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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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

For the transition period from ________ to ________

Commission file number 000-50368

ATSG
Air Transport Services Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-1631624**
(State of Incorporation)	(I.R.S. Employer Identification No.)
145 Hunter Drive, Wilmington, OH	**45177**
(Address of Principal Executive Offices)	(Zip Code)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

As of May 8, 2017, 59,533,749 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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FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION

The financial information, including the financial statements, included in the Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 8, 2017.

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.

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 2016 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31	
	2017	**2016**
REVENUES	$ 237,917	$ 177,385
OPERATING EXPENSES		
Salaries, wages and benefits	72,663	52,419
Depreciation and amortization	36,442	32,534
Maintenance, materials and repairs	24,601	27,343
Fuel	34,841	16,631
Travel	7,366	4,808
Contracted ground and aviation services	20,687	10,868
Rent	3,286	2,627
Landing and ramp	5,299	3,651
Insurance	1,262	1,149
Other operating expenses	13,717	10,004
	220,164	162,034
OPERATING INCOME	17,753	15,351
OTHER INCOME (EXPENSE)		
Interest income	32	24
Net gain (loss) on financial instruments	1,869	(528)
Interest expense	(3,548)	(2,699)
	(1,647)	(3,203)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	16,106	12,148
INCOME TAX EXPENSE	(6,310)	(3,977)
EARNINGS FROM CONTINUING OPERATIONS	9,796	8,171
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAXES	192	47
NET EARNINGS	$ 9,988	$ 8,218
BASIC EARNINGS PER SHARE		
Continuing operations	$ 0.17	$ 0.13
Discontinued operations	—	—
TOTAL BASIC EARNINGS PER SHARE	$ 0.17	$ 0.13
DILUTED EARNINGS PER SHARE		
Continuing operations	$ 0.13	$ 0.13
Discontinued operations	—	—
TOTAL DILUTED EARNINGS PER SHARE	$ 0.13	$ 0.13
WEIGHTED AVERAGE SHARES		
Basic	59,133	63,636
Diluted	64,949	65,057

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
	2017	**2016**
NET EARNINGS	$ 9,988	$ 8,218
OTHER COMPREHENSIVE INCOME:		
Defined benefit pension	1,234	2,146
Defined benefit post-retirement	37	9
Foreign currency translation	37	257
TOTAL COMPREHENSIVE INCOME, NET OF TAXES	$ 11,296	$ 10,630

See notes to condensed consolidated financial statements.

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

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,631	$ 16,358
Accounts receivable, net of allowance of $1,273 in 2017 and $1,264 in 2016	83,981	77,247
Inventory	18,454	19,925
Prepaid supplies and other	24,481	19,123
TOTAL CURRENT ASSETS	154,547	132,653
Property and equipment, net	1,057,877	1,000,992
Other assets	82,799	80,099
Goodwill and acquired intangibles	45,588	45,586
TOTAL ASSETS	**$ 1,340,811**	**$ 1,259,330**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 76,269	$ 60,704
Accrued salaries, wages and benefits	27,032	37,044
Accrued expenses	9,553	10,324
Current portion of debt obligations	26,531	29,306
Unearned revenue	25,233	18,407
TOTAL CURRENT LIABILITIES	164,618	155,785
Long term debt	481,886	429,415
Post-retirement obligations	74,674	77,713
Other liabilities	51,294	52,542
Stock warrants	97,831	89,441
Deferred income taxes	129,425	122,532
TOTAL LIABILITIES	999,728	927,428
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 $0.01 per share; 85,000,000 shares authorized; 59,563,749 and 59,461,291 shares issued and outstanding in 2017 and 2016, respectively	596	595
Additional paid-in capital	441,300	443,416
Accumulated deficit	(22,255)	(32,243)
Accumulated other comprehensive loss	(78,558)	(79,866)
TOTAL STOCKHOLDERS' EQUITY	341,083	331,902
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,340,811**	**$ 1,259,330**

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
	2017	**2016**
OPERATING ACTIVITIES:		
Net earnings from continuing operations	$ 9,796	$ 8,171
Net earnings from discontinued operations	192	47
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	39,033	32,534
Pension and post-retirement	1,995	3,382
Deferred income taxes	6,149	3,831
Amortization of stock-based compensation	784	654
Net (gain) loss on financial instruments	(1,869)	528
Changes in assets and liabilities:		
Accounts receivable	(6,487)	219
Inventory and prepaid supplies	(4,413)	1,341
Accounts payable	6,932	(1,995)
Unearned revenue	4,765	(2,719)
Accrued expenses, salaries, wages, benefits and other liabilities	(9,911)	(920)
Pension and post-retirement assets	(3,039)	(2,196)
Other	283	1,432
NET CASH PROVIDED BY OPERATING ACTIVITIES	44,210	44,309
INVESTING ACTIVITIES:		
Capital expenditures	(83,786)	(71,673)
Acquisitions and investments in businesses	(640)	—
Redemption of long term deposits	4,725	—
NET CASH (USED IN) INVESTING ACTIVITIES	(79,701)	(71,673)
FINANCING ACTIVITIES:		
Principal payments on long term obligations	(10,337)	(6,189)
Proceeds from borrowings	60,000	60,000
Purchase of common stock	(1,463)	(3,079)
Withholding taxes paid for conversion of employee stock awards	(1,436)	(1,231)
NET CASH PROVIDED BY FINANCING ACTIVITIES	46,764	49,501
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,273	22,137
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,358	17,697
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 27,631	$ 39,834
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	$ 3,406	$ 2,587
Federal alternative minimum and state income taxes paid	$ 113	$ —
SUPPLEMENTAL NON-CASH INFORMATION:		
Accrued capital expenditures	$ 18,251	$ 7,084

See notes to 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 two U.S. certificated airlines. The Company provides airline operations, aircraft leases, aircraft maintenance and other support services primarily to the cargo transportation and package delivery industries. Through the Company's subsidiaries, it offers a range of complementary services to delivery companies, freight forwarders, airlines and government customers.

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 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. 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.

The Company serves a base of concentrated customers who typically have a diverse line of international cargo traffic. 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. In addition to its airline operations and aircraft leasing services, the Company sells aircraft parts, provides aircraft maintenance and modification services, equipment maintenance services, and operates mail and package sorting facilities.

Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and such principles are applied on a basis consistent with the financial statements reflected in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC related to interim financial statements. 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. Due to seasonal fluctuations, among other factors common to the airline industry, the results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year or any interim period. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. The accounting estimates reflect the best judgment of management, but actual results could differ materially from those estimates.

The accompanying condensed consolidated financial statements include the accounts of Air Transport Services Group, Inc. and its wholly-owned subsidiaries. Investments in an affiliate in which the Company has significant influence but does not exercise control are accounted for using the equity method of accounting. Using the equity method, the Company's share of the nonconsolidated affiliate's income or loss is recognized in the consolidated statement of earnings and cumulative post-acquisition changes in the investment are adjusted against the carrying amount of the investment. Inter-company balances and transactions are eliminated.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers, Identifying Performance Obligations and

Licensing" clarify the accounting under ASU 2014-09 for licenses of intellectual property and for identifying distinct performance obligations in a contract.

ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 with earlier adoption permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities would recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity, and disclose all line items in the year of adoption as if they were prepared under the old revenue guidance.

The Company is currently evaluating the methods of adoption allowed by the new standard and the effect the standard is expected to have on the Company's consolidated financial position, results of operations or cash flows and related disclosures. The evaluation includes each of the five steps identified in the ASU 2014-09 revenue recognition model, which are as follows: 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied. The Company's lease contracts within the scope of ASC 840, *Leases,* are specifically excluded from ASU 2014-09. As the Company completes its evaluation of this new standard, new information may arise that could change the Company's current understanding of the impact to revenue and expense recognized. Additionally, industry activities and other guidance provided by regulators, standards setters, and the accounting profession may affect the Company’s assessment and implementation plans.

In July 2015, FASB issued ASU "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 more closely aligns the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards ("IFRS"). The amendment in ASU 2015-11 is for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendment should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect the impact of adopting ASU 2015-11 to be material to the Company's financial statements and related disclosures.

In March 2017, the FASB issued ASU "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07"). ASU 2017-07 requires an employer to report the service cost component of retiree benefits in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost would be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The standard is effective for annual periods beginning after December 15, 2017 and should be applied retrospectively. The Company anticipates the standard will impact the Operating Income subtotal as reported in the Company's Consolidated Statement of Operations by excluding interest expense, investment returns and other non service cost components of retiree benefit expenses. Information about interest expense, investment returns and other components of retiree benefit expenses can be found in Note H.

In February 2016, the FASB issued ASU "Leases (Topic 842)" ("ASU 2016-02"), which will require the recognition of right to-use-assets and lease liabilities for leases previously classified as operating leases by lessees. The standard will take effect for annual reporting periods beginning after December 15, 2018, including interim reporting periods. Early application will be permitted for all entities. In addition, the FASB has decided to require a lessee to apply a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements (the date of initial application). The modified retrospective approach would not require any transition accounting for leases that expired before the date of initial application. The FASB decided to not permit a full retrospective transition approach. The Company is currently evaluating the impact of the standard on its financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company is currently evaluating the impact of the adoption of the standard on the its financial statements and disclosures.

In November 2016, the FASB issued ASU "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). ASU 2016-18 requires that the statement of cash flows explain the changes in the combined total of restricted and unrestricted cash balance. Amounts generally described as restricted cash or restricted cash equivalents will be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the statement of cash flows. Further, the ASU requires a reconciliation of balances from the statement of cash flows to the balance sheet in situations in which the balance sheet includes more than one line item of cash, cash equivalents, and restricted cash. Companies will also be disclosing the nature of the restrictions. ASU 2016-18 is effective for financial statements issued for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the standard on its financial statements and disclosures.

In January 2017, the FASB issued ASU "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 will simplify the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. ASU 2017-04 would require applying a one-step quantitative test and recording the amount of goodwill impairment as the excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment. The amendments in ASU 2017-04 are effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the standard on its financial statements and disclosures.

