ 1,066,131	\$ 1,035,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 32,988	\$ 36,521
Accrued salaries, wages and benefits	22,936	22,917
Accrued expenses	8,258	8,502
Current portion of debt obligations	23,572	21,265
Unearned revenue	9,771	10,311
TOTAL CURRENT LIABILITIES	97,525	99,516
Long term debt obligations	368,331	343,216
Post-retirement liabilities	149,326	185,097
Other liabilities	61,592	62,104
Deferred income taxes	62,066	46,422
TOTAL LIABILITIES	738,840	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	524,554	523,087
Accumulated deficit	(83,972)	(107,185)
Accumulated other comprehensive loss	(113,938)	(117,287)
TOTAL STOCKHOLDERS' EQUITY	327,291	299,256
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,066,131	\$ 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)

	Nine Months Ended	
	September 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net earnings from continuing operations	\$ 23,215	\$ 29,437
Net loss from discontinued operations	(2)	(576)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	66,077	62,871
Pension and post-retirement	5,295	4,172
Deferred income taxes	13,736	17,682
Amortization of stock-based compensation	2,123	2,668
Amortization of DHL promissory note	(4,650)	(4,650)
Net gain on derivative instruments	(425)	(956)
Changes in assets and liabilities:		
Accounts receivable	2,183	2,618
Inventory and prepaid supplies	(2,516)	(2,509)
Accounts payable	(157)	(4,811)
Unearned revenue	(5,676)	4,002
Accrued expenses, salaries, wages, benefits and other liabilities	1,520	3,811
Pension and post-retirement liabilities	(35,771)	(24,689)
Other	(3,439)	(2,106)
NET CASH PROVIDED BY OPERATING ACTIVITIES	61,513	86,964
INVESTING ACTIVITIES:		
Capital expenditures	(96,766)	(108,339)
Proceeds from property and equipment	1,337	3,484
NET CASH (USED IN) INVESTING ACTIVITIES	(95,429)	(104,855)
FINANCING ACTIVITIES:		
Principal payments on long term obligations	(47,928)	(9,399)
Proceeds from bank borrowings	80,000	25,000
Reimbursement of hangar construction costs	3,266	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	35,338	15,601
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,422	(2,290)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,442	30,503
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 16,864	\$ 28,213
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	\$ 9,976	\$ 9,240
Federal alternative minimum and state income taxes paid	\$ 1,014	\$ 272
SUPPLEMENTAL NON-CASH INFORMATION:		
Debt extinguished	\$ 4,650	\$ 4,650
Accrued capital expenditures	\$ 1,394	\$ 15,390

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 none and \$0.7 million for the quarters ended September 30, 2013 and 2012, respectively and \$1.0 million and \$2.0 million for the nine month periods ended September 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 \$30.7 million and \$31.6 million at September 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 55% and 55% of the Company's consolidated revenues from continuing operations for the three and nine month periods ended September 30, 2013, respectively, compared to 55% and 53% for the corresponding periods of 2012. The Company's balance sheets include accounts receivable with DHL of \$22.2 million and \$18.3 million as of September 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 17% and 17% of the Company's total revenues from continuing operations for the three and nine month periods ending September 30, 2013, respectively, compared to 15% and 16% for the corresponding periods of 2012. The Company's balance sheets included accounts receivable with the U.S. Military of \$4.2 million and \$4.2 million as of September 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 September 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	(188)	—	(188)
Carrying value as of September 30, 2013	\$ 1,958	\$ 3,000	\$ 4,958

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 September 30, 2013	Fair Value Measurement Using			Total
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents—money market	\$ 20	\$ 3,797	\$ —	\$ 3,817
Total Assets	\$ 20	\$ 3,797	\$ —	\$ 3,817
Liabilities				
Interest rate swaps	\$ —	\$ (2,721)	\$ —	\$ (2,721)
Total Liabilities	\$ —	\$ (2,721)	\$ —	\$ (2,721)
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 \$2.8 million more than the carrying value, which was \$391.9 million at September 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):

	September 30, 2013	December 31, 2012
Aircraft and flight equipment	\$ 1,232,284	\$ 1,148,781
Support equipment	51,179	52,209
Vehicles and other equipment	1,706	1,597
Leasehold improvements	1,091	814
	<u>1,286,260</u>	<u>1,203,401</u>
Accumulated depreciation	(437,710)	(384,477)
Property and equipment, net	<u>\$ 848,550</u>	<u>\$ 818,924</u>

CAM owned aircraft with a carrying value of \$254.4 million and \$273.4 million that were under leases to external customers as of September 30, 2013 and December 31, 2012, respectively.

The carrying value of Boeing 727 and DC-8 freighter aircraft and engines available for sale totaled \$2.5 million and \$3.4 million as of September 30, 2013 and December 31, 2012, respectively.

NOTE F—DEBT OBLIGATIONS

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

	September 30, 2013	December 31, 2012
Unsubordinated term loan	\$ 135,000	\$ 144,375
Revolving credit facility	190,500	143,000
Aircraft loans	57,103	63,156
Promissory note due to DHL, unsecured	9,300	13,950
Total long term obligations	<u>391,903</u>	<u>364,481</u>
Less: current portion	(23,572)	(21,265)
Total long term obligations, net	<u>\$ 368,331</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 could draw up to an additional \$50.0 million, subject to the lenders' consent. The Senior Credit Agreement provides for the issuance of letters of credit on the Company's behalf. In October 2013, the lenders agreed to make the accordion funds of \$50.0 million available to the Company, increasing the capacity of the revolving credit facility to \$275.0 million. At this time, the unused revolving credit facility totals \$74.1 million, net of draws of \$190.5 million and outstanding letters of credit of \$10.4 million.

Under the terms of the Senior Credit Agreement, interest rates are adjusted no more than 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 2.555% and 2.555%, respectively. The Credit Amendment did not affect the EBITDA based pricing or covenants of the Senior Credit Agreement.

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 747-400 and a Boeing 777. The hangar is anticipated to cost approximately \$15.7 million and is expected to take 14 to 16 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.

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 following a 30-day appeal period during which no objections were received, the settlement funds were paid 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 September 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	14.6%
ATI	Airline Pilots Association	8.9%

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 September 30,				Nine Months Ended September 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	\$ —	\$ —	\$ 207	\$ 201
Interest cost	8,989	9,272	66	95	26,967	27,816	198	285
Expected return on plan assets	(11,498)	(9,970)	—	—	(34,494)	(29,910)	—	—
Amortization of prior service cost	—	—	(1,413)	(1,388)	—	—	(4,239)	(4,164)
Amortization of net (gain) loss	3,074	2,670	104	108	9,222	8,010	312	324
Net periodic benefit cost (benefit)	<u>\$ 565</u>	<u>\$ 1,972</u>	<u>\$ (1,174)</u>	<u>\$ (1,118)</u>	<u>\$ 1,695</u>	<u>\$ 5,916</u>	<u>\$ (3,522)</u>	<u>\$ (3,354)</u>

During the three and nine month periods ended September 30, 2013, the Company contributed \$17.9 million and \$27.6 million to the pension plans. The Company does not expect to make additional contributes to the pension plans during the remainder of 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 September 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 September 30, 2013, the Company recorded an unrealized loss on derivatives of \$0.3 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>September 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%	\$ 67,500	\$ (2,203)	\$ 72,188	\$ (3,146)
June 30, 2017	1.1825%	65,625	(518)	—	—

NOTE K—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the following items by components for the three and nine month periods ended September 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 June 30, 2012	\$ (107,262)	\$ 5,892	\$ 57	\$ (101,313)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (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 September 30, 2012	<u>\$ (105,580)</u>	<u>\$ 5,086</u>	<u>\$ 48</u>	<u>\$ (100,446)</u>
Balance as of December 31, 2011	\$ (110,626)	\$ 7,504	\$ 75	\$ (103,047)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	8,011	324	—	8,335
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(4,162)	—	(4,162)
Hedging gain (reclassified to interest expense)	—	—	(42)	(42)
Income tax (expense) or benefit	(2,964)	1,419	15	(1,530)
Other comprehensive income (loss), net of tax	5,047	(2,419)	(27)	2,601
Balance as of September 30, 2012	<u>\$ (105,579)</u>	<u>\$ 5,085</u>	<u>\$ 48</u>	<u>\$ (100,446)</u>

	Defined Benefit Pension	Defined Benefit Post- Retirement	Gains and Losses on Derivative	Total
Balance as of June 30, 2013	\$ (117,686)	\$ 2,609	\$ 22	\$ (115,055)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (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)	—	—	(12)	(12)
Income tax (expense) or benefit	(1,116)	475	5	(636)
Other comprehensive income (loss), net of tax	1,958	(834)	(7)	1,117
Balance as of September 30, 2013	<u>\$ (115,728)</u>	<u>\$ 1,775</u>	<u>\$ 15</u>	<u>\$ (113,938)</u>
Balance as of December 31, 2012	\$ (121,602)	\$ 4,277	\$ 38	\$ (117,287)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	9,222	312	—	9,534
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(4,239)	—	(4,239)
Hedging gain (reclassified to interest expense)	—	—	(38)	(38)
Income tax (expense) or benefit	(3,348)	1,425	15	(1,908)
Other comprehensive income (loss), net of tax	5,874	(2,502)	(23)	3,349
Balance as of September 30, 2013	<u>\$ (115,728)</u>	<u>\$ 1,775</u>	<u>\$ 15</u>	<u>\$ (113,938)</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.