NOTE B—SIGNIFICANT CUSTOMERS

DHL

The Company has had long term contracts with DHL Network Operations (USA), Inc. and its affiliates ("DHL") since August 2003. Revenues from aircraft leases and related services performed for DHL were approximately 26% and 36% of the Company's consolidated revenues from continuing operations for the three month periods ending March 31, 2017 and 2016, respectively. The Company’s balance sheets include accounts receivable with DHL of $6.1 million and $7.3 million as of March 31, 2017 and December 31, 2016, respectively.

The Company leases 16 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. 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. 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.

Amazon

The Company has been providing freighter aircraft and services for cargo handling and logistical support for Amazon Fulfillment Services, Inc. ("AFS"), a subsidiary of Amazon.com, Inc. ("Amazon") since September 2015. On March 8, 2016, the Company entered into an Air Transportation Services Agreement (the “ATSA”) with AFS pursuant to which CAM will lease 20 Boeing 767 freighter aircraft to AFS, including 12 Boeing 767-200 freighter aircraft for a term of five years and eight Boeing 767-300 freighter aircraft for a term of seven years. The ATSA, which has a term of five years, also provides for the operation of those aircraft by the Company’s airline subsidiaries, and the performance of hub and gateway services by the Company's subsidiary LGSTX Services Inc. ("LGSTX"). CAM owns all of the Boeing 767 aircraft that are or will be leased and operated under the ATSA. The ATSA became effective on April 1, 2016. As of March 31, 2017, the Company has leased 16 aircraft to AFS and is obligated to lease four more Boeing 767-300 aircraft to AFS during 2017 to meet its 20 aircraft commitment.

Revenues from aircraft leases and related services performed for AFS comprised approximately 41% and 19% of the Company's consolidated revenues from continuing operations for the three month periods ending March 31, 2017 and 2016, respectively. The Company's balance sheets include accounts receivable with AFS of $32.9 million and $24.6 million as of March 31, 2017 and December 31, 2016, respectively.

In conjunction with the execution of the ATSA, the Company and Amazon entered into an Investment Agreement and a Stockholders Agreement on March 8, 2016. The Investment Agreement calls for the Company to issue warrants in three tranches which will grant Amazon the right to acquire up to 19.9% of the Company's outstanding common shares as described below. The first tranche of warrants, issued upon execution of the Investment Agreement, grants Amazon the right to purchase approximately 12.81 million ATSG common shares, with the right to purchase 7.69 million common shares which vested upon issuance on March 8, 2016 and the right to purchase the remaining 5.12 million common shares, vesting as the Company delivers additional aircraft leased under the ATSA, or as the Company achieves specified revenue targets in connection with the ATSA. The second tranche of warrants grants Amazon a right to purchase approximately 1.59 million ATSG common shares, and will be issued on March 8, 2018. The third tranche of warrants will be issued on September 8, 2020. The third tranche of warrants will grant Amazon the right to purchase such additional number of ATSG common shares as is necessary to bring Amazon's ownership to 19.9% of the Company's pre-transaction outstanding common shares measured on a GAAP-diluted basis, adjusted for share issuances and repurchases by the Company following the date of the Investment Agreement and after giving effect to the warrants granted. The exercise price of the warrants will be $9.73 per share, which represents the closing price of ATSG's common shares on February 9, 2016. Each of the three tranches of warrants will be exercisable in accordance with its terms through March 8, 2021. The Company anticipates making available the common shares required for the underlying warrants through a combination of share repurchases and the issuance of additional shares.

The Company's accounting for the warrants has been determined in accordance with the financial reporting guidance for equity-based payments to non-employees and for financial instruments. During the first quarter of 2017, 1.3 million additional warrants vested in conjunction with the execution of two aircraft leases. As of March 31, 2017, the Company's liabilities reflected 12.34 million warrants having a fair value of $7.93 per share. As of March 31, 2017, the re-measurements of the warrants to fair value resulted in a non-operating gain of $1.7 million before the effect of income taxes. As of March 31, 2017, an additional 2.6 million warrants are expected to vest as AFS leases four aircraft from the Company.

The Company's earnings in future periods will be impacted by the number of warrants granted, the re-measurements of warrant fair value, amortizations of the lease incentive asset and the related income tax effects. For income tax calculations, the value and timing of related tax deductions will differ from the guidance described above for financial reporting.

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 7% and 15% of the Company's total revenues from continuing operations for the three month periods ending March 31, 2017 and 2016, respectively. The Company's balance sheets included accounts receivable with the U.S. Military of $5.7 million and $7.0 million as of March 31, 2017 and December 31, 2016, respectively.

NOTE C—GOODWILL, INTANGIBLES AND EQUITY INVESTMENTS

On December 30, 2016, the Company purchased 100% of the outstanding stock of Pemco World Air Inc., ("Pemco") for cash consideration in a debt-free acquisition. The purchase price has been allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess purchase price over the estimated fair value of net assets acquired was recorded as goodwill and reflects the strategic value of marketing Pemco's aircraft conversion capabilities and current aircraft hangar operations with the

Company's air transportation solutions. Identified intangible assets include Supplemental Type Certificates ("STCs") granting approval by FAA for Pemco to market and complete certain aircraft modifications. The Company is in process of refining its estimates of certain assets including goodwill and intangible assets, therefore the allocation of purchase price is preliminary at this time.

The carrying amounts of goodwill are as follows (in thousands):

	CAM	All Other	Total
Carrying value as of December 31, 2016	$ 34,395	$ 2,738	$ 37,133
Purchase price adjustment	—	140	140
Carrying value as of March 31, 2017	$ 34,395	$ 2,878	$ 37,273

The Company's acquired intangible assets are as follows (in thousands):

	Airline Certificates	Amortizing Intangibles	Total
Carrying value as of December 31, 2016	$ 3,000	$ 5,453	$ 8,453
Amortization	—	(138)	(138)
Carrying value as of March 31, 2017	$ 3,000	$ 5,315	$ 8,315

The airline certificates have an indefinite life and therefore are not amortized. The Company amortizes finite-lived intangibles assets, including customer relationship and STC intangibles, over 4 to 7 years.

In January 2014, the Company acquired a 25 percent equity interest in West Atlantic AB of Gothenburg, Sweden ("West"). West, through its two airlines, Atlantic Airlines Ltd. and West Air Sweden AB, operates a fleet of aircraft on behalf of European regional mail carriers and express logistics providers. The airlines operate a combined fleet of British Aerospace ATPs, Bombardier CRJ-200-PFs, and Boeing 767 and 737 aircraft. West leases three Boeing 767 aircraft from the Company. The Company accounts for West using the equity method of accounting. The Company's carrying value of West was $9.3 million and $9.9 million at March 31, 2017 and December 31, 2016, respectively, including $5.5 million of excess purchase price over the Company's fair value of West's net assets in January of 2014. The carrying value is reflected in “Other Assets” in the Company’s consolidated balance sheets.

Stock warrants issued to a lessee (see Note B) as an incentive are recorded as a lease incentive asset using their fair value at the time that the lessee has met its performance obligation and amortized against revenues over the duration of related aircraft leases. The Company's lease incentive granted to the lessee was as follows (in thousands):

	Lease Incentive
Carrying value as of December 31, 2016	$ 54,730
Warrants granted	10,050
Amortization	(2,591)
Carrying value as of March 31, 2017	$ 62,189

The lease incentive began to amortize in April 2016, with the commencement of certain aircraft leases over the duration of the related leases.

NOTE D—FAIR VALUE MEASUREMENTS

The Company's money market funds and interest rate swaps 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, stock warrants and interest rate swaps are based on observable inputs (Level 2) from comparable market transactions. The fair value of the stock warrant obligation was determined using a Black-Scholes pricing model which considers the Company's common stock price and various assumptions, such as the volatility of the Company's common stock, the expected dividend yield, and the risk-free interest rate. The use of significant unobservable inputs (Level 3) was not necessary in determining the fair value of the Company's financial assets and liabilities.

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

As of March 31, 2017	**Fair Value Measurement Using**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents—money market	$ —	$ 6,482	$ —	$ 6,482
Interest rate swap	—	697	—	697
Total Assets	$ —	$ 7,179	$ —	$ 7,179
Liabilities				
Interest rate swap	$ —	$ (17)	$ —	$ (17)
Stock warrant obligation	—	(97,831)	—	(97,831)
Total Liabilities	$ —	$ (97,848)	$ —	$ (97,848)

As of December 31, 2016	**Fair Value Measurement Using**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents—money market	$ —	$ 482	$ —	$ 482
Interest rate swap	—	547	—	547
Total Assets	$ —	$ 1,029	$ —	$ 1,029
Liabilities				
Interest rate swap	$ —	$ (77)	$ —	$ (77)
Stock warrant obligation	—	(89,441)	—	(89,441)
Total Liabilities	$ —	$ (89,518)	$ —	$ (89,518)

As a result of lower market interest rates compared to the stated interest rates of the Company's fixed and variable rate debt obligations, the fair value of the Company's debt obligations, based on Level 2 observable inputs, was approximately $4.9 million more than the carrying value, which was $508.4 million at March 31, 2017. As of December 31, 2016, the fair value of the Company's debt obligations was approximately $0.2 million more than the carrying value, which was $458.7 million. 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 other flight equipment. Property and equipment, to be held and used, is summarized as follows (in thousands):

	March 31, 2017	December 31, 2016
Flight equipment	$ 1,546,545	$ 1,541,872
Ground equipment	49,348	49,229
Leasehold improvements, facilities and office equipment	28,081	27,364
Aircraft modifications and projects in progress	188,392	113,518
	1,812,366	1,731,983
Accumulated depreciation	(754,489)	(730,991)
Property and equipment, net	$ 1,057,877	$ 1,000,992

CAM owned aircraft with a carrying value of $558.7 million and $524.3 million that were under leases to external customers as of March 31, 2017 and December 31, 2016, respectively.

NOTE F—DEBT OBLIGATIONS

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

	March 31, 2017	December 31, 2016
Unsubordinated term loan	$ 81,765	$ 85,636
Revolving credit facility	415,000	355,000
Aircraft loans	11,652	18,085
Total long term obligations	508,417	458,721
Less: current portion	(26,531)	(29,306)
Total long term obligations, net	$ 481,886	$ 429,415

The Company executed a syndicated credit agreement ("Senior Credit Agreement") in May 2011 which includes an unsubordinated term loan and a revolving credit facility. Effective March 31, 2017, the Company executed an amendment to the Senior Credit Agreement (the "Seventh Credit Agreement"). The Seventh Credit Agreement extended the maturity of the term loan and revolving facility to May 30, 2022, increased the capacity of the Revolving credit facility by $120.0 million to $545.0 million and preserved the accordion feature such that the Company can still draw up to an additional $100.0 million subject to the lenders' consent. Each year, through May 6, 2019, the Company may request a one year extension of the final maturity date, subject to the lenders' consent. The revolving credit facility has permitted additional indebtedness of $150.0 million. Under the terms of the Senior Credit Agreement, the Company is required to maintain collateral coverage equal to 125% of the outstanding balances of the term loan and the maximum capacity of revolving credit facility or 150% of the outstanding balance of the term loan and the total funded revolving credit facility, whichever is less. The minimum collateral coverage which must be maintained is 50% of the outstanding balance of the term loan plus the revolving credit facility commitment which was $545.0 million.

The balances of the unsubordinated term loan are net of debt issuance costs of $0.7 million and $0.6 million for the periods ending March 31, 2017 and December 31, 2016, respectively. Under the terms of the Senior Credit Agreement, interest rates are adjusted quarterly based on the Company's earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"), its outstanding debt level and prevailing LIBOR or prime rates. At the Company's current debt-to-EBITDA ratio, the LIBOR based financing for the unsubordinated term loan and revolving credit facility bear a variable interest rate of 2.99% and 2.99%, respectively. The Senior Credit Agreement provides for the issuance of letters of credit on the Company's behalf. As of March 31, 2017, the unused revolving credit facility totaled $121.1 million, net of draws of $415.0 million and outstanding letters of credit of $8.9 million.

The aircraft loans are collateralized by three aircraft, and amortize monthly with a balloon payment of approximately 20% with maturities between 2017 and early 2018. Interest rates range from 6.74% to 7.06% per annum payable monthly.

The Senior Credit Agreement is collateralized by certain of the Company's Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. 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 Senior Credit Agreement limits the amount of dividends the Company can pay and the amount of common stock it can repurchase to $75.0 million during any calendar year, provided the Company's total debt to EBITDA ratio is under 2.75 times, after giving effect to the dividend or repurchase.

NOTE G—COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases portions of the air park in Wilmington, Ohio, under lease agreements with a regional port authority, the terms of which expire in May of 2019 and June of 2036 with options to extend the leases. The leased facilities include corporate offices, 310,000 square feet of maintenance hangars and a 100,000 square foot component repair shop at the air park. ABX also has the non-exclusive right to use the airport, which includes one active runway, taxi ways and ramp space. The Company also leases and operates a 311,500 square foot, two hangar aircraft maintenance complex in Tampa, Florida. Additionally, the Company leases certain equipment and airport facilities, office space, maintenance facilities at locations outside of the airpark in Wilmington.

Purchase Commitments

The Company has agreements with Israel Aerospace Industries Ltd. ("IAI") for the conversion of Boeing 767 passenger aircraft into a standard configured freighter aircraft. The conversions primarily consist of the installation of a standard cargo door and loading system. At March 31, 2017, the Company was committed to acquire and modify additional Boeing 767-300 passenger aircraft into standard freighter aircraft. In addition to six Boeing 767-300 aircraft that were in the modification process at March 31, 2017, the Company is committed to induct eight more aircraft into the freighter modification process through 2018. As of March 31, 2017, the Company's commitments to complete the conversions of aircraft it owns or has the contracts to purchase totaled $163.7 million. Additionally, the Company could incur a cancellation fee for part kits for any aircraft that is not inducted into conversion at IAI.

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.

Other

In September 2015, the Company entered into a joint venture agreement to establish an express cargo airline serving multiple destinations within the People's Republic of China (including Hong Kong, Macau and Taiwan) and surrounding countries. The airline will be based in mainland China with registered capital of 400 million RMB (US$63 million). It will be established pending the receipt of required governmental approvals and plans to commence flight operations in 2017. The Company may offer the new airline aircraft leases to build its fleet. The Company expects to contribute $15 million to the joint venture over the next twelve months.

In addition to the foregoing matters, the Company is 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, the Company believes that its 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 March 31, 2017, the flight crewmember employees of ABX and ATI and flight attendant employees of ATI were represented by the labor unions listed below:

Airline	Labor Agreement Unit	Percentage of the Company's Employees
ABX	International Brotherhood of Teamsters	8.8%
ATI	Air Line Pilots Association	6.7%

In addition, the Company has approximately 40 flight attendants that are represented by a recognized labor unit and are beginning to negotiate a collective bargaining agreement.

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. Benefits for covered individuals terminate upon reaching age 65 under the post-retirement healthcare plans.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long term nature of these benefit payouts increases the sensitivity of certain estimates 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. Effective December 31, 2016, ABX modified its unfunded, non-pilot retiree medical plan to terminate benefits to all participants. Retired participants were directed to public healthcare exchanges for more flexible and lower cost alternatives. As a result, ABX settled all retiree medical obligations.

The Company's net periodic benefit costs for its defined benefit pension plans and post-retirement healthcare plans for both continuing and discontinued operations are as follows (in thousands):

	Three Months Ended March 31,			
	Pension Plans		Post-Retirement Healthcare Plan	
	2017	2016	2017	2016
Service cost	$ —	$ —	$ 39	$ 31
Interest cost	8,775	8,968	36	42
Expected return on plan assets	(10,930)	(10,264)	—	—
Amortization of prior service cost	—	—	(13)	(26)
Amortization of net loss	1,937	3,368	71	40
Net periodic benefit (income) cost	$ (218)	$ 2,072	$ 133	$ 87

During the three month periods ending March 31, 2017, the Company contributed $0.8 million to the pension plans. The Company expects to contribute an additional $3.7 million during the remainder of 2017.

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 tax expense recorded through March 31, 2017 utilized a 38.7% rate based upon year-to-date income and projected results for the full year. Additionally, the Company recorded discrete tax items for the conversion of employee stock awards and the issuance of stock warrants during the first quarter of 2017, resulting in an effective tax rate of 39.2%. The final effective tax rate applied to 2017 will depend on the actual amount of pre-tax book earnings by the Company for the full year, the additional conversions of employee stock awards, issuance of stock warrants and other items.

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 until 2019 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. Accordingly, the Company entered into interest rate swaps. The Company entered into a new interest rate swap in February 2017 having an initial value of $39.4 million and a forward start date of June 30, 2017. Under this swap, the Company pays a fixed rate of 1.703% and receives a floating rate that resets monthly based on LIBOR. The table below provides information about the Company’s interest rate swaps (in thousands):

		March 31, 2017		December 31, 2016	
Expiration Date	**Stated Interest Rate**	**Notional Amount**	**Market Value (Liability)**	**Notional Amount**	**Market Value (Liability)**
June 30, 2017	1.183%	41,250	(17)	43,125	(77)
May 5, 2021	1.090%	41,250	643	43,125	547
May 30, 2021	1.703%	39,375	54	—	—

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 operations. The Company recorded the net effects on derivatives of a $0.2 million gain and a $0.1 million loss for the three month periods ending March 31, 2017 and 2016, respectively. The liability for outstanding derivatives is recorded in other liabilities and in accrued expenses.

NOTE K—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the following items by components for the three month periods ending March 31, 2017 and 2016 (in thousands):

	Defined Benefit Pension	Defined Benefit Post-Retirement	Foreign Currency Translation	Total
Balance as of December 31, 2015	(97,302)	(315)	(1,395)	(99,012)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	—	—	392	392
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	3,368	40	—	3,408
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(26)	—	(26)
Income tax expense	(1,222)	(5)	(135)	(1,362)
Other comprehensive income, net of tax	2,146	9	257	2,412
Balance as of March 31, 2016	(95,156)	(306)	(1,138)	(96,600)

	Defined Benefit Pension	Defined Benefit Post-Retirement	Foreign Currency Translation	Total
Balance as of December 31, 2016	(77,088)	(1,301)	(1,477)	(79,866)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	—	—	58	58
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	1,937	71	—	2,008
Negative prior service cost (reclassified to salaries, wages and benefits)	—	(13)	—	(13)
Income tax expense	(703)	(21)	(21)	(745)
Other comprehensive income, net of tax	1,234	37	37	1,308
Balance as of March 31, 2017	(75,854)	(1,264)	(1,440)	(78,558)

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 and in May 2015. 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 vesting periods of approximately six or twelve months. The Company expects to settle all of the stock unit awards by issuing new shares of stock. The table below summarizes award activity.

	Three Months Ended			
	March 31, 2017		March 31, 2016	
	Number of Awards	Weighted average grant-date fair value	Number of Awards	Weighted average grant-date fair value
Outstanding at beginning of period	1,040,569	$ 9.97	1,157,659	$ 7.52
Granted	243,940	17.52	294,060	15.43
Converted	(173,210)	9.69	(160,500)	7.20
Expired	—	—	—	—
Forfeited	(3,800)	13.66	—	—
Outstanding at end of period	1,107,499	$ 11.66	1,291,219	$ 9.37
Vested	324,599	$ 6.39	338,919	$ 6.12

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 2017 was $16.72, 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 2017 was $20.18. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 1.7% and a volatility of 34.7% based on volatility over three years using daily stock prices.