	Nine Months Ended			
	September 30, 2013		September 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	(142,200)	8.11
Expired	—	—	—	—
Forfeited	(7,200)	6.82	(88,800)	5.93
Outstanding at end of period	1,690,812	\$ 6.13	1,828,684	\$ 5.63
Vested	441,812	\$ 4.90	483,284	\$ 4.68

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 nine month periods ended September 30, 2013 and 2012, the Company recorded expense of \$2.1 million and \$2.7 million, respectively, for stock incentive awards. At September 30, 2013, there was \$3.5 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.3 years. As of September 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		Nine Months Ending	
	September 30,		September 30,	
	2013	2012	2013	2012
Earnings from continuing operations	\$ 7,799	\$ 11,556	\$ 23,215	\$ 29,437
Weighted-average shares outstanding for basic earnings per share	64,052	63,456	63,972	63,439
Common equivalent shares:				
Effect of stock-based compensation awards	984	1,211	835	1,039
Weighted-average shares outstanding assuming dilution	65,036	64,667	64,807	64,478
Basic earnings per share from continuing operations	\$ 0.12	\$ 0.18	\$ 0.36	\$ 0.46
Diluted earnings per share from continuing operations	\$ 0.12	\$ 0.18	\$ 0.36	\$ 0.46

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 none and 77,000 at September 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		Nine Months Ending	
	September 30,		September 30,	
	2013	2012	2013	2012
Total revenues:				
CAM	\$ 40,089	\$ 39,155	\$ 118,420	\$ 115,073
ACMI Services	109,429	122,526	327,349	357,110
All other	30,037	26,773	83,242	81,876
Eliminate inter-segment revenues	(38,678)	(34,628)	(105,951)	(101,173)
Total	<u>\$ 140,877</u>	<u>\$ 153,826</u>	<u>\$ 423,060</u>	<u>\$ 452,886</u>
Customer revenues:				
CAM	\$ 17,373	\$ 18,638	\$ 53,553	\$ 56,663
ACMI Services	109,429	122,526	327,349	357,110
All other	14,075	12,662	42,158	39,113
Total	<u>\$ 140,877</u>	<u>\$ 153,826</u>	<u>\$ 423,060</u>	<u>\$ 452,886</u>
Depreciation and amortization expense:				
CAM	\$ 16,697	\$ 15,187	\$ 46,016	\$ 44,288
ACMI Services	6,821	5,685	19,651	18,244
All other	(126)	185	410	339
Total	<u>\$ 23,392</u>	<u>\$ 21,057</u>	<u>\$ 66,077</u>	<u>\$ 62,871</u>
Segment earnings (loss):				
CAM	\$ 15,893	\$ 17,334	\$ 49,980	\$ 50,819
ACMI Services	(7,113)	(1,746)	(21,610)	(11,543)
All other	4,400	3,373	9,188	8,602
Net unallocated interest expense	(367)	(296)	(810)	(961)
Net gain on derivative instruments	(317)	294	425	956
Pre-tax earnings from continuing operations	<u>\$ 12,496</u>	<u>\$ 18,959</u>	<u>\$ 37,173</u>	<u>\$ 47,873</u>

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

	<u>September 30,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
Assets:		
CAM	\$ 807,571	\$ 810,664
ACMI Services	177,603	161,650
All other	80,957	63,297
Total	<u>\$ 1,066,131</u>	<u>\$ 1,035,611</u>

Interest expense of \$0.1 million and \$0.4 million for the three and nine month periods ending September 30, 2013, respectively, compared to \$0.2 million and \$0.7 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 \$9.2 million for the three and nine month periods ending September 30, 2013, respectively, compared to \$3.1 million and \$9.1 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 September 30, 2013, the Company owned 50 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, three 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 September 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 55% of the Company's consolidated revenues for the first nine months of 2013 and 53% 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. Further efforts to resize the airline cost structure and realize synergies from merging CCIA into ATI, will continue through 2013. 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 nine month periods ended September 30, 2013 and 2012, respectively. Revenues from the U.S. Military were derived primarily by operating combi aircraft 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 the third quarter of 2013, the second and third Boeing 757 combi aircraft began flight operations and we expect the last one to enter service by the end of 2013 or early in 2014.

At September 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 \$7.8 million and \$23.2 million for the three and nine month periods ended September 30, 2013, respectively, compared to \$11.6 million and \$29.4 million for the corresponding periods of 2012. The pre-tax earnings from continuing operations were \$12.5 million and \$37.2 million for the three and nine month periods ended September 30, 2013, respectively, compared to \$19.0 million and \$47.9 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 \$12.9 million to \$140.9 million during the third quarter of 2013 and by \$29.8 million to \$423.1 million for the first nine 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 restructured the ATI airline, falling 5% during the three and nine month periods ended September 30, 2013, compared to the corresponding periods of 2012.

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

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2013	2012	2013	2012
Revenues from Continuing Operations:				
CAM	\$ 40,089	\$ 39,155	\$ 118,420	\$ 115,073
ACMI Services				
Airline services	93,116	102,072	276,193	299,434
Reimbursables	16,313	20,454	51,156	57,676
Total ACMI Services	109,429	122,526	327,349	357,110
Other Activities	30,037	26,773	83,242	81,876
Total Revenues	179,555	188,454	529,011	554,059
Eliminate internal revenues	(38,678)	(34,628)	(105,951)	(101,173)
Customer Revenues	<u>\$ 140,877</u>	<u>\$ 153,826</u>	<u>\$ 423,060</u>	<u>\$ 452,886</u>
Pre-Tax Earnings from Continuing Operations:				
CAM, inclusive of interest expense	\$ 15,893	\$ 17,334	\$ 49,980	\$ 50,819
ACMI Services	(7,113)	(1,746)	(21,610)	(11,543)
Other Activities	4,400	3,373	9,188	8,602
Net unallocated interest expense	(367)	(296)	(810)	(961)
Net gain (loss) on derivative instruments	(317)	294	425	956
Pre-Tax Earnings from Continuing Operations	12,496	18,959	37,173	47,873
Less net gain (loss) on derivative instruments	317	(294)	(425)	(956)
Adjusted Pre-Tax Earnings	<u>\$ 12,813</u>	<u>\$ 18,665</u>	<u>\$ 36,748</u>	<u>\$ 46,917</u>

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 September 30, 2013, CAM had 50 cargo aircraft in serviceable condition, which included 30 aircraft leased internally to the Company's airlines. CAM's total revenues, from internal and external customers, grew \$0.9 million and \$3.3 million during the three and nine month periods ending September 30, 2013 compared to the corresponding periods of 2012, as a result of seven additional aircraft leases placed since March 2012. Since March 31, 2012, CAM completed the modification of three Boeing 767-300 freighter aircraft, one Boeing 757 freighter aircraft and three Boeing 757 combi aircraft and placed those aircraft under leases with internal customers. CAM's revenues from the Company's airlines totaled \$22.7 million and \$64.9 million during the three and nine month periods ending September 30, 2013, respectively, compared to \$20.5 million and \$58.4 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.

As of September 30, 2013 and 2012, CAM leased 20 and 21 aircraft to external customers, respectively. Revenues from external customers decreased \$1.3 million and \$3.1 million during the three and nine month periods ending September 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 pre-tax earnings, inclusive of an interest expense allocation, were \$15.9 million and \$50.0 million for the three and nine month periods ending September 30, 2013, respectively, compared to \$17.3 million and \$50.8 million for the corresponding periods of 2012. The flat earnings reflected additional internal lease revenues offset by higher depreciation expense for Boeing 767 and Boeing 757 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.

During the fourth quarter of 2013, we expect CAM to deploy two more Boeing 767-300 freighters and one more 757 combi aircraft. 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 September 30, 2013, ACMI Services included 49 in-service aircraft, including 30 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 \$7.1 million and \$21.6 million during the three and nine month periods ending September 30, 2013, respectively, compared to pre-tax losses of \$1.7 million and \$11.5 million for the corresponding periods of 2012. Larger pre-tax losses were primarily a result of lower revenues. Revenues from ACMI Services declined \$13.1 and \$29.8 million for the three and nine month periods ending September 30, 2013, respectively, compared to 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 \$9.0 million and \$23.2 million in the three and nine month periods ending September 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 mid 2012, some of our aircraft have been replaced by our customer's own airlift capacity on certain international cargo lanes. Block hours flown for the U.S. Military were down 9% and 5% during the three and nine month periods ending September 30, 2013, respectively, compared to the corresponding periods of 2012 primarily due to the phase-in of the Boeing 757 combi aircraft, which is replacing the DC-8 combi aircraft in operation by ATI. Revenues for the U.S. Military were negatively impacted by delays in FAA approvals for the Boeing 757 combi aircraft and pilot training and reduced availability of our DC-8 aircraft during the phase-in. Before the Boeing 757 combi aircraft could begin operations, the aircraft had to be certified by the FAA and our pilots trained to conduct B757 passenger operations. In addition, expenses for non-reimbursed airframe maintenance checks increased \$2.8 million and \$1.9 million for the three and nine month periods ending September 30, 2013, respectively, compared to the corresponding periods of 2012. The increase reflects an additional Boeing 767-200 airframe check as compared to the previous year periods and a larger required work scope of the checks completed in 2013.

During the three and nine month periods ending September 30, 2013, billable block hours declined 14% and 15% respectively compared to the corresponding periods of 2012. Revenues declined relatively 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 per block hour for longer, international routes.

Operating expense for ACMI Services declined \$3.6 million and \$13.2 million during the three and nine month periods ending September 30, 2013, respectively, compared to corresponding periods of 2012 due partially to combining the ATI and CCIA operations, which resulted in a 26% reduction in airline related headcount compared to the beginning

of 2012. Operating expenses for landings, ramp 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 fourth and final Boeing 757 combi aircraft for the U.S. Military, replacing the DC-8 combi aircraft. Before the Boeing 757 combi aircraft can begin operations, the aircraft must be certified by the FAA. If the airworthiness certification process from the FAA 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 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 timing of 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 \$14.1 million and \$42.2 million for the three and nine month periods ending September 30, 2013, respectively, compared to \$12.7 million and \$39.1 million for the corresponding periods of 2012. Revenues from services provided to the USPS increased \$1.2 million and \$5.1 million during the three and nine month periods ending September 30, 2013, respectively, compared to the corresponding periods of 2012, due to increased volumes at the facilities that we operate for the USPS. Maintenance services revenues for external customers increased slightly during the third quarter of 2013 but declined \$2.5 million during the first nine months of 2013 compared to 2012. The Company's aircraft maintenance and repair business, Airborne Maintenance and Engineering Services, Inc. ("AMES"), has performed more services for the Company's internal airlines during 2013 and has limited hangar facilities for external customers. Revenue recognition for larger aircraft maintenance projects typically occurs at the completion of the project.

The pre-tax earnings from other activities were \$4.4 million and \$9.2 million for the three and nine month periods ending September 30, 2013, respectively, compared to \$3.4 million and \$8.6 million for the corresponding periods of 2012. Pre-tax earnings from other activities for 2013 increased compared to 2012 primarily due to additional volumes processed for the USPS during the year and additional aircraft maintenance revenues for external customers during the third quarter of 2013 compared to 2012.