For the three month periods ending March 31, 2017 and 2016, the Company recorded expense of $0.8 million and $0.7 million, respectively, for stock incentive awards. At March 31, 2017, there was $6.5 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.8 years. As of March 31, 2017, none of the awards were convertible, 324,599 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 1,360,474 additional outstanding shares of the Company’s common stock depending on service, performance and market results through December 31, 2019.

NOTE M—COMMON STOCK AND EARNINGS PER SHARE

Earnings per Share

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

	Three Months Ending March 31,	
	2017	2016
Numerator:		
Earnings from continuing operations - basic	$ 9,796	$ 8,171
Gain from stock warrant revaluation, net of tax	(1,539)	—
Earnings from continuing operations - diluted	$ 8,257	$ 8,171
Denominator:		
Weighted-average shares outstanding - basic	59,133	63,636
Common equivalent shares:		
Effect of stock-based compensation awards	684	809
Effect of stock warrants	5,132	612
Weighted-average shares outstanding assuming dilution	64,949	65,057
Basic earnings per share from continuing operations	$ 0.17	$ 0.13
Diluted earnings per share from continuing operations	$ 0.13	$ 0.13

The determination of diluted earnings per share requires the exclusion of the fair value re-measurement of the stock warrants recorded as a liability (see Note B), if such warrants have a anti-dilutive effect on earnings per share. The dilutive effect of the weighted-average shares outstanding was calculated using the treasury method. Under this method, the number of diluted shares is determined by dividing the assumed proceeds of the warrants by the average stock price during the period and comparing that amount with the number of warrants outstanding. The underlying warrants as of March 31, 2017, could result in 12.3 million additional shares of the Company's common stock if the warrants are settled by tendering cash. 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 none during the three month periods ending March 31, 2017 and 2016, respectively.

NOTE N—SEGMENT INFORMATION

The Company operates in two reportable segments. 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 CMI agreements 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 mail and parcel handling services, as well as hub managements services for the USPS and AFS, the sale of aircraft parts, aircraft maintenance services, aircraft modifications, facility and ground equipment services, the sales of aviation fuel and other services, are not large enough to 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 and cash equivalents are reflected in Assets - All other below.

The Company's segment information from continuing operations is presented below (in thousands):

	Three Months Ending March 31,	
	2017	2016
Total revenues:		
CAM	$ 47,978	$ 51,726
ACMI Services	144,949	114,956
All other	89,206	55,011
Eliminate inter-segment revenues	(44,216)	(44,308)
Total	$ 237,917	$ 177,385
Customer revenues:		
CAM	$ 30,782	$ 28,761
ACMI Services	144,949	114,956
All other	62,186	33,668
Total	$ 237,917	$ 177,385
Depreciation and amortization expense:		
CAM	$ 24,301	$ 22,730
ACMI Services	11,072	9,544
All other	1,069	260
Total	$ 36,442	$ 32,534
Segment earnings (loss):		
CAM	$ 13,330	$ 19,510
ACMI Services	(3,705)	(10,356)
All other	4,783	3,868
Net unallocated interest expense	(171)	(346)
Net gain (loss) on financial instruments	1,869	(528)
Pre-tax earnings from continuing operations	$ 16,106	$ 12,148

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

	March 31,	December 31,
	2017	2016
Assets:		
CAM	$ 1,035,730	$ 971,986
ACMI Services	182,190	164,489
All other	122,891	122,855
Total	$ 1,340,811	$ 1,259,330

Interest expense allocated to CAM was $3.3 million and $2.3 million for the three month periods ending March 31, 2017 and 2016, 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, 2016.

INTRODUCTION

The Company leases aircraft, provides air cargo lift and performs aircraft maintenance and other support services primarily to the air cargo transportation and package delivery industries. Through the Company's subsidiaries, we offer a range of complementary services to delivery companies, freight forwarders, e-commerce operators, 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"). CAM provides competitive aircraft lease rates by converting passenger aircraft into cargo freighters and offering them to customers under long-term leases.

The Company has two reportable segments: CAM, which leases Boeing 767 and Boeing 757 aircraft and aircraft engines, and ACMI Services, which primarily includes the cargo transportation operations of the Company's two airlines. The ACMI Services segment provides airline operations to its customers, typically under contracts providing for a combination of aircraft, crews, maintenance and insurance ("ACMI"). The Company's other business operations, which primarily provide support services to the transportation industry, include aircraft maintenance, aircraft parts sales, ground and material handling equipment maintenance and mail handling services. These operations do not constitute reportable segments due to their size.

DHL

The Company has had long-term contracts with DHL Network Operations (USA), Inc. and its affiliates ("DHL") since August 2003. DHL accounted for 26% of the Company's consolidated revenues for the first three months of 2017, compared with 36% of the Company's consolidated revenues in the corresponding period in 2016. As of March 31, 2017, the Company, through CAM, leased 16 Boeing 767 aircraft to DHL, 13 of which were being operated by the Company's airlines for DHL under a crew, maintenance and insurance ("CMI") agreement. Additionally, the airlines operated four CAM-owned Boeing aircraft under other operating arrangements with DHL.

Amazon

The Company has been providing freighter aircraft and services for cargo handling and logistical support for Amazon Fulfillment Services, Inc. ("AFS"), a subsidiary of Amazon.com, Inc. ("Amazon") since September 2015. On March 8, 2016, the Company entered into an Air Transportation Services Agreement (the "ATSA") with AFS pursuant to which CAM will lease 20 Boeing 767 freighter aircraft to AFS, including 12 Boeing 767-200 freighter aircraft for a term of five years and eight Boeing 767-300 freighter aircraft for a term of seven years. As of March 31, 2017, the Company, through CAM, leased 12 Boeing 767-200 freighter aircraft and four Boeing 767-300 freighter aircraft to AFS. The ATSA, which has a term of five years, also provides for the operation of those aircraft by the Company's airline subsidiaries, and the performance of hub and gateway services by the Company's subsidiary, LGSTX Services, Inc. ("LGSTX"). CAM owns all of the Boeing 767 aircraft that will be leased and operated under the ATSA. The ATSA became effective on April 1, 2016.

Revenues from continuing operations performed for AFS comprised approximately 41% of the Company's consolidated revenues from continuing operations for the three month period ending March 31, 2017, compared with 19% of the Company's consolidated revenues from continuing operations during the corresponding period in 2016.

In conjunction with the execution of the ATSA, the Company and Amazon entered into an Investment Agreement and a Stockholders Agreement on March 8, 2016. The Investment Agreement calls for the Company to issue warrants in three tranches which grant Amazon the right to acquire up to 19.9% of the Company's pre-transaction outstanding common shares measured on a GAAP-diluted basis, adjusted for share issuances and repurchases by the Company following the date of the Investment Agreement and after giving effect to the warrants granted. The exercise price of the warrants is $9.73 per share, which represents the closing price of ATSG's common shares on February 9, 2016. Warrants vest as AFS leases aircraft from us, up to 20 aircraft. Each of the three tranches of warrants will be exercisable in accordance with its terms through March 8, 2021.

The Company's accounting for the warrants has been determined in accordance with the financial reporting guidance for equity-based payments to non-employees and for financial instruments. The fair value of the warrants issuable to Amazon is recorded as a lease incentive asset and is amortized against revenues over the duration of the aircraft leases. The warrants are accounted for as financial instruments, and accordingly, the fair value of the outstanding warrants are measured and classified in liabilities at the end of each reporting period. The Company's earnings in future periods will be impacted by the number of warrants granted, the fair value re-measurement of warrants at the end of each period, lease incentive amortizations and the related income tax effects. For income tax calculations, the value and timing of related tax deductions will likely differ from the guidance described above for financial reporting. For additional information about the accounting for the warrants, see Note B to the accompanying unaudited condensed consolidated financial statements.

U.S. Military

The U.S. Military comprised 7% and 15% of the Company's consolidated revenues from continuing operations during the three month periods ending March 31, 2017 and 2016, respectively.

Fleet Summary 2017

As of March 31, 2017, the combined operating fleet of owned freighter aircraft consisted of 36 Boeing 767-200 aircraft, 17 Boeing 767-300 aircraft, four Boeing 757-200 aircraft and four Boeing 757 "combi" aircraft. The Boeing 757 combi aircraft are capable of simultaneously carrying passengers and cargo containers on the main flight deck. At March 31, 2017, the Company owned nine Boeing 767-300 aircraft and one Boeing 737-400 that were either already undergoing or awaiting induction into the freighter conversion process.

Aircraft fleet activity during the first three months of 2017 is summarized below:

- CAM completed the modification of one Boeing 767-300 freighter aircraft purchased in the previous year and began to lease that aircraft, which is being operated by ATI, under a multi-year lease to AFS.
- CAM leased one Boeing 767-300 freighter aircraft, which was modified during 2016, to AFS under a multi-year lease. ATI was separately contracted to operate that aircraft.
- An external lessee returned one Boeing 767-200 freighter aircraft to CAM, which was leased to ABX.
- ABX returned one Boeing 767-200 freighter to CAM and that aircraft was subsequently leased to an external customer.
- CAM purchased three Boeing 767-300 passenger aircraft during the first quarter of 2017 for the purpose of converting the aircraft into standard freighter configuration.
- The Company purchased one Boeing 737-400 passenger aircraft during the first quarter of 2017 for the purpose of converting the aircraft into standard freighter configuration.

The Company’s cargo aircraft fleet is summarized below as of March 31, 2017 and December 31, 2016:

	March 31, 2017			December 31, 2016		
	ACMI Services	CAM	Total	ACMI Services	CAM	Total
In-service aircraft						
Aircraft owned						
Boeing 767-200	6	29	35	6	29	35
Boeing 767-300	3	14	17	4	12	16
Boeing 757-200	4	—	4	4	—	4
Boeing 757-200 Combi	4	—	4	4	—	4
Total	17	43	60	18	41	59
Other aircraft						
Owned Boeing 767-300 under modification	—	9	9	—	7	7
Owned Boeing 737-400 under modification	—	1	1	—	—	—
Owned Boeing 767 available or staging for lease	—	1	1	—	1	1

As of March 31, 2017, ABX and ATI were leasing 17 in-service aircraft internally from CAM for use in ACMI Services. As of March 31, 2017, seven of CAM's 29 Boeing 767-200 aircraft shown in the aircraft fleet table above and six of the 14 Boeing 767-300 aircraft were leased to DHL and operated by ABX. Additionally, twelve of CAM's 29 Boeing 767-200 aircraft and four of CAM's 14 Boeing 767-300 aircraft were leased to AFS and operated by ABX or ATI. CAM leased the other ten Boeing 767-200 aircraft and four Boeing 767-300 aircraft to external customers, including three Boeing 767-200 aircraft to DHL that are being operated by a DHL-owned airline. The carrying values of the total in-service fleet as of March 31, 2017 was $791.1 million compared to $793.9 million as of December 31, 2016. The table above does not reflect one Boeing 767-200 passenger aircraft owned by CAM.

RESULTS OF OPERATIONS

Summary

External customer revenues from continuing operations increased by $60.5 million to $237.9 million during the first quarter of 2017 compared to 2016. Excluding directly reimbursed revenues, customer revenues increased $37.0 million, or 23% during the first quarter of 2017 compared with 2016. External customer revenues increased for the first quarter of 2017 compared to 2016 due to additional aircraft leases, expanded ACMI services for AFS, additional aircraft maintenance services and additional logistics services, also for AFS.

The consolidated net earnings from continuing operations were $9.8 million for the first quarter of 2017 compared to $8.2 million for 2016. The pre-tax earnings from continuing operations were $16.1 million for the first quarter of 2017 compared to $12.1 million, for 2016. Earnings were affected by specific events and certain adjustments that do not directly reflect our underlying operations among the years presented. On a pre-tax basis, earnings included net gains of $1.9 million and net losses of $0.5 million for the first quarters of 2017 and 2016, respectively, for the re-measurement of financial instruments, including warrant obligations granted to Amazon, to fair value. Pre-tax earnings for the first quarter of 2017 were also reduced by $2.6 million for the amortization of lease incentives given to AFS in the form of warrants. Additionally, pre-tax earnings from continuing operations included $0.2 million and $2.2 million for the first quarters of 2017 and 2016, respectively, for the non-service component of retiree benefit plan costs. Pre-tax earnings for the first quarter of 2016 also included a $1.2 million charge for the Company's share of capitalized debt issuance costs that were charged off when West Atlantic AB, a non-consolidated affiliate, restructured its debt. After removing the effects of these items, adjusted pre-tax earnings from continuing operations, a non-GAAP measure (a definition and reconciliation of adjusted pre-tax earnings from continuing operations follows) were $17.0 million for the first quarter of 2017 compared to $16.1 million for 2016.

Adjusted pre-tax earnings from continuing operations for the first quarter of 2017 improved compared to 2016, driven by additional revenues and improved financial results of airline operations. This growth in revenue was partially offset by the cost necessary to support expanded operations, including training costs related to new flight crews, higher aircraft depreciation expense and more employee expenses, particularly in our support logistical services.

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

	Three Months Ending March 31,	
	2017	2016
Revenues from Continuing Operations:		
CAM		
Aircraft leasing and related revenues	$ 50,569	$ 51,726
Lease amortization against revenue	(2,591)	—
Total CAM	47,978	51,726
ACMI Services		
Airline services	108,066	101,653
Reimbursable	36,883	13,303
Total ACMI Services	144,949	114,956
Other Activities	89,206	55,011
Total Revenues	282,133	221,693
Eliminate internal revenues	(44,216)	(44,308)
Customer Revenues	$ 237,917	$ 177,385
Pre-Tax Earnings from Continuing Operations:		
CAM, inclusive of interest expense	$ 13,330	$ 19,510
ACMI Services	(3,705)	(10,356)
Other Activities	4,783	3,868
Net unallocated interest expense	(171)	(346)
Net financial instrument re-measurement (loss) gain	1,869	(528)
Pre-Tax Earnings from Continuing Operations	16,106	12,148
Add other non-service components of retiree benefit costs, net	177	2,203
Add debt issuance costs from non-consolidating affiliate	—	1,229
Add lease incentive amortization	2,591	—
Add net loss (gain) on financial instruments	(1,869)	528
Adjusted Pre-Tax Earnings from Continuing Operations	$ 17,005	$ 16,108

Adjusted pre-tax earnings from continuing operations, a non-GAAP measure, is pre-tax earnings excluding non-service components of retiree benefit costs, gains and losses for the fair value re-measurement of financial instruments, lease incentive amortizations and the charge off of debt issuance costs from a non-consolidated affiliate during the first quarter of 2016. We exclude these items from adjusted pre-tax earnings because they are distinctly different in their predictability or not closely related to our on-going operating activities. Management uses adjusted pre-tax earnings to compare the performance of core operating results between periods. Presenting this measure provides investors with a comparative metric of fundamental operations while highlighting changes to certain items among periods. Adjusted pre-tax earnings should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

ACMI Reimbursable revenues shown above include revenues related to fuel, landing fees, navigation fees, aircraft rent and certain other operating costs that are directly reimbursed to the airlines by their customers.

CAM Segment

CAM offers aircraft leasing and related services to external customers and also leases aircraft internally to the Company's airlines. CAM acquires passenger aircraft and manages the modification of the aircraft into freighters. The follow-on aircraft leases normally cover a term of five to eight years. In a typical leasing agreement, customers pay rent and maintenance deposits on a monthly basis.

As of March 31, 2017, CAM had a fleet of 61 cargo aircraft in service condition, 17 of them leased internally to the Company's airlines, 43 leased to external customers and one that was being prepared for operations. One Boeing 767-300 passenger aircraft previously purchased, completed its modification to a freighter configuration and was leased to an external customer in March under a long-term contract. CAM has added five aircraft to its operating fleet since April 1, 2016.

CAM's revenues decreased $3.7 million during the first quarter of 2017 compared to 2016, primarily as a result of the amortization of the value of warrants issued to Amazon as a lease incentive. Revenues from external customers increased $2.0 to $30.8 million for the first quarter of 2017 compared to 2016, driven by additional aircraft leases. As of March 31, 2017 and 2016, CAM had 43 and 29 aircraft under lease to external customers, respectively. CAM's revenues from the Company's airlines declined to $17.2 million during the first quarter of 2017, compared to $23.0 million for 2016, reflecting the transition of CAM owned aircraft to long-term leases with external customers. Revenue levels for the first quarter of 2017 also included reductions in maintenance revenues, spare engine leasing, parts sales, and temporary revenue interruptions while transitioning aircraft between customers, compared to 2016.

CAM's pre-tax earnings, inclusive of an interest expense allocation, were $13.3 million and $19.5 million during the first quarters of 2017 and 2016, respectively. Decreased earnings reflect higher depreciation expense for additional Boeing 767-300 aircraft, increased interest allocation due to the higher debt levels and the amortization of the value of warrants issued to Amazon as a lease incentive.

During the first quarter of 2017, CAM purchased three 767-300 passenger aircraft for freighter conversion. As of March 31, 2017, all three of these Boeing 767-300 passenger aircraft and six Boeing 767-300 passenger aircraft purchased in 2016 were being modified from passenger to freighter configuration. The Company also purchased one Boeing 737-400 during the first quarter of 2017, and that aircraft was being modified from passenger to freighter configuration.

CAM's agreement to lease 20 Boeing 767 freighter aircraft to AFS includes 12 Boeing 767-200 freighter aircraft for a term of five years and eight Boeing 767-300 freighter aircraft for a term of seven years. Leases for six of these aircraft began in April 2016 and twelve more were executed as of May 1, 2017. To fulfill the 20 aircraft requirement for AFS, CAM plans to lease the last two Boeing 767-300 freighter aircraft to AFS by mid-2017, each for a seven year term.

CAM's operating results will depend on its ability to convert its passenger aircraft into freighters within planned costs and within the time frames of customers needs. Additionally, CAM's operating results will be negatively impacted by the amortization of additional warrants issuable to Amazon as a lease incentive.

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 such as landing fees, ramp expenses, certain aircraft maintenance expenses and fuel procured directly by the airline. 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 March 31, 2017, ACMI Services included 46 in-service aircraft, including 17 leased internally from CAM, 13 CAM-owned freighter aircraft which are under lease to DHL and operated by ABX under a CMI agreement, and 16 CAM-owned freighter aircraft which are under lease to AFS and operated by ATI and ABX under the ATSA.

Revenues from ACMI Services increased $30.0 million during the first quarter of 2017 compared with 2016 to $144.9 million. Airline services revenues from external customers, which do not include revenues for the reimbursement of fuel and certain operating expenses, increased $6.4 million. Improved revenues were driven by additional aircraft operations for AFS and reflect an 29% increase in billable block hours. As of March 31, 2017, ACMI Services were operating six more CAM-owned aircraft compared to March 31, 2016. Beginning in April 2016, in conjunction with the long-term leases executed between AFS and CAM, the related aircraft rent revenues for five aircraft operated for AFS during the first quarter of 2016 are reflected under CAM instead of ACMI Services.

ACMI Services incurred pre-tax losses of $3.7 million during the first quarter of 2017, compared to pre-tax losses of $10.4 million for 2016. Smaller pre-tax losses in 2017 compared to 2016 were also affected by expanded revenues, fewer scheduled airframe maintenance events during the first quarter of 2017 and decreased pension expenses. Scheduled airframe maintenance expense decreased $2.2 million during the first quarter of 2017 compared to 2016. Airframe maintenance expense varies depending upon the number of C-checks and the scope of the checks required for those airframes scheduled for maintenance. Pension expense for ACMI Services, including the non-service components of retiree benefit costs, decreased $2.0 million as actuarially determined for the first quarter of 2017, compared to 2016. Operating results for ACMI Services were negatively impacted by increased depreciation expense for four additional Boeing 767-300 aircraft in operation and reductions in CMI operations for DHL compared to 2016.