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 747-400 and the Boeing 777. The hangar is anticipated to cost approximately \$15.7 million and is expected to take approximately 14 to 16 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 nine months of 2013 compared to \$0.9 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 September 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	3	—	3
DC-8 combi	2	—	2
Total	30	20	50
Carrying value			\$ 694,899
Operating lease			
Boeing 767-200	4	—	4
Boeing 767-300	2	—	2
Total	6	—	6
Carrying value			\$ 975
Aircraft for freighter and combi modification			
Boeing 767-300	—	2	2
Boeing 757 Combi	—	1	1
Total	—	3	3
Carrying value			\$ 87,231

As of September 30, 2013, ACMI Services leased 30 of its in-service aircraft internally from CAM. As of September 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:

- 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 purchased two Boeing 757 combi aircraft that had not been certificated for airworthiness. CAM completed the airworthiness of three Boeing 757 combi aircraft and leased them internally to ATI which deployed the aircraft for the US Military.

During the remainder of 2013, we expect CAM to deploy one more 757 combi aircraft and two more Boeing 767-300 freighters.

As of September 30, 2013, the Company had Boeing 727 and DC-8 airframes and engines with a carrying value of \$2.5 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 \$2.7 million and \$9.1 million during the three and nine month periods ended September 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 10% between the beginning of 2012 and September 30, 2013. Pension expense for continuing operations decreased \$1.1 million and \$3.3 million during the three and nine month periods ending September 30, 2013 when compared to the corresponding periods of 2012 due to strong investment returns on pension plan assets.

Fuel expense decreased by \$0.7 million and \$1.8 million during the three and nine month periods ended September 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 \$2.1 million and \$3.4 million during the three and nine month periods ended September 30, 2013, respectively, compared to the corresponding periods of 2012. The decline in maintenance expense reflects 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 and the scope of the checks that are performed. Aircraft maintenance expenses for airframe checks were lower during the first nine months of 2013 compared to the corresponding 2012 period due to twelve 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 \$2.3 million and \$3.2 million during the three and nine month periods ended September 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 one Boeing 767-300 aircraft, one Boeing 757 freighter aircraft and three Boeing 757 combi aircraft added to the in-service fleet since September 30, 2012.

Travel expense decreased by \$1.2 million and \$3.3 million during the three and nine month periods ended September 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 \$0.2 million and \$1.8 million during the three and nine month periods ended September 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 \$1.7 million and \$3.6 million during the three and nine month periods ended September 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 \$1.3 million during the three and nine month periods ended September 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 \$1.1 million and \$2.0 million during the three and nine month periods ended September 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 increased by \$0.1 million and decreased by \$0.4 million during the three and nine month periods ended September 30, 2013, respectively, compared to the corresponding periods of 2012. Interest expense increased during the third quarter of 2013 due to a higher level of debt which is being used to expand the Company's aircraft fleet. Interest expense was lower for the first nine months 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 2.56% during the third quarter of 2013 compared to 2.62% at September 30, 2012.

During the three and nine month periods ended September 30, 2013, the Company recorded a pre-tax net loss on derivatives of \$0.3 million and a pre-tax net gain on derivatives of \$0.4 million, respectively, compared to net gains of \$0.3 million and \$1.0 million during the corresponding periods of 2012, reflecting the impact of fluctuating market interest rates.

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through September 30, 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 nine month periods ended September 30, 2012 was 39.0% and 38.5%, 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 \$61.5 million and \$87.0 million for the first nine months of 2013 and 2012, respectively. Cash flows generated from operating activities decreased in the first nine months of 2013 compared to 2012 primarily due to lower payments received from DHL, increased pension contributions and lower operating profitably partially offset by lower payments to vendors. During the first nine 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 \$96.8 million for the first nine months of 2013 compared to \$108.3 million for the first nine months of 2012. Capital expenditures in 2013 included \$73.6 million for the acquisition of two Boeing 757 combi aircraft and the costs of Boeing 757 and Boeing 767 aircraft modifications, \$12.1 million for required heavy maintenance, \$5.1 million for construction of the new aircraft hangar and \$6.0 million for other equipment costs. Our capital expenditures for the first nine months of 2012 included \$93.9 million for the acquisition and modification of aircraft, \$8.1 million for required heavy maintenance and \$6.3 million for other equipment costs.

Net cash provided by financing activities was \$35.3 million for the first nine months of 2013 compared to \$15.6 million for the corresponding period in 2012. During the first nine months of 2013, we drew \$80.0 million from the revolving credit facility under the Senior Credit Agreement to fund capital spending and we made debt principal payments of \$47.9 million. Additionally, \$4.7 million of the principal balance of the DHL promissory note was extinguished during the first nine months of 2013, pursuant to the CMI agreement with DHL.

Commitments

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 14 to 16 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. Additionally, for 2013 we expect to spend \$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.

Liquidity

The Company has a Senior Credit Agreement with a consortium of banks that includes an unsubordinated term loan of \$135.0 million and a revolving credit facility from which the Company has drawn \$190.5 million, net of repayments as of September 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 could draw up to an additional \$50 million, subject to the lenders' consent. In October 2013, the lenders agreed to make the accordion funds of \$50.0 million available to the Company, increasing the capacity of the revolving credit facility to \$275 million. While we do not anticipate a need to draw the additional funds in the near future, the added capacity provides management additional flexibility during the remaining term of the Credit Agreement which ends July 20, 2017. Under the Senior Credit Agreement, interest rates are adjusted no more than 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 2.56%. 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 September 30, 2013, the Company had \$16.9 million of cash balances. At this time, the Company has \$74.1 million available under the revolving credit facility, net of outstanding letters of credit, which totaled \$10.4 million. During 2013, the Company drew an additional \$80.0 million through the revolving credit facility to finance aircraft acquisitions and related modification costs. As specified under the terms of ABX's CMI agreement with DHL, the \$9.3 million balance at September 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 September 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.

New Accounting Pronouncements

In July 2013, the FASB issued Accounting Standard Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11). ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective for annual reporting periods beginning on or after December 15, 2013, and subsequent interim periods. The Company is currently assessing the impact, if any, that this pronouncement will have on the condensed consolidated financial statements.

In September 2013, the United States Treasury Department and the Internal Revenue Service ("IRS") issued final and proposed regulations (the "Tangible Property Regulations") effective for tax years beginning on or after January 1, 2014, that provided guidance on a number of matters with regard to tangible property, including whether expenditures qualified as deductible repairs, the treatment of materials and supplies, capitalization of tangible property, dispositions of property, and related elections. The Company is assessing the financial impact as a result of these regulations and as a result of such assessment, no material impact is expected. Future transitional guidance in the form of revenue procedures issued by the IRS, and the finalization of the proposed regulations, could impact our current estimates.

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 September 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 following a 30-day appeal period during which no objections were received, the settlement funds were paid 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 5. OTHER

On October 31, 2013, the Board of Directors (the “Board”) of the Company, upon the recommendation of the Compensation Committee (the “Committee”) of the Board, approved and adopted the Air Transport Services Group, Inc. Nonqualified Deferred Compensation Plan (the “Plan”), to be effective on such date. The Plan, which is unfunded, was adopted for the purpose of providing deferred compensation to a select group of management and highly compensated employees (except for any person so employed under the terms of a collective bargaining agreement), including certain of the named executive officers, in an amount equal to the retirement contributions that cannot be made to the qualified plan in which the eligible employee participates due to the compensation limit under Internal Revenue Code §401(a)(17).

The Committee designated those officers and employees eligible to participate in the Plan for fiscal year 2013, which included the following named executive officers: Quint O. Turner, the Chief Financial Officer, Richard F. Corrado, the Chief Commercial Officer, and W. Joseph Payne, the Senior Vice President, Corporate General Counsel and Secretary. The annual contributions to be made on behalf of the named executive officers participating under the Plan are dependent upon a number of factors, including the salary and bonus paid to the executive officer during the year, the terms of the qualified plan in which he participates, and the annual compensation limit under Internal Revenue Code §401(a)(17). While the annual contributions to be made on behalf of the participating named executive officers cannot be calculated at this time, it is anticipated that the sum of the annual contributions for all of the participants, including the participating named executive officers, for fiscal year 2013 will not exceed \$50,000.

The foregoing summary of the Plan does not purport to be complete and is qualified in its entirety by reference to the Plan, a copy of which is filed as Exhibit 10.2 to this quarterly report on Form 10-Q and incorporated by reference into this Item 5.

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. [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.] (2)
 - 3.2 Amended and Restated Bylaws of Air Transport Services Group, Inc., reflecting amendments through May 10, 2013. (2)
 - 3.3 Amended and Restated Certificate of Incorporation of Air Transport Services Group, Inc. reflecting corrections and amendments through August 16, 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 been filed with the Delaware Secretary of State.]
 - 10.1 Air Transport Services Group, Inc. Executive Incentive Compensation Plan, last modified March 18, 2013. (1)
 - 10.2 Air Transport Services Group, Inc. Nonqualified Deferred Compensation Plan, dated October 31, 2013, filed herewith.
 - 10.3 Second Amendment to the Credit Agreement, dated October 22, 2013, among Cargo Aircraft Management, Inc., as Borrower, Air Transport Services Group, Inc., the Lenders from time to time party thereto, SunTrust Bank, as Administrative Agent, Regions Bank and JPMorgan Chase Bank, N.A., as Syndication Agents, and Bank of America, N.A., as Documentation Agent, filed herewith.
 - 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
 - 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
 - 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
 - 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
 - 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.
- (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 8, 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: November 6, 2013

/S/ QUINT O. TURNER

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

Date: November 6, 2013

**Amended and Restated Certificate of Incorporation
of Air Transport Services Group, Inc.
reflecting amendments through August 16, 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. Thereafter, ARTICLE FOURTEENTH was corrected by the Corporation, as evidenced by a "Certificate of Correction" filed by the Corporation with the Delaware Secretary of State on August 16, 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

**AIR TRANSPORT SERVICES GROUP, INC.
NONQUALIFIED DEFERRED COMPENSATION PLAN**

1.00 Purpose

As of the Effective Date, the Company adopts this Plan for the purpose of providing deferred compensation to a select group of management and highly compensated employees in an amount equal to the Retirement Contributions that could not be made to the Qualified Plan in which the Eligible Employee participates due to the compensation limit under Code §401(a)(17). This Plan is an unfunded arrangement and is intended to be exempt from the participation, vesting, funding and fiduciary requirements set forth in Title I of ERISA.

2.00 Definitions

Whenever used in this Plan, the following terms have the meanings given to them in this Article 2.00, unless another meaning is expressly provided elsewhere in this Plan. Also, the form of any term will include all of its other forms.

2.01 Account: The bookkeeping account established for each Participant under Section 6.01 of this Plan.

2.02 Affiliate: Any entity that, along with the Company, would be considered a single employer under Code §§414(b) and 414(c).

2.03 Beneficiary: The person or persons designated by a Participant on a form prescribed by the Committee to receive any portion of such Participant's benefit that is unpaid at the Participant's death. If a Participant has not made an effective designation of a Beneficiary or Beneficiaries, the Participant's Beneficiary will be his or her surviving spouse or, if there is no surviving spouse, the Participant's estate.

2.04 Board: The Board of Directors of the Company.

2.05 Cause: With respect to any Participant, "cause" as defined in any employment (or similar) agreement then in effect between the Participant and the Company or an Affiliate or, if not defined therein, the occurrence of any of the following: (a) the Participant's continued failure substantially to perform the Participant's assigned duties (other than as a result of total or partial incapacity due to physical or mental illness) for a period of ten (10) days following written notice by the Company or any of its Affiliates to the Participant of such failure; (b) the Participant's engagement in conduct detrimental to the interests of the Company or any of its Affiliates; (c) the Participant's charged with, indictment for, conviction of, or plea of guilty or nolo contendere to, (i) a felony or (ii) a crime other than a felony, which involves moral turpitude or a breach of trust or fiduciary duty owed to the Company or any of its Affiliates; (d) the Participant's disclosure of trade secrets or confidential information of the Company or any of its Affiliates; or (e) the Participant's breach of any policy of the Company or any of its Affiliates that applies to the Participant or any agreement with the Company

or any of its Affiliates in respect of confidentiality, nondisclosure, non-competition or otherwise.

2.06 Change in Control: Provided that such definition shall be interpreted in a manner that is consistent with the definition of “change in control event” under Code §409A and Treasury Regulation §1.409A-3(i)(5), a “Change in Control” of the Company shall mean the first to occur of any of the following:

- (a) the date that any person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company;
- (b) the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the stock of the Company;
- (c) the date that a majority of members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or
- (d) the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

2.07 Code: The Internal Revenue Code of 1986, as amended.

2.08 Committee: The Compensation Committee of the Board.

2.09 Company: Air Transport Services Group, Inc., and its successors.

2.10 Compensation: A Participant’s “Compensation” as defined in the Qualified Plan calculated without regard to the compensation limit under Code §401(a)(17).

2.11 Disability: A Participant shall be considered disabled if:

- (a) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or

- (b) the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's employer; or
- (c) the Participant is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.

- 2.12 Distribution Election Form:** The form each Eligible Employee and Participant, as the case may be, must complete to designate the form of distribution of his or her Plan Benefit or may complete to change a prior designation as to the form of distribution of his or her Plan Benefit.
- 2.13 Effective Date:** October 31, 2013.
- 2.14 Eligible Employee:** Each Employee who meets the eligibility criteria listed in Section 3.01.
- 2.15 Employee:** Each person employed by the Company or any of its Affiliates, except for any person so employed under the terms of a collective bargaining agreement.
- 2.16 Employer Contribution:** A contribution made by the Company or any of its Affiliates that is credited to a Participant's Account in accordance with the terms of Section 4.01 of this Plan.
- 2.17 ERISA:** The Employee Retirement Income Security Act of 1974, as amended.
- 2.18 Participant:** An Eligible Employee who becomes a participant in this Plan as described in Article 3.00.
- 2.19 Plan:** The Air Transport Services Group, Inc. Nonqualified Deferred Compensation Plan, as amended from time to time.
- 2.20 Plan Benefit:** The vested portion of a Participant's Account as of any Valuation Date.
- 2.21 Plan Year:** Each calendar year or portion thereof during which this Plan is in effect.
- 2.22 Qualified Plan:** The qualified defined contribution retirement plan in which the Eligible Employee participates through his or her employer. As of the Effective Date, such qualified defined contribution retirement plans include (a) the Amended and Restated ABX Air Capital Accumulation Plan, as may be amended from time to time; and (b) the Air Transport International LLC 401(k) Plan, as may be amended from time to time.
- 2.23 Retirement Contribution:** The applicable employer contribution to be made on behalf of a Participant during a Plan Year pursuant to the terms of the Qualified Plan.
- 2.24 Termination:** A "separation from service" within the meaning of Code §409A and Treasury Regulation §1.409A-1(h).
- 2.25 Unforeseeable Emergency:** A severe financial hardship to a Participant within the meaning of Code §409A resulting from: (a) an illness or accident of the Participant or the Participant's spouse, Beneficiary or dependent (as defined in Code §152, without regard to Code §§152(b)(1), (b)(2) and (d)(1)(B)); (b) loss of the Participant's property due to casualty; or (c) other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

2.26 Valuation Date: The last day of each calendar month or any other date or dates fixed by the Committee for the valuation and adjustment of an Account.

3.00 Participation

3.01 Eligibility. Subject to Section 3.02 of this Plan, an Employee shall be an Eligible Employee upon designation by the Committee following satisfaction of the following requirements:

- (a) is a highly compensated employee or a member of a select group of management (both within the meaning of Title I of ERISA) of the Company or any of its Affiliates, as determined by the Committee in its sole discretion;
- (b) is eligible for a Retirement Contribution pursuant to the terms of the Qualified Plan;
- (c) is credited with at least 1,000 “Hours of Service” as defined by the Qualified Plan during the Plan Year; and
- (d) receives Compensation in excess of the compensation limit under Code §401(a)(17).

3.02 Loss of Eligible Employee Status. A Participant who is no longer an Eligible Employee shall no longer be eligible to participate in the Plan. Amounts credited to the Account of a Participant who is no longer an Eligible Employee shall continue to be administered in accordance with the terms and conditions of this Plan and shall be distributed as provided in Article 7.00.

4.00 Employer Contributions

4.01 Employer Contributions. Each Plan Year, the Company or one of its Affiliates, as applicable, shall make an Employer Contribution to the Account of a Participant in such amount that would have been made as a Retirement Contribution pursuant to the Qualified Plan if the compensation limit under Code §401(a)(17) did not exist, minus the amount of the Retirement Contribution actually made on behalf of the Participant under the Qualified Plan for the applicable Plan Year. Such Employer Contributions shall be credited to the Accounts of Participants during the first calendar quarter following the last day of the Plan Year.

5.00 Vesting

5.01 Employer Contributions. Except as otherwise provided in Section 5.02 of this Plan, a Participant shall have a vested right to the portion of his or her Account attributable to any Employer Contribution and any deemed earnings and losses on the investment of such Employer Contribution upon three “Years of Service” as defined by the Qualified Plan.

5.02 Accelerated Vesting Upon Occurrence of Certain Events. Notwithstanding the foregoing, a Participant shall become fully vested in all amounts credited to his or her Account upon the earliest to occur of: (a) the Participant’s Disability; (b) the Participant’s death; or (c) a Change in Control.

5.03 Amounts Not Vested. Any amounts credited to a Participant’s Account that are not vested upon his or her Termination shall be forfeited.

6.00 Accounts

6.01 Establishment of Accounts. The Committee shall establish and maintain an Account for each Participant. Each Participant’s Account shall be credited with, to the extent applicable, any Employer Contributions, and the Participant’s allocable share of any deemed earnings or losses on the foregoing. Each Participant’s Account shall be reduced by any distributions made from such Account plus, subject to Article 8.00 of this Plan and to the extent permitted by applicable law, any federal, state and local tax withholding as may be required by law.

6.02 Establishment of Subaccounts. Within each Participant’s Account, separate subaccounts shall be maintained to the extent necessary for the administration of the Plan.

6.03 Earnings or Losses on Accounts.

(a) The Company shall invest the Account on behalf of the Participant or credit the Account with earnings or interest as though such Account were invested in such investments and under such criteria as the Committee may determine in its sole discretion. The Company may also permit the Participant to direct the investment or deemed investment of the Account in such investments as the Company may make available for this purpose from time to time or as the Participant may select. The Company assumes no responsibility or liability with respect to any loss or expense that may arise, result or be incurred from any investment or deemed investment of the Account. Any costs or expenses incurred by the Company in the investment of the Account shall be debited against the Account. The Account shall be credited with earnings or debited for losses, as the case may be, based on its investment or deemed investment pursuant to Section 6.03(b).

(b) As of each Valuation Date, each Participant’s Account will be credited with earnings and charged with losses equal to the amount by which the Account would have been credited or charged since the prior Valuation Date had the Participant’s Account been invested as described in Section 6.03(a) of this Plan.

- (c) Notwithstanding the foregoing, neither the Company nor any of its Affiliates shall have any obligation to invest any funds in accordance with the investment described in this Section 6.03. Participants' Accounts shall merely be bookkeeping entries on the books of the Company and its Affiliates, as applicable, and no Participant or Beneficiary shall obtain any property right or interest in any investment or any other particular assets of the Company or any of its Affiliates.

7.00 Distribution of Plan Benefits

7.01 Distributions Upon Termination (Other than Death).

- (a) Except as provided in Sections 7.02 and 7.03, upon a Participant's Termination, the Participant's Plan Benefit shall be distributed to the Participant in a lump sum cash payment within ninety (90) days after the Participant's Termination

A Participant may elect to receive distribution of his or her Plan Benefit paid in up to ten (10) substantially equal annual installments beginning on the January 1 following the Participant's Termination and on each January 1 thereafter by submitting a valid Distribution Election Form in accordance with Section 7.01(b).