In May 2017, we added two CAM-owned Boeing 767-300 aircraft into ACMI Service for AFS and we expect to add two more by mid-2017, as the aircraft freighter modifications are completed. Additionally, we expect the level of cost related to new crew training and ramp-up, which was $4.1 million during the first quarter of 2017, to decline in the second quarter of 2017. Achieving profitability in ACMI Services will depend on a number of factors, including revenue levels for airline services, crewmember training costs, crewmember productivity, the level of pilot premium pay, employee benefits, aircraft maintenance schedules and the number of aircraft we operate.

Other Activities

We provide related support services to our ACMI Services customers and other airlines by leveraging our knowledge and capabilities developed for our own operations over the years. The Company's aircraft maintenance, engineering and repair businesses, Airborne Maintenance and Engineering Services, Inc. ("AMES") and Pemco World Air Services, Inc. ("Pemco"), sell aircraft parts and provide aircraft maintenance and modification services. We also provide mail sorting, parcel handling and logistical support to the U.S. Postal Service ("USPS") at five USPS facilities and similar services to certain AFS hubs and gateway locations in the U.S. We provide other ground services for our own airlines and external customers, including the sale of aviation fuel, the lease of ground equipment such as ground power units and cargo loaders, as well as facility and equipment maintenance services.

External customer revenues from all other activities were $62.2 million and $33.7 million for the first quarter of 2017 and 2016, respectively. Revenues from our mail sorting, parcel handling and logistical support services increased $13.0 million during the first quarter of 2017 compared to 2016, reflecting higher contractual costs and additional AFS locations. Additionally, airframe maintenance revenues from external customers increased by $15.6 million during the first quarter of 2017 compared to 2016, primarily due to the addition of Pemco which was acquired at the end of 2016. Revenues from aircraft maintenance can vary among periods due to the timing of scheduled maintenance events and the completion level of work during a period.

The pre-tax earnings from other activities increased by $0.9 million to $4.8 million in the first quarter of 2017, reflecting increased revenues We expect earnings from parcel handling, logistical services, aviation fuel and other ground service to decline in 2017 as AFS transfers its hub operation from the airport in Wilmington, Ohio, which we operate, to the Cincinnati/Northern Kentucky International Airport.

Discontinued Operations

Pre-tax earnings related to the former sorting operations were $0.3 million for the first quarter of 2017 compared to $0.1 million for 2016. The results of discontinued operations primarily reflect the effects of defined benefit pension plans for former employees that supported sort operations under a hub service agreement with DHL.

Expenses from Continuing Operations

Salaries, wages and benefits expense increased $20.2 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016 and reflect a 25% increase for the number of employees since March 31, 2016. Increased expenses were driven by higher headcount for flight operations, maintenance services, package handling services and additional pilot premium pay while new crewmembers were being trained for our customers' expanding networks. Expenses for 2017 increased $9.4 million due to the addition of Pemco which was acquired at the end of 2016. Pension expense, including the non-service components of retiree benefit costs decreased $2.0 million due to higher investment returns during the previous year.

Depreciation and amortization expense increased $3.9 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. The increase in depreciation expense reflects incremental depreciation for five Boeing 767-300 aircraft and additional aircraft engines added to the operating fleet since April, 2016, as well as capitalized heavy maintenance and navigation technology upgrades. We expect depreciation expense to increase during future periods in conjunction with our fleet expansion and capital spending plans.

Maintenance, materials and repairs expense decreased by $2.7 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. The decrease is primarily due to fewer airframe checks and related component repairs during the first quarter of 2017 compared to 2016. 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.

Fuel expense increased by $18.2 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. Fuel expense includes the cost of fuel to operate U.S. Military charters, reimbursable fuel billed to DHL, AFS and other ACMI customers, as well as fuel used to position aircraft for service and for maintenance purposes. The increase in fuel expense was driven by a higher level of customer-reimbursed fuel which increased $21.3 million for the first quarter of 2017 compared to 2016. This increase reflects a 3% decrease in the average price per gallon of aviation fuel during the first quarter of 2017 compared to 2016.

Travel expense increased by $2.6 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. The increase reflects the higher level of employee headcount in airline operations during the first quarter of 2017 compared to 2016.

Contracted ground and aviation services expense includes navigational services, aircraft and cargo handling services and other airport services. Contracted ground and aviation services increased $9.8 million the quarter ended March 31, 2017, compared to the corresponding period of 2016, due to additional logistical support services for AFS gateways .

Rent expense increased by $0.7 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. Rent expense increased due to the acquisition of Pemco and for aircraft simulators to train new flight crews to support expanded customer networks.

Landing and ramp expense, which includes the cost of deicing chemicals, increased by $1.6 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016, driven by additional flight operations. Landing and ramp fees can vary based on the flight schedules and the airports that are used in a period.

Other operating expenses increased by $3.7 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. Other operating expenses include professional fees, employee training, utilities and the cost of parts sold to customers. Other operating expenses increased during the first quarter of 2017 by $2.9 million for the addition of Pemco, acquired at the end of 2016. Other operating expenses also increased due to pilot training costs for the expanded air networks.

Interest expense increased by $0.8 million during the quarter ended March 31, 2017, compared to the corresponding period of 2016. Interest expense increased due to a higher average debt level and interest rates on the Company's outstanding loans, offset by more capitalized interest related to our fleet expansion. Capitalized interest increased $0.3 million during the first quarter of 2017 to $0.5 million.

The Company recorded pre-tax net gains on financial instruments of $1.9 million during the quarter ended March 31, 2017, compared to losses of $0.5 million during the corresponding period of 2016. The 2017 gains are primarily a result of remeasuring, as of March 31, 2017, the fair value of the stock warrants granted to Amazon. An decrease in the fair value of the warrants since December 31, 2016, resulted in the non-cash, pre-tax gain of $1.7 million for the first quarter of 2017. The non-cash gains and losses resulting from quarterly re-measurements of the warrants may vary widely among quarters.

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through March 31, 2017 have been estimated utilizing a 38.7% rate based upon year-to-date income and projected results for the full year. The recognition of discrete tax items, such as the conversion of employee stock awards, the issuance of stock warrants and other items have an impact on the effective tax rate during a period.

The effective tax rate from continuing operations for the quarter ended March 31, 2017 was 39.2% and includes deferred tax expense related to the vesting of additional warrants for Amazon and the warrant re-measurement gain at the end of the period. The effective tax rate before including the effects of the warrants was 34.1% and 32.7% for the first quarters of 2017 and 2016, respectively. The effective tax rate increased for the first quarter of 2017 due to a larger apportionment of pre-tax earnings to states with higher income tax rates and a lower tax benefit related to the conversion of employee stock awards compared to the corresponding period of 2016.

As of December 31, 2016, the Company had operating loss carryforwards for U.S. federal income tax purposes of approximately $40.2 million, which will begin to expire in 2031 if not utilized before then. 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 until 2019 or later. However, the Company may 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. When we 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 $44.2 million and $44.3 million for the first three months of 2017 and 2016, respectively. Cash flows generated from operating activities remained flat during the first quarter of 2017 compared to 2016. The cash flows reflect improved operating results partially offset by a buildup in billable costs and customer receivables. Cash outlays for pension contributions were for the first three months of 2017 were $0.8 million compared to $0.7 million for the corresponding period of 2016.

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 $83.8 million and $71.7 million for the first three months of 2017 and 2016, respectively. Capital expenditures in 2017 included $54.3 million for the acquisition of three Boeing 767-300 aircraft and one Boeing 737-400 aircraft and freighter modification costs; $21.0 million for required heavy maintenance; and $8.5 million for other equipment, including purchases of aircraft engines and rotables. Our capital expenditures in the first quarter of 2016 included $52.8 million for the acquisition of four Boeing 767-300 aircraft, freighter modification costs and next generation navigation modifications; $4.5 million for required heavy maintenance; and $14.4 million for other equipment, including purchases of aircraft engines and rotables.

Net cash provided by financing activities was $46.8 million for the first three months of 2017 compared to $49.5 million in 2016. During the first three months of 2017, we drew $60.0 million from the revolving credit facility under the Senior Credit Agreement to fund capital spending. We made scheduled debt principal payments of $10.3 million. Our borrowing activities were necessary to acquire and modify aircraft for deployment into air cargo markets. During the first quarter of 2017, we spent $1.5 million to buy 90,000 shares of the Company's common stock pursuant to a share repurchase plan authorized in 2014 and amended in May 2016 by the Board of Directors to repurchase up to $100 million of the Company's common stock.

Commitments

We estimate that capital expenditures for 2017 will total $355 million of which $285 million will be related to aircraft purchases and freighter modifications. Actual capital spending for any future period will be impacted by aircraft acquisitions, maintenance and modification processes. We expect to finance the capital expenditures from current cash balances, future operating cash flow and the Senior Credit Agreement. The Company outsources a significant portion of the aircraft freighter modification process to a non-affiliated third party. The modification primarily consists of the installation of a standard cargo door and loading system. For additional information about the Company's aircraft modification obligations, see Note G of the accompanying financial statements.

In September 2015, we entered into a joint venture agreement to establish an express cargo airline serving multiple destinations within the Peoples Republic of China (including Hong Kong, Macau and Taiwan) and surrounding countries. The airline will be based in mainland China with registered capital of 400 million RMB (US$63 million). It will be established pending the receipt of required governmental approvals and plans to commence flight operations in 2017. We expect to contribute $15 million to the joint venture during the next twelve months. We plan to offer the new airline aircraft leases to build its fleet.