- (b) An election to receive annual installments under this Section 7.01 must be made on a signed Distribution Election Form that is submitted to the Committee no later than thirty (30) days after the date on which the Participant first becomes eligible to participate in this Plan, with respect to any Employer Contribution made or credited for services performed after such election is made. For purposes of the preceding sentence, an Eligible Employee shall be first eligible to participate in this Plan only if the Eligible Employee is not eligible to participate in any other arrangement that, along with this Plan, is treated as a single nonqualified deferred compensation plan under Code §409A and the Treasury Regulations promulgated thereunder.
 - (i) The election described in this Section 7.01(b) shall be subject to the terms and conditions specified in this Plan and in the Distribution Election Form and, except as provided in Section 7.01(b)(ii) of this Plan, shall be irrevocable once made.
 - (ii) A Participant may elect to change the form of distribution (based on the alternatives described in Section 7.01(a) of this Plan) by submitting a new Distribution Election Form to the Committee; provided, however, that: (A) such change may not take effect until at least twelve (12) months after the date on which such election is made; (B) the payment with respect to which such change is made must be deferred (other than a distribution upon death) for a period of not less than five (5) years from the date such payment would otherwise have been paid (or, in the case of installment payments treated as a single payment, from the date the first amount was scheduled to be paid); and (C) such change must be made not less than twelve (12) months before

the date the payment is scheduled to be paid (or in the case of installment payments treated as a single payment, from the date the first amount was scheduled to be paid).

- (iii) Once a Participant's Plan Benefit is or begins to be distributed, no further changes to the distribution of such Plan Benefit shall be permitted. For purposes of this Section 7.01, if the right to any payments would constitute the right to a "series of installment payments" within the meaning of Code §409A, then such payments shall be treated as a single payment within the meaning of Code §409A.
- (c) If a Participant elects to receive annual installments under this Section 7.01, the amount of each installment shall be determined by multiplying the Participant's Plan Benefit by a fraction, the denominator of which in the first year of distribution equals the number of years over which the Participant has elected benefits to be paid and the numerator is one (1). The amount of the installments for each succeeding year shall be determined by multiplying the Participant's Plan Benefit as of the applicable date of distribution by a fraction, the denominator of which equals the number of remaining years over which benefits are to be distributed, and the numerator of which is one (1).
- (d) Notwithstanding any provision in the Plan to the contrary, the Committee, in its sole discretion, may require a lump sum distribution of a Participant's Plan Benefit if:
 - (i) the distribution results in the termination and liquidation of the entirety of the Participant's interest under this Plan and all agreements, methods, programs or other arrangements with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under Code §409A; and
 - (ii) the aggregate distribution under the arrangements is not greater than the limitation on elective deferrals under Code §402(g).
- (e) Notwithstanding any provision in this Plan to the contrary, any Plan Benefit payable to a Participant who is a "specified employee" (as defined in Code §409A) of the Company or any of its Affiliates upon the Participant's Termination shall not be (or begin to be) distributed until six months after the date on which the Participant Terminates (or, if earlier, the date on which the Participant dies). The first payment to be made shall include the cumulative amount, if any, of any amounts that would otherwise have been paid in accordance with the Participant's Distribution Election Form but for the fact that such amounts could not be paid during such postponement period.

7.02 Distributions Upon Death.

- (a) Notwithstanding anything in this Plan to the contrary, if a Participant dies before his or her Plan Benefit has begun to be distributed or has been fully distributed, the Plan

Benefit will be distributed to the Participant's Beneficiary in a lump sum within ninety (90) days after the date of the Participant's death.

- (b) If a Participant dies after the Participant's Termination and after his or her Plan Benefit has been fully distributed, no additional benefit will be due to such Participant or his or her Beneficiary under this Plan.

7.03 Termination for Cause. Notwithstanding anything in this Plan to the contrary, if a Participant is Terminated by the Company for Cause or, if following a Participant's Termination, the Company determines that Cause existed to Terminate the Participant, all Employer Contributions and any deemed earnings on the foregoing in the Participant's Account (whether or not vested) shall be forfeited as of the date of such Termination.

7.04 Distributions Upon Disability. Notwithstanding anything in this Plan to the contrary, if a Participant incurs a Disability before his or her Termination and before his or her Plan Benefit has begun to be distributed, the Plan Benefit will be distributed to the Participant in a lump sum within ninety (90) days after the date on which the Participant incurs the Disability.

7.05 Unforeseeable Emergency. A Participant may request a distribution of his or her Plan Benefit upon the occurrence of an Unforeseeable Emergency. As a condition of receiving a distribution under this Section 7.05, the Participant must file a written application with the Committee specifying the nature of the Unforeseeable Emergency, the amount needed to address the Unforeseeable Emergency and supplying any other information that the Committee, in its discretion, may need to ensure the conditions specified in this Section 7.05 are satisfied. The Committee shall, in its sole discretion, determine whether an Unforeseeable Emergency exists. If the Committee determines that an Unforeseeable Emergency exists, the Company or one of its Affiliates, as applicable, shall distribute an amount to the Participant that shall not be greater than the amount reasonably necessary, in the Committee's determination, to satisfy the emergency need (which may include the amount necessary to pay any federal, state, local or foreign income taxes or penalties reasonably anticipated to result from the distribution) or, if less, the value of the Participant's Plan Benefit as of the Valuation Date immediately preceding the distribution date. A distribution on account of an Unforeseeable Emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, or by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not cause a severe financial hardship.

7.06 Full Discharge. Once the Participant's Plan Benefit has been fully distributed, none of the Company, its Affiliates, the Board, the Committee, their delegates or this Plan will have any further liability under this Plan to the Participant or the Participant's Beneficiary.

8.00 Tax Withholding

The Company or any of its Affiliates, as applicable, shall withhold from other amounts owed to a Participant or require the Participant to remit to the Company or the Affiliate, as applicable, an

amount sufficient to satisfy federal, state and local tax withholding requirements with respect to any Plan Benefit or the vesting, payment or cancellation of any Plan Benefit.

9.00 Claims Procedure

9.01 Filing Claims. Any Participant or Beneficiary (a “claimant”) who believes that he or she is entitled to an unpaid Plan Benefit may file a written notification of his or her claim with the Committee.

9.02 Notification to Claimant. If the claim is wholly or partially denied, the Committee will, within a reasonable period of time, and within ninety (90) days of the receipt of such claim, or if the claim is a claim on account of Disability, within forty-five (45) days of the receipt of such claim, provide the claimant with written notice of the denial setting forth in a manner calculated to be understood by the claimant:

- (a) The specific reason or reasons for which the claim was denied;
- (b) Specific reference to pertinent Plan provisions, rules, procedures or protocols upon which the Committee relied to deny the claim;
- (c) A description of any additional material or information that the claimant may file to perfect the claim and an explanation of why this material or information is necessary;
- (d) An explanation of this Plan’s claims review procedure and the time limits applicable to such procedure and a statement of the claimant’s right to bring a civil action under ERISA §502(a) following an adverse determination upon review; and
- (e) In the case of an adverse determination of a claim on account of Disability, the information to the claimant shall include, to the extent necessary, the information set forth in Department of Labor Regulation §2560.503-1(g)(1)(v).

If special circumstances require the extension of the forty-five (45) day or ninety (90) day period described above, the claimant will be notified before the end of the initial period of the circumstances requiring the extension and the date by which the Committee expects to reach a decision. Any extension for deciding a claim will not be for more than an additional ninety (90) day period, or if the claim is on account of Disability, for not more than two (2) additional thirty (30) day periods.

9.03 Review Procedure. If a claim has been wholly or partially denied, the affected claimant, or his or her authorized representative may:

- (a) Request that the Committee reconsider its initial denial by filing a written appeal within sixty (60) days after receiving written notice that all or part of the initial claim was denied (one hundred eighty (180) days in the case of a denial of a claim on account of Disability);

- (b) Review pertinent documents and other material upon which the Committee relied when denying the initial claim; and
- (c) Submit a written description of the reasons for which the claimant disagrees with the Committee's initial adverse decision.

An appeal of an initial denial of benefits and all supporting material must be made in writing within the time periods described above and directed to the Committee. The Committee is solely responsible for reviewing all benefit claims and appeals and taking all appropriate steps to implement its decision.

The Committee's decision on review will be sent to the claimant in writing and will include:

- (i) Specific reason or reasons for the decision;
- (ii) Specific references to pertinent Plan provisions upon which the decision was based;
- (iii) The claimant's ability to review and receive copies of all documents relating to the claimant's claim for benefits, free of charge;
- (iv) An explanation of any voluntary review procedures describing the steps to be taken by a claimant who wishes to submit the claimant's claims for review and the time limits applicable to such procedures; and
- (v) A statement of the claimant's right to bring a civil action under ERISA §502 (a).

The Committee will consider all information submitted by the claimant, regardless of whether the information was part of the original claim. The Committee's decision on review will be made not later than sixty (60) days (forty-five (45) days in the case of a claim on account of Disability) after the Committee's receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision will be rendered as soon as possible, but not later than one hundred twenty (120) days (ninety (90) days in the case of a claim on account of Disability) after receipt of the request for review. This notice to the claimant will indicate the special circumstances requiring the extension and the date by which the Committee expects to render a decision and will be provided to the claimant prior to the expiration of the initial forty-five (45) day or sixty (60) day period.

Notwithstanding the foregoing, in the case of a claim on account of Disability: (A) the review of the denied claim shall be conducted by the Committee's designee or a named fiduciary who is neither the individual who made the benefit determination nor a subordinate of such person; and (B) no deference shall be given to the initial benefit determination. For issues involving medical judgment, the Committee's designee or the named fiduciary, as applicable, must consult with an independent health care professional who may not be the health care professional who decided the initial claim.

To the extent permitted by law, the decision of the Committee (if no review is properly requested) or the decision of the review official on review, as the case may be, will be final and binding on all parties. No legal action for benefits under this Plan may be brought unless and until the claimant has exhausted his or her remedies under this Article 9.00.

10.00 Administration

10.01 Administration.

- (a) The Committee is expressly empowered to interpret this Plan, determine all questions arising in the administration, interpretation and application of this Plan; employ actuaries, accountants, counsel and other persons it deems necessary in connection with the administration of this Plan, request any information from the Company or any of its Affiliates it deems necessary to determine whether the Company or any Affiliate would be considered insolvent or subject to a proceeding in bankruptcy, and take all other necessary and proper actions to fulfill its duties under this Plan.
- (b) The Committee shall not be liable for any actions by it hereunder, unless due to its own negligence, willful misconduct or lack of good faith.
- (c) The Committee (and any delegate under Section 10.01(d) of this Plan) shall be indemnified and saved harmless by the Company from and against all personal liability to which the Committee (and such delegate) may be subject by reason of any act done or omitted to be done in its official capacity as administrator in good faith in the administration of this Plan, including all expenses reasonably incurred in its defense in the event the Company fails to provide such defense upon the request of the Committee (or such delegate).
- (d) In exercising its authority under this Plan, the Committee may allocate all or any part of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by the Committee. Any such allocation or delegation may be revoked at any time.

10.02 Compensation and Expenses.

- (a) The Committee and any delegate under Section 10.01(d) of this Plan will serve without compensation for services provided to this Plan. The Company and, if applicable, its Affiliates, will furnish the Committee and any delegate under Section 10.01(d) of this Plan with all clerical or other assistance necessary to perform their respective duties.
- (b) The Company and its Affiliates will pay all expenses of administering this Plan.

10.03 Effect of Committee Action.

- (a) All actions taken and all determinations made by the Committee in good faith will be final and binding upon all Participants, Beneficiaries, the Company and its Affiliates and any other person interested in this Plan. To the extent the Committee has been granted discretionary authority under this Plan, its prior exercise of this authority will not obligate the Committee to exercise its authority in a like fashion thereafter.
- (b) This Plan will be interpreted by the Committee in accordance with its terms and their intended meaning. The construction and interpretation of the Plan provisions are vested with the Committee, in its absolute discretion, including, without limitation, the determination of benefits and eligibility. All decisions, determinations and interpretations will be final, conclusive and binding upon all persons having an interest in this Plan.

11.00 Amendments and Termination

The Committee may, at any time, in its sole discretion, amend, modify, or suspend this Plan in whole or in part, except that no such amendment, modification, or suspension shall have any retroactive effect to reduce any amounts allocated to a Participant's Account without the Participant's consent. The Board may, at any time, in its sole discretion terminate this Plan, in whole or in part, except that no such termination shall have any retroactive effect to reduce any amounts allocated to a Participant's Account without the Participant's consent. In the event that this Plan is terminated, the distribution of the amounts credited to a Participant's Account shall not be accelerated but shall be paid at such time and in such manner as determined under the terms of this Plan immediately prior to termination as if this Plan had not been terminated; provided, however, that the Company, in its sole discretion, may distribute a Participant's Plan Benefit in accordance with Treasury Regulation §1.409A-3(j)(4)(ix).

12.00 Prohibition Against Funding

This Plan is an unfunded, unsecured promise by the Company and its Affiliates to pay only those Plan Benefits that are accrued by Participants under the terms of this Plan. Neither the Company nor any of its Affiliates shall be required to segregate any assets into a fund established exclusively to pay Plan Benefits. This Plan shall be an unfunded for tax purposes and for purposes of Title I of ERISA. The Participants and their Beneficiaries have only the rights of general unsecured creditors and do not have any interest in or right to any specific asset of the Company or any of its Affiliates. The Company or one of its Affiliates, as applicable, shall be designated the owner and beneficiary of any investment acquired in connection with obligations under this Plan.

13.00 Miscellaneous

- 13.01 No Contract.** The adoption and maintenance of this Plan shall not be deemed to constitute a contract of employment or otherwise between the Company or any of its Affiliates and any Employee or Participant or other person, or to be consideration for, or an inducement or condition of, any employment. Nothing contained herein shall be deemed to give any Employee or Participant or other person the right to be retained in the service of the Company or any of its Affiliates or to interfere with the right of the Company or any of its Affiliates (which right is expressly reserved) to discharge, with or without Cause, any Employee or Participant or other person at any time without any liability for any claim either against this Plan (except to the extent provided herein) or against the Company or any of its Affiliates.
- 13.02 No Alienation.** The right of a Participant or any other person to receive Plan Benefits may not be assigned, transferred, pledged or encumbered except as provided in the Participant's designation of a Beneficiary, by will or by applicable laws of descent and distribution. Any attempt to assign, transfer, pledge or encumber a Plan Benefit will be null and void and of no legal effect. Any action taken (or attempted to be taken) contrary to the provisions of this Section 13.02 will be null and void and of no effect whatsoever; the Company, its Affiliates and the Committee may disregard such action (or attempted action) and will not in any manner be bound by it; and they, and each of them, will suffer no liability by doing so. If any Participant or other person acts (or attempts to take any action) contrary to this Section 13.02, the Company, its Affiliates and the Committee will be reimbursed and indemnified on demand out of the interest of such Participant in this Plan for any loss, cost or expense incurred as a result of disregarding or acting in disregard of that action (or attempted action).
- 13.03 Governing Law.** This Plan, and applicable forms associated with this Plan, will be governed by and construed in accordance with the laws of the United States and, to the extent applicable, the laws of the State of Ohio, excluding any conflicts of laws principles.
- 13.04 Headings.** Headings and subheadings in this Plan document are inserted for convenience of reference only. They constitute no part of this Plan.
- 13.05 Illegal or Invalid Provision.** If any provision of this Plan is held to be illegal or invalid for any reason, this Plan will be construed and enforced as if the offending provision had not been included in this Plan. However, that determination will not affect the legality or validity of the remaining parts of this Plan.
- 13.06 Coordination with Other Plans.** A Participant's or his or her Beneficiary's rights to any Plan Benefits will be determined solely by reference to the terms of this Plan document and will be unaffected by any other document or agreement between the Participant or the Beneficiary and the Company or any of its Affiliates.
- 13.07 Code §409A.** Although the Company makes no guarantee with respect to the treatment of payment or benefits under this Plan, this Plan is intended to comply with the requirements of Code §409A and the Treasury Regulations promulgated thereunder, and the Company will interpret, apply and administer this Plan in accordance with this intent. The Company may accelerate the time or schedule of a distribution to a Participant or the Participant's

Beneficiary at any time this Plan fails to meet the requirements of Code §409A. Such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code §409A. Notwithstanding the foregoing, none of the Company, its Affiliates, the Board, the Committee or their delegates shall have any liability to a Participant for failure to comply with the requirements of Code §409A.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer, effective as of the Effective Date.

AIR TRANSPORT SERVICES GROUP, INC.

By: /s/ Joseph C. Hete

Title: President & Chief Executive Officer

Execution Version

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT dated as of October 22, 2013 (this "Amendment"), by and among CARGO AIRCRAFT MANAGEMENT, INC., a Florida corporation (the "Borrower"), AIR TRANSPORT SERVICES GROUP, INC., a Delaware corporation ("Holdings"), each of the financial institutions party hereto as "Lenders" and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Holdings, the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of May 9, 2011 (as amended from time to time prior to the date hereof, the "Credit Agreement");

WHEREAS, the Borrower has requested that the Lenders (i) provide Incremental Revolving Commitments in an aggregate principal amount of \$50,000,000 pursuant to Section 2.14 of the Credit Agreement and (ii) make certain amendments to the Credit Agreement as provided hereinafter; and

WHEREAS, the Borrower, Holdings, the Lenders and the Administrative Agent desire to amend certain provisions of the Credit Agreement and reflect an Incremental Facility Amendment, all on the terms and conditions contained herein.

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Lenders, the Administrative Agent, the Borrower and Holdings hereby agree as follows:

1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) The Credit Agreement is hereby amended by adding the following new definition in the appropriate alphabetical order:

"Pro Forma Basis" shall mean, (i) with respect to any Person, business, property or asset acquired under clause (i) or (ii) of the definition of "Investment", to the extent that such Investment is permitted under the Credit Agreement, the inclusion as "Consolidated EBITDA" of the EBITDA (i.e. net income before interest, taxes, depreciation and amortization) for such Person,

business, property or asset as if such Investment had been made on the first day of the applicable period, based on historical results accounted for in accordance with GAAP, and (ii) with respect to any Person, business, property or asset sold, transferred or otherwise disposed of, the exclusion from “Consolidated EBITDA” of the EBITDA (i.e. net income before interest, taxes, depreciation and amortization) for such Person, business, property or asset so disposed of during such period as if such disposition had been consummated on the first day of the applicable period, in accordance with GAAP.

(b) The Credit Agreement is hereby further amended by deleting the defined term “Consolidated EBITDA” in Section 1.1. thereof and substituting in lieu thereof the following defined term:

“Consolidated EBITDA” shall mean, for any period, Consolidated Net Income of such Person for such period plus, without duplication and to the extent reflected as a deduction in the statement of such Consolidated Net Income for such period, the sum of (i) total income tax expense during such period, plus (ii) Consolidated Interest Expense during such period, plus (iii) depreciation and amortization expense, plus (iv) amortization of intangibles (including, but not limited to, goodwill), plus (v) any non-recurring expenses incurred in connection with the closing of this Agreement, plus (vi) any extraordinary expenses or losses, and (vii) minus any extraordinary income or gains (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, gains or losses on the sales of assets outside of the Ordinary Course of Business); provided, that, for purposes of calculating compliance with the financial covenants set forth in Section 9.12 and Section 9.13, to the extent that during such period any Credit Party shall have made an Investment of the type described in clause (i) or (ii) of such definition that is permitted under the Credit Agreement, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of.

(c) The Credit Agreement is hereby further amended by deleting Annex 1.1A to the Credit Agreement in its entirety and substituting in lieu thereof Annex 1.1A attached hereto.

1. Incremental Facility Amendment. The parties hereto intend that this Amendment shall constitute an Incremental Facility Amendment in connection with the Borrower’s increase in the aggregate amount of the Revolving Commitments in the amount of \$50,000,000 pursuant to Section 2.14 of the Credit Agreement. Immediately after giving effect to this Amendment, the Aggregate Revolving Commitments shall be equal to \$275,000,000 and the Revolving Commitment of each Lender shall be as set forth on Annex 1.1A attached hereto. The Incremental Revolving Commitments contemplated by this Amendment shall be subject to the same terms and provisions (including pricing and final maturity) as the existing Revolving Commitments. The parties hereto acknowledge and agree that after giving effect to the Incremental Revolving Commitments contemplated by this Amendment, the aggregate amount of Incremental Commitments available to the Borrower is \$0 and the Incremental Commitments Effective Date with respect to the Incremental

Revolving Commitments contemplated by this Amendment shall be the date the conditions set forth in Section 4 below have been satisfied (the “Incremental Commitments Effective Date”).