Liquidity

The Company has a Senior Credit Agreement with a consortium of banks that includes an unsubordinated term loan of $81.8 million, net of debt issuance costs, and a revolving credit facility from which the Company has drawn $415.0 million, net of repayments, as of March 31, 2017. The revolving credit facility has a capacity of $545.0 million, permitted additional indebtedness of $150.0 million, and an accordion feature whereby the Company can draw up to an additional $100.0 million subject to the lenders' consent. The Senior Credit Agreement is collateralized by the Company's fleet of Boeing 767 and 757 aircraft that are not collateralized under aircraft loans. Under the amended terms of the Senior Credit Agreement, the Company is required to maintain collateral coverage equal to 125% of the outstanding balances of the term loan and the maximum capacity of revolving credit facility or 150% of the outstanding balance of the term loan and the total funded revolving credit facility, whichever is less. The minimum collateral coverage which must be maintained is 50% of the outstanding balance of the term loan plus the revolving credit facility commitment which was $545.0 million. Each year, through May 6, 2019, the Company may request a one year extension of the final maturity date, subject to the lenders' consent.

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.

Additional debt or lower EBITDA may result in higher interest rates. Under the Senior Credit Agreement, interest rates are adjusted quarterly based on the prevailing LIBOR or prime rates and a ratio of the Company's outstanding debt level to EBITDA (earnings before interest, taxes, depreciation and amortization expenses). 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 2.99%.

At March 31, 2017, the Company had $27.6 million of cash balances. The Company had $121.1 million available under the revolving credit facility, net of outstanding letters of credit, which totaled $8.9 million. 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, capital spending, scheduled debt payments and required pension funding 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 March 31, 2017 and 2016, 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. The Company bases its 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.

For information regarding recently issued accounting pronouncements and the expected impact on our annual statements, see Note A "SUMMARY OF FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES" in the accompanying notes to the Condensed Consolidated Financial Statements included in Part II, Item 1 of this Form 10-Q.

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 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 8, 2017.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2017, 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

The Company is 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, the Company believes that it'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.

ITEM 1A. RISK FACTORS

The Company faces risks that could adversely affect its condition or results of operations. Many of these risks are disclosed in Item 1A of the Company's 2016 Annual Report on form 10-K, filed with the Securities and Exchange Commission on March 8, 2017. Other risks that are currently unknown to management or are currently considered immaterial or unlikely, could also adversely affect the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On August 5, 2014, the Board of Directors authorized the Company to repurchase up to $50.0 million of outstanding common stock. In May 2016, the Board amended the Company's common stock repurchase program increasing the amount that management may repurchase from $50.0 million to $100.0 million of outstanding common stock. The Board's authorization does not require the Company to repurchase a specific number of shares and the Board may terminate the repurchase program at any time. Repurchases may be made from time to time in the open market or in privately negotiated transactions. All of the repurchases done by the Company during the first quarter of 2017 were in the open market. There is no expiration date for the repurchase program. The following table summarizes the Company's repurchases of its common stock during the first quarter of 2017:

Period	Total Number of Shares Purchased	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
January 1, 2017 through January 31, 2017	30,000	$ 15.63	30,000	$ 25,616,016
February 1, 2017 through February 28, 2017	30,000	$ 16.99	30,000	$ 25,106,319
March 1, 2017 through March 31, 2017	30,000	$ 16.13	30,000	$ 24,622,407
Total for the quarter	90,000	$ 16.25	90,000	$ 24,622,407

ITEM 6. EXHIBITS

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

Exhibit No.	**Description of Exhibit**
10.1	First Amendment to the Amended and Restated Credit Agreement, dated as of March 31, 2017, among Cargo Aircraft Management, Inc., as Borrower, Air Transport Services Group, Inc., the Lenders from time to time party hereto, 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

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: May 8, 2017

/S/ QUINT O. TURNER

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

Date: May 8, 2017

FIRST AMENDMENT TO
AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT dated as of March 31, 2017 (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 Guarantors party hereto, 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 Amended and Restated Credit Agreement dated as of May 31, 2016 (the "Credit Agreement"); and

WHEREAS, the Borrower has requested certain amendments and other modifications to the Credit Agreement, including a request to provide Incremental Revolving Commitments in an aggregate principal amount of $120,000,000 and a one year extension of the Final Maturity Dates; and

WHEREAS, the Lenders party to this Amendment and the Administrative Agent are willing to (i) so amend or otherwise modify such terms and provisions of the Credit Agreement, (ii) provide Incremental Revolving Commitments to the Borrower and/or (iii) extend the Final Maturity Dates, in each case, on and subject to the terms and conditions 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 parties hereto 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) Section 1.1. of the Credit Agreement is hereby amended by adding the following new definition in the appropriate alphabetical order:

"First Amendment Effective Date" shall mean March 31, 2017.

(b) The Credit Agreement is hereby further amended by deleting the defined terms "Consolidated Fixed Charges", "Revolving Facility Final Maturity Date" and "Term Facility Final Maturity Date" in Section 1.1. thereof and substituting in lieu thereof the following defined terms, respectively:

"Consolidated Fixed Charges" shall mean, for any period, the sum, without duplication, of the amounts determined for Holdings and its Subsidiaries on a consolidated basis equal to (i) Consolidated Interest Expense to the extent paid in cash during such period, (ii) scheduled payments of principal on Consolidated Total Debt during such period (excluding any voluntary prepayment made pursuant to Section 5.1) and (iii) Dividends paid during such period (excluding, solely for purposes of determining Consolidated Fixed Charges, repurchases of Capital Stock of Holdings that are effected pursuant to Rule 10b-18 of the Securities Exchange Act of 1934, as amended).

"Revolving Facility Final Maturity Date" shall mean May 30, 2022, or such later date to which the Revolving Facility Final Maturity Date may be extended pursuant to the terms hereof or, if earlier, the date on which the Revolving Commitments are terminated pursuant to Section 10 hereof.

"Term Facility Final Maturity Date" shall mean May 30, 2022, or such later date to which the Term Facility Final Maturity Date may be extended pursuant to the terms hereof or, if earlier, the date on which the Term Loans are declared immediately due and payable pursuant to Section 10 hereof.

(c) The Credit Agreement is further amended by adding the following immediately following the reference to "$100,000,000" contained in Section 2.14(a) thereof:

"(exclusive of any Incremental Revolving Commitments provided by the Lenders on or prior to the First Amendment Effective Date)".

(d) The Credit Agreement is hereby further amended by deleting Section 9.12 thereof in its entirety and substituting in lieu thereof the following:

"Section 9.12 Fixed Charge Coverage Ratio. Holdings will not permit the Fixed Charge Coverage Ratio for any Test Period to be less than 1.25 to 1.00. For the purposes of calculating the financial covenant set forth in this Section, the Relief Fund shall be deemed not to be a 'Subsidiary.'"

(e) The Credit Agreement is hereby further amended by deleting Section 9.13 thereof in its entirety and substituting in lieu thereof the following:

"Section 9.13 Total Leverage Ratio. Holdings will not permit the Total Leverage Ratio at the end of any Test Period ending on March 31, June 30, September 30 and December 31 of any calendar year to be more than 3.50 to 1.00. For the purposes of calculating the financial covenant set forth in this Section, the Relief Fund shall be deemed not to be a 'Subsidiary.'"

(f) The Credit Agreement is hereby further amended by deleting Section 9.14 thereof in its entirety and substituting in lieu thereof the following:

"Section 9.14 Collateral Ratios. Holdings will not at any time permit both (a) the Collateral to Total Exposure Ratio to be less than 1.25 to 1.00 and (b) the Collateral to Outstanding Loan Ratio to be less than 1.50 to 1.00. If both the Collateral to Total Exposure Ratio and the Collateral to Outstanding Loan Ratio fall below their respective required minimums for any Test Period, the Borrower shall as soon as reasonably practicable, but not in any event later than 45 days thereafter, cause one or more Qualified Aircraft to be admitted to the Collateral Pool such that either the Collateral to Total Exposure Ratio or the Collateral to Outstanding Loan Ratio will be in compliance with this Section 9.14 as of any such Test Period."

3. Incremental Facility Amendment; Extension 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 $120,000,000 pursuant to Section 2.14 of the Credit Agreement. Immediately after giving effect to this Amendment, the Aggregate Revolving Commitments shall be equal to $545,000,000 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 $100,000,000 and the Incremental Commitments Effective Date with respect to the Incremental Revolving Commitments contemplated by this Amendment shall be the First Amendment Effective Date immediately after the conditions set forth in Section 4 below have been satisfied. The parties hereto further intend that this Amendment shall constitute an Extension Amendment in connection with the extension of the Final Maturity Date.

4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and 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, the Guarantors party hereto, the Required Lenders and the Administrative Agent;

(b) A pro forma Compliance Certificate dated the First Amendment Effective Date, after giving effect to the Revolving Commitment Increase contemplated by this Amendment;

(c) A certificate of the Borrower dated as of the First Amendment Effective Date signed by an Authorized Officer of the Borrower certifying that, before and after giving effect to the Revolving Commitment Increase and the amendments 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 First Amendment 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 the amendments contemplated by this Amendment and (iii) all conditions set forth in Section 6.2 of the Credit Agreement are satisfied as of the First Amendment Effective 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") dated the First Amendment Effective Date duly executed by each Credit Party, in the form of Exhibit I attached hereto;

(f) A legal opinion addressed to the Administrative Agent and each of the Lenders from Vorys, Sater, Seymour and Pease LLP, Greenberg Traurig and Fennemore Craig, P.C., counsel to the Credit Parties, which opinions shall be dated as of the First Amendment Effective Date and covering such matters relating to the Borrower, Holdings, this Amendment, and the transactions contemplated hereby as the Administrative Agent or the Lenders shall reasonably request;

(g) A certificate, dated as of the First Amendment Effective Date, signed by the Secretary of each Credit Party in the form of Exhibit II 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 (A) at the closing of the Credit Agreement or (B) when such Credit Party became a party to the Guarantee and Collateral Agreement), (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 have been satisfied as of such date and (2) since December 31, 2015, 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 Notes and the other documents contemplated by this Amendment, duly executed by the Borrower and notarized; and

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

To the extent that any notice was required to be delivered or otherwise provided prior to the First Amendment Effective Date pursuant to the terms of the Credit Agreement in connection with any of the transactions contemplated by this Amendment, including any notices required pursuant to Section 2.14 and Section 2.16, and such notice was not so provided, the parties hereto waive the requirement of such notice.