2. Conditions Precedent to Effectiveness. The effectiveness of this Amendment and the Revolving Commitment Increase is subject to the truth and accuracy of the representations set forth in Sections 5 and 6 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, each Lender providing an Incremental Revolving Commitment (which constitute the Required Lenders) and the Administrative Agent;

(b) A pro forma Compliance Certificate after giving effect to the Revolving Commitment Increase and amendment to the definition of Consolidated EBITDA contemplated by this Amendment;

(c) A certificate of the Borrower dated as of the Incremental Commitments Effective Date signed by an Authorized Officer of the Borrower certifying that, before and after giving effect to the Revolving Commitment Increase contemplated by this Amendment, (i) the representations and warranties contained in Section 7 of the Credit Agreement and the other Credit Documents are true and correct in all material respects on and as of the Incremental Commitments Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct in all material respects as of such earlier date, (ii) no Default or Event of Default exists before or after giving effect to such addition or the other transactions contemplated by this Amendment and (iii) all conditions set forth in Section 6.2 of the Credit Agreement are satisfied as of such date;

(d) For the account of each Revolving Lender that has requested a Note (or a replacement Note) in respect of such Lender’s Revolving Commitment (after giving effect to the Revolving Commitment Increase contemplated by this Amendment), a Note evidencing such Lender’s Revolving Commitment (after giving effect to the Revolving Commitment Increase contemplated by this Amendment), duly executed by an Authorized Officer of the Borrower;

(e) A Reaffirmation of Obligations Under Credit Documents (the “Reaffirmation”) duly executed by each Credit Party, in the form of Exhibit A attached hereto;

(f) A legal opinion addressed to the Administrative Agent and each of the Lenders from Joe Payne, Corporate General Counsel of the Borrower and Holdings, which opinion shall be dated as of the Incremental Commitments Effective Date and covering such matters relating to the Borrower, Holdings, this Amendment, the Revolving Commitment Increase and the Credit Agreement (as amended by this Amendment) as the Administrative Agent or the Lenders shall reasonably request;

(g) A certificate, dated as of the Incremental Commitments Effective Date, signed by the Secretary of each Credit Party in the form of Exhibit B attached hereto (together with

certifications as to incumbency and signatures of such officers) with appropriate insertions and deletions, together with (i) copies of the articles or certificate of incorporation, the limited liability company agreement, the partnership agreement, any certificate of designation, the by-laws, or other organizational documents of each such Credit Party (or certifications from the applicable Credit Party that such documents have not been amended or otherwise modified in any way since the date such documents were delivered to the Administrative Agent at the closing of the First Amendment dated as of July 20, 2012 by and among the Borrower, Holdings, the Lenders party thereto and the Administrative Agent), (ii) the resolutions, or such other administrative approval, of each such Credit Party referred to in such certificate in respect of the authorization and approval of the transactions contemplated by this Amendment and (iii) in the case of the certificate delivered by the Borrower, a statement that (1) all of the applicable conditions set forth in this Section 4 of this Amendment have been satisfied as of such date and (2) since December 31, 2012, there has not been any change, effect, event, occurrence, state of facts or development that has had or could reasonably be expected to have a Material Adverse Effect;

(h) Certified copies of all consents, approvals, authorizations, registrations and filings and orders required or advisable to be made or obtained under applicable law, if any, or by any Contractual Obligation of each Credit Party, in connection with the execution, delivery, performance, validity and enforceability of this Amendment or any of the transactions contemplated hereby, and such consents, approvals, authorizations, registrations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired;

(i) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower hereunder or under any other agreement with the Administrative Agent or SunTrust Robinson Humphrey, Inc.;

(j) An Affidavit of Out-Of-State Execution and Delivery regarding the execution and delivery of the Amendment and any Notes delivered pursuant to Section 4(d) of this Amendment, duly executed by the Borrower and notarized;

(k) Evidence that after giving effect to (i) the Revolving Commitment Increase contemplated by this Amendment and, (ii) if necessary, the admission of additional Aircraft into the Collateral Pool in accordance with Section 8.10(b) of the Credit Agreement, the Collateral to Loan Value Ratio will not be less than 1.50 to 1.00; and

(l) Such other documents as the Administrative Agent may reasonably request.

3. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(a) Power and Authority. Each of the Borrower and Holdings has the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and has taken all necessary corporate action to duly

authorize the execution, delivery and performance of this Amendment and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(b) No Violation. The execution, delivery and performance by the Borrower and Holdings of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Credit Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Credit Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Credit Party.

(c) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment, against the Borrower or Holdings.

(d) No Default. No Default or Event of Default has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(e) Solvency. As of the date hereof and on the Incremental Commitments Effective Date, on a pro forma basis after giving effect to the Revolving Commitment Increase contemplated hereby and to all Indebtedness incurred, and to be incurred under such increase, (x) the sum of the assets, at a fair market valuation, of each Credit Party and its respective Subsidiaries will exceed its debts, (y) no such Credit Party or its Subsidiaries will have incurred or intended to, or believes that it will, incur debts beyond its ability to pay such debts as such debts mature and (z) each such Credit Party and its Subsidiaries taken as a whole will have sufficient capital with which to conduct its business. For purposes of this clause (e), "debt" means any liability on a claim, and "claim" means (i) right to payment whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or (ii) right to an equitable remedy for breach of performance if such breach gives

rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

(f) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Credit Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

(g) Credit Parties. As of the date hereof, the parties listed as signatories to the Reaffirmation represent a true, correct and complete list of all the Credit Parties.

4. Reaffirmation of Representations. Each of the Borrower and Holdings hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Credit Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

5. No Further Amendments; Ratification of Liability. Except as expressly amended hereby, the Credit Agreement and each of the other Credit Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Credit Documents in the future. Each of the Borrower and Holdings hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Credit Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Credit Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower or Holdings or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Credit Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings or the Lenders, or any of them. This Amendment shall be deemed to be a "Credit Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Credit Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

6. Allocations of Revolving Commitments and Revolving Loans. The Administrative Agent, the Lenders and the Borrower agree that the Revolving Commitment of each of the Lenders immediately prior to the effectiveness of this Amendment shall be reallocated among the Lenders such that, immediately after the effectiveness of this Amendment in accordance with its terms and the Revolving Commitment Increase, the Revolving Commitment of each Lender shall be as set forth on Annex 1.1A attached hereto. In order to effect such reallocations, assignments shall be deemed to be made among the Lenders in such amounts as may be necessary, and with the same force and effect as if such assignments were evidenced by the applicable Assignment Agreements (but without the payment of any related assignment fee), and no other documents or instruments shall be required to be executed in connection with such assignments (all of which such requirements are hereby waived) other than the execution of any documents or instruments required for the effectiveness of this Amendment pursuant to Section 4 of this Amendment. Further, to effect the foregoing, each Lender agrees to make cash settlements in respect of any outstanding Revolving Loans, either directly or through the Administrative Agent, as the Administrative Agent may direct or approve, such that after giving effect to this Amendment, each Lender holds Revolving Loans equal to its Revolving Percentage (based on the Revolving Commitment of each Lender as set forth on Annex 1.1A attached hereto). The principal amount of Term Loans held by each Lender as of the date hereof is set forth on Annex 2 attached hereto.

7. Other Provisions.

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(b) The Borrower agrees to reimburse the Lenders and the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by such parties in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(c) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

(d) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(e) In consideration of the amendments contained herein, each of the Borrower and Holdings hereby waives and releases each of the Lenders and the Administrative Agent from any and all known claims and defenses with respect to the Credit Agreement and the other Credit Documents and the transactions contemplated thereby.

(f) Each of the Borrower and Holdings agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Credit Documents and all other agreements executed and delivered in connection herewith.

(g) THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDMENT SOLELY TO AMEND THE TERMS OF THE CREDIT AGREEMENT. THE PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY THE BORROWER OR HOLDINGS UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER CREDIT DOCUMENTS.

[Signature Pages Follow]

IN WITNESS WHEREOF, the Borrower, Holdings, the Lenders and the Administrative Agent have caused this Second Amendment to Credit Agreement to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

CARGO AIRCRAFT MANAGEMENT, INC.

By: /s/ Richard F. Corrado

Name: Richard F. Corrado

Title:

President

AIR TRANSPORT SERVICES GROUP, INC.

By: /s/ Joseph C. Hete

Name: Joseph C.

Title: President and

Hete

CEO

[Signatures Continue on Following Pages]

SUNTRUST BANK, in its capacities as a Lender,
Letter of Credit Issuer and as Administrative
Agent

By: _____/s/ Keith Cox
Name: Keith Cox
Title: Managing Director

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

REGIONS BANK, as a Lender

By: _____/s/ Christ Hurst

Name: Chris Hurst

Title: Senior Vice President

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

JPMORGAN CHASE BANK, N.A., as a Lender

By: _____/s/ John B. Middelberg
Name: John B. Middelberg
Title: SVP

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

BANK OF AMERICA, N.A., as a Lender

By: _____/s/ Joseph R. Jackson_____

Name: Joseph R. Jackson

Title: Vice President

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

THE NORTHERN TRUST COMPANY,
as a Lender

By: _____/s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

STELLARONE BANK, as a Lender

By: _____/s/ Judson Foster_____

Name: Judson Foster

Title: SVP

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

ATLANTIC CAPITAL BANK, as a Lender

By: /s/ J. Christopher Deisley
Name: J. Christopher Deisley
Title: Senior Vice President

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

TRISTATE CAPITAL BANK, as a Lender

By: _____
Name:
Title:

[Signatures Continue on Following Pages]

[Signature Page to Second Amendment to Credit Agreement]

Annex 1.1A

<u>Institution</u>	<u>Revolving Commitment</u>	<u>Term Commitment</u>	<u>Address</u>
SunTrust Bank	\$45,817,195.00	\$24,793,900.72	3333 Peachtree Road N.E., 8th Floor Mail Code: GA-Atlanta-2020 Atlanta, GA 30326 Attn: Christopher Hursey Fax: (404) 439-7409
Regions Bank	\$43,880,220.00	\$23,561,422.68	201 Milan Parkway Birmingham, Alabama 35211 Attn: Stephanie Reid Fax: (205) 801-5250
JPMorgan Chase Bank, N.A.	\$42,539,455.00	\$22,813,765.04	10 S Dearborn Floor 07 Chicago, Illinois 60603 Attn: Non Agented Servicing Team Fax: (312) 256-2608
Bank of America, N.A.	\$29,741,890.00	\$15,787,705.62	901 Main Street Dallas, Texas 75202 Attn: Susheel Jaiswal Fax: (972) 728-9506
PNC Bank, N.A.	\$28,053,625.00	\$14,416,650.26	6750 Miller Road Brecksville, Ohio 44141 Attn: Mary Ann Cruz Fax: (866) 932-2125
The PrivateBank and Trust Company	\$14,607,260.00	\$8,001,265.04	120 South LaSalle Street Chicago, Illinois 60602 Attn: Daniel Arehart Fax: (312) 564-1794
Branch Banking and Trust Company	\$15,291,435.00	\$7,716,957.18	200 W Second Street 16th Floor Winston Salem, NC 27101 Attn: Wendy Geringer Fax: (336) 733-2740
Compass Bank	\$15,655,090.00	\$7,293,070.28	8080 N Central Expressway Suite 320 Dallas, Texas 75206 Attn: Kathy Kirk Fax: (866) 984-8668

<u><i>Institution</i></u>	<u><i>Revolving Commitment</i></u>	<u><i>Term Commitment</i></u>	<u><i>Address</i></u>
The Northern Trust Company	\$15,233,655.00	\$7,688,920.02	50 South LaSalle Street Chicago, Illinois 60603 Attn: Mary Green Fax: (312) 630-1566
StellarOne Bank	\$12,280,175.00	\$6,077,593.16	105 Arbor Drive Christiansburg, Virginia 24073 Attn: Jim Rice cc: Sofie Rodriguez Fax: (540) 394-6884 cc: (804) 290-4328
Atlantic Capital Bank	\$6,500,000.00	\$5,431,250.00	3525 Piedmont Road, NE Building 7, Suite 510 Atlanta, Georgia 30305 Attn: Trudy Robinson Fax: (404) 995-5804
TriState Capital Bank	\$5,400,000.00	\$4,542,500.00	301 Grant Street Suite 2700 Pittsburgh, Pennsylvania 15219 Attn: John Kyle Fax: (412) 304-0391
Total	\$275,000,000.00	\$148,125,000.00	

Annex 2

<u><i>Institution</i></u>	<u><i>Term Loans Outstanding</i></u>
SunTrust Bank	\$23,224,666.51
Regions Bank	\$22,070,193.39
JPMorgan Chase Bank, N.A.	\$21,369,855.85
Bank of America, N.A.	\$14,788,483.75
PNC Bank, N.A.	\$13,504,204.05
The PrivateBank and Trust Company	\$7,494,855.85
Branch Banking and Trust Company	\$7,228,542.18
Compass Bank	\$6,831,483.54
The Northern Trust Company	\$7,202,279.52
StellarOne Bank	\$5,692,935.36
Atlantic Capital Bank	\$5,087,500.00
TriState Capital Bank	\$4,255,000.00
Total	\$138,750,000.00

EXHIBIT A

REAFFIRMATION OF OBLIGATIONS UNDER CREDIT DOCUMENTS

Reference is hereby made to (i) that certain Credit Agreement dated as of May 9, 2011 among Cargo Aircraft Management, Inc. (the "Borrower"), Air Transport Services Group, Inc. ("Holdings"), the Lenders party thereto and SunTrust Bank, as Administrative Agent (as amended from time to time prior to the date hereof, the "Credit Agreement"; capitalized terms used herein and not defined herein have the meanings ascribed to such terms in the Credit Agreement) and (ii) that certain Second Amendment to Credit Agreement dated as of the date hereof (the "Amendment") among the Borrower, Holdings, the Lenders and the Administrative Agent.

Each Credit Party acknowledges and reaffirms that (i) all liens and security interests granted to the Administrative Agent and the Lenders under the Security Documents remain in full force and effect and shall continue to secure the Obligations and (ii) the validity, perfection, enforceability or priority of such liens and security interests will not be impaired in any way by the Amendment.

Each of the undersigned Credit Parties hereby further reaffirms its continuing obligations owing to the Administrative Agent and the Lenders under each of the Credit Documents (including, without limitation, the guarantee obligations of each Guarantor under the Guaranty and Collateral Agreement) to which such Person is a party, and each Credit Party agrees that the amendments contained in the Amendment are solely to amend the terms of the Credit Agreement and do not in any way affect the validity and/or enforceability of any Credit Document, or reduce, impair or discharge the obligations of such Person thereunder.

Each of the undersigned Credit Parties hereby represents and warrants to the Administrative Agent and the Lenders that: (a) the execution and delivery by the Credit Parties of this Reaffirmation of Obligations Under Credit Documents (this "Reaffirmation" is within the power (corporate or otherwise) and authority of the Credit Parties, has been duly authorized and approved by all requisite action on the part of the Credit Parties, and does not and will not contravene, breach or conflict with any provision of applicable law or any of the charter or other organic documents of the Credit Parties, or any indenture, agreement, instrument or undertaking binding on the Credit Parties; (b) this Reaffirmation has been duly executed by the Credit Parties; (c) the Credit Documents remain in full force and effect and constitute the legal, valid and binding obligations of the Credit Parties, enforceable in accordance with their terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting generally the enforcement of creditor's rights; and (d) all of the Obligations are absolute and unconditional, and such Obligations are not subject to any claim, defense, deduction, right of offset or otherwise.

THE CREDIT PARTIES DO NOT INTEND THE AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED THEREBY TO BE, AND THE AMENDMENT AND THE TRANSACTION CONTEMPLATED THEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY THE CREDIT PARTIES UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER CREDIT DOCUMENTS.

[Signatures on Following Pages]

This Reaffirmation shall be construed in accordance with and be governed by the law (without giving effect to the conflict of law principles thereof) of the State of New York.

[Signatures on Following Pages]

IN WITNESS WHEREOF, each of the undersigned has duly executed and delivered this Reaffirmation of Obligations under Credit Documents as of October __, 2013.

CARGO AIRCRAFT MANAGEMENT, INC.

By:
Name:
Title:

ABX AIR, INC.

By:
Name:
Title:

LGSTX DISTRIBUTION SERVICES, INC.

By:
Name:
Title:

AIRBORNE GLOBAL SOLUTIONS, INC.

By:
Name:
Title:

AIRBORNE MAINTENANCE AND ENGINEERING SERVICES,
INC.

By:
Name:
Title:

AIR TRANSPORT INTERNATIONAL LIMITED LIABILITY
COMPANY

By:
Name:
Title:

AMES MATERIAL SERVICES INC.

By:
Name:
Title:

CARGO AVIATION, INC.

By:
Name:
Title:

CARGO HOLDINGS INTERNATIONAL, INC.

By:
Name:
Title:

LGSTX FUEL MANAGEMENT, INC.

By:
Name:
Title:

LGSTX SERVICES, INC.

By:
Name:
Title:

AIR TRANSPORT SERVICES GROUP, INC.

By:
Name:
Title:

AIR TRANSPORT INTERNATIONAL, INC.

By:
Name:
Title:

EXHIBIT B

SECRETARY'S CLOSING CERTIFICATE

I, the undersigned, Secretary of _____, a _____ organized and existing under the laws of the State of _____ (the "Company"), do hereby certify on behalf of the Company that:

1. This Certificate is being delivered as of October __, 2013, and is furnished pursuant to that certain Second Amendment to Credit Agreement dated as of the date hereof (the "Amendment"), among Cargo Aircraft Management, Inc., a Florida corporation (the "Borrower"), Air Transport Services Group, Inc., a Delaware corporation ("Holdings"), the Lenders from time to time party thereto, and SunTrust Bank, as Administrative Agent for the Lenders. Unless otherwise defined herein, capitalized terms used herein shall have the meanings given them in the Amendment.

2. The following named individuals are duly qualified and acting elected or appointed officers of the Company, and each holds the office of the Company set forth opposite his or her name, each of whom is authorized to sign the [Amendment/Reaffirmation] on behalf of the Company. The signature written opposite the name and title of each such officer is his or her genuine signature.

<u>Name</u>	<u>Office</u>	<u>Signature</u>
_____	_____	_____
_____	_____	_____

3. Attached hereto as Exhibit A is a true and complete copy of the [Charter Document] of the Company, including all amendments thereto, as filed in the Office of the Secretary of State of the State of _____ (the "Secretary of State"), which constitutes the [Charter Document] of the Company as presently in effect (the "Articles of _____"); no amendment to the Articles of _____ is pending or contemplated, and there are no proceedings, pending or contemplated, for the merger, consolidation, conversion, liquidation or dissolution of the Company; and no steps have been or are being taken to appoint an administrator, receiver, liquidator or analogous person or body to wind up or dissolve the Company.

4. Attached hereto as Exhibit B is a true and correct copy of the [By-Laws/LLC Operating Agreement] of the Company which were/was duly adopted and are/is in full force and effect on the date hereof.

5. Attached hereto as Exhibit C is a true and correct copy of resolutions authorizing the execution, delivery and performance of the [Amendment/Reaffirmation], which [have][has] been duly adopted by unanimous written consent of the members of the Company, and said

resolutions have not been rescinded, amended or modified, are in full force and effect on the date hereof, and have been duly filed with the minutes of the proceedings of the members.

6. Attached hereto as Exhibit D is a certificate of good standing from the Secretary of State of the jurisdiction of incorporation or organization of the Company.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Certificate as of the date set forth in paragraph 1 above.

[COMPANY]

_____, Secretary

Exhibit A

Articles of _____

Exhibit B

[Operating Agreement/By-Laws]

Exhibit C

Resolutions

Exhibit D

Good Standing Certificate

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

I, Joseph C. Hete, certify that:

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

Date: November 6, 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: November 6, 2013

/s/ QUINT O. TURNER

Quint O. Turner

Chief Financial Officer
(Principal Financial and Accounting Officer)