5. 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 the other Credit Parties have 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 have taken all necessary corporate action to duly authorize the execution, delivery and performance of 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 the other Credit Parties 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) 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.

(f) Credit Parties. The list of signatories to the Reaffirmation represents a true, correct and complete list of all Persons who are required by the terms of the Credit Documents to be or to become a Credit Party as of the date hereof.

(g) Solvency. As of the First Amendment 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.

(h) Disclosure. As of the First Amendment Effective Date, all information (other than projections, other forward-looking information and information of a general economic or industry-specific nature) that has been made available concerning the Credit Parties and/or the transactions contemplated by this Amendment prepared by, or on behalf of, the Borrower or Holdings or by any of their respective representatives or affiliates, and made available to any Lender or the Administrative Agent in connection with the transactions contemplated by this Amendment on or before the First Amendment Effective Date, when taken as a whole, did not, when furnished, contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made.

6. **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).

7. **No Further Amendments; Ratification of Liability**. Except as expressly amended or waived 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.

8. **Allocations of Revolving Commitments and Revolving Loans.** The Administrative Agent, the Lenders and the Borrower agree that the Revolving Commitment of each of the Revolving Lenders immediately prior to the effectiveness of this Amendment shall be reallocated among the Revolving 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 Revolving 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 Revolving 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 Revolving 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 Revolving Lender holds Revolving

Loans equal to its Pro Rata Share (based on the Revolving Commitment of each Lender as set forth on Annex 1.1A attached hereto).

9. Post Closing Covenant. Holdings and the Borrower shall cause to be delivered to the Administrative Agent, on or before the date that is 15 days after the First Amendment Effective Date (or such later date (not to exceed 30 days after the First Amendment Effective Date) as the Administrative Agent shall agree)), each of the following:

(i) a legal opinion from Daugherty, Fowler, Peregrin, Haught & Jenson, P.C., special FAA counsel to Holdings and its Subsidiaries, addressed to the Administrative Agent and each of the Lenders, such opinion to be in form and content satisfactory to the Administrative Agent (and in any event covering the matters described in clause (ii) immediately below and those set forth in the opinion delivered by such law firm in connection with the Credit Agreement);

(ii) evidence that FAA form "Aircraft Security Agreements" and/or "Amended and Restated Aircraft Security Agreements", the substance of which shall be satisfactory to the Administrative Agent, covering the Aircraft and Engines included in the Collateral Pool have been filed with the FAA, and priority search certificates satisfactory to the Administrative Agent identifying the registrations made with the "International Registry" (as defined under the Cape Town Convention) with respect to the airframe of such Aircraft and its Engines and confirming that, except (x) with respect to Liens in existence on the Closing Date with respect to the airframe and Engines described on Annex 1.1(B) to the Credit Agreement or (y) as otherwise agreed by the Administrative Agent, no other registrations have been made with respect to such airframe or Engines that have not been subordinated to the registrations made in favor of the Administrative Agent or discharged; and

(iii) evidence that all other actions necessary or, in the reasonable opinion of the Administrative Agent, desirable to perfect and protect the security interests purported to be created by the Security Documents have been taken.

10. 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 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 First Amendment to Amended and Restated 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/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AIR TRANSPORT SERVICES GROUP, INC.

By: /s/ Joseph C. Hete
Name: Joseph C. Hete
Title: President & Chief Executive Officer

[Signatures Continue on Following Pages]

ABX AIR, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, General Counsel & Secretary

LGSTX DISTRIBUTION SERVICES, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AIRBORNE GLOBAL SOLUTIONS, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AIRBORNE MAINTENANCE AND
ENGINEERING SERVICES, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AIR TRANSPORT INTERNATIONAL LIMITED
LIABILITY COMPANY

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AMES MATERIAL SERVICES INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

CARGO AVIATION, INC.

By: /s/ Joseph C. Hete
Name: Joseph C. Hete
Title: President

CARGO HOLDINGS INTERNATIONAL, INC.

By: /s/ Joseph C. Hete
Name: Joseph C. Hete
Title: President & Chief Executive Officer

LGSTX FUEL MANAGEMENT, INC.

By: /s/ Quint O. Turner
Name: Quint O. Turner
Title: President

LGSTX SERVICES, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

AIR TRANSPORT INTERNATIONAL, INC.

By: /s/ James F. O'Grady
Name: James F. O'Grady
Title: President

GLOBAL FLIGHT SOURCE, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

LGSTX CARGO SERVICES, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

PEMCO WORLD AIR SERVICES, INC.

By: /s/ W. Joseph Payne
Name: W. Joseph Payne
Title: Vice President, Secretary

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Chris Hursey
Name: Chris Hursey
Title: Director

REGIONS BANK, as a Lender

By: /s/ Cheryl L. Shelhart
Name: Cheryl L. Shelhart
Title: Vice President

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

By: /s/ John B. Middelberg
Name: John B. Middelberg
Title: Executive Director

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

By: /s/ Gregg A. Bush
Name: Gregg A. Bush
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ David Beckett
Name: David Beckett
Title: Vice President

BRANCH BANKING AND TRUST COMPANY,
as a Lender

By: /s/ David Miller
Name: David Miller
Title: Vice President

COMPASS BANK, as a Lender

By: /s/ Jeffrey Bork
Name: Jeffrey Bork
Title: Senior Vice President

THE NORTHERN TRUST COMPANY,
as a Lender

By: /s/ Peter J. Hallan
Name: Peter J. Hallan
Title: Vice President

THE PRIVATEBANK AND TRUST COMPANY,
as a Lender

By: /s/ Nick Fadel
Name: Nick Fadel
Title: Managing Director

UNION BANK & TRUST, as a Lender

By: /s/ deK Bowen
Name: deK Bowen
Title: Senior Vice President

ATLANTIC CAPITAL BANK, as a Lender

By: /s/ Preston McDonald
Name: Preston McDonald
Title: Vice President

TRISTATE CAPITAL BANK, as a Lender

By: /s/ Ellen Frank
Name: Ellen Frank
Title: Senior Vice President

[End of Signatures]

Annex 1.1A

Institution	***Revolving Commitment***
SunTrust Bank	$81,208,390.00
Regions Bank	$69,814,886.00
JPMorgan Chase Bank, N.A.	$80,828,518.00
Bank of America, N.A.	$71,739,395.00
PNC Bank, National Association	$59,747,048.00
Branch Banking and Trust Company	$44,811,877.00
Compass Bank	$39,295,033.00
The Northern Trust Company	$30,197,857.00
The PrivateBank and Trust Company	$23,607,260.00
Union Bank & Trust	$24,557,918.00
Atlantic Capital Bank	$11,881,818.00
TriState Capital Bank	$7,310,000.00
TOTAL	**$545,000,000.00**

<u>EXHIBIT I</u>

REAFFIRMATION OF OBLIGATIONS UNDER CREDIT DOCUMENTS

Reference is hereby made to (i) that certain Amended and Restated Credit Agreement dated as of May 31, 2016 among Cargo Aircraft Management, Inc. (the "<u>Borrower</u>"), Air Transport Services Group, Inc., the Lenders a party thereto and SunTrust Bank, as Administrative Agent (the "<u>Credit Agreement</u>"; capitalized terms used herein and not defined herein have the meanings ascribed to such terms in the Credit Agreement) and (ii) that certain First Amendment to Amended and Restated Credit Agreement dated as of the date hereof (the "<u>Amendment</u>") among the Borrower, each other Credit Party party thereto, 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 Guarantee 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 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; and (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.

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.

IN WITNESS WHEREOF, each of the undersigned has duly executed and delivered this Reaffirmation of Obligations under Credit Documents as of March 31, 2017.

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:

[Signatures Continue on Following Pages]

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:

AIR TRANSPORT INTERNATIONAL, 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:

GLOBAL FLIGHT SOURCE, INC.

By:
Name:
Title:

LGSTX CARGO SERVICES, INC.

By:
Name:
Title:

PEMCO WORLD AIR SERVICES, INC.

By:
Name:
Title:

EXHIBIT II

SECRETARY'S CLOSING CERTIFICATE

I, the undersigned, Secretary of _________________, a corporation 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 on March 31, 2017, and is furnished pursuant to that certain First Amendment to Amended and Restated Credit Agreement dated as of the date hereof (the "Amendment"), among Cargo Aircraft Management, Inc., a Florida corporation, Air Transport Service Group, Inc., a Delaware corporation, 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.

Name	Office	Signature
________________________	________________________	________________________
________________________	________________________	________________________

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[1].

4. Attached hereto as Exhibit B is a true and correct copy of the By-Laws of the Company which were duly adopted and are/is in full force and effect on the date hereof[2].

1 May include alternate statement that documents have not been amended, changed or otherwise modified in any way since the Closing Date.

2 May include alternate statement that such documents have not been amended, changed or otherwise modified in any way since the Closing Date

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[3].

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.

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3 In the case of Borrower only, this Certificate shall also state that: (1) all of the applicable conditions set forth in this Section 3 of the Amendment have been satisfied and (2) since December 31, 2015, 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

.IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Certificate as of March 31, 2017.

[COMPANY]

____

_______________________, Secretary

<u>Exhibit A</u>

Articles of ______________

Exhibit B

[By-Laws]

Exhibit C

Resolutions

Exhibit D

Good Standing Certificate

Exhibit 31.1

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-K of Air Transport Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2017

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Exhibit 31.2

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-K of Air Transport Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2017

/s/ QUINT O. TURNER

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

Exhibit 32.1

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

In connection with the Annual Report of Air Transport Services Group, Inc. (the “Company”) on Form 10-K for the year ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph C. Hete, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Date: May 8, 2017

Exhibit 32.2

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

In connection with the Annual Report of Air Transport Services Group, Inc. (the "Company") on Form 10-K for the year ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Quint O. Turner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: May 8, 2017