

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, 2006

OR

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: 1-13025

**AirNet Systems, Inc.**

(Exact name of Registrant as specified in its charter)

**Ohio**

(State or other jurisdiction of  
incorporation or organization)

**31-1458309**

(I.R.S. Employer  
Identification No.)

**7250 Star Check Drive, Columbus, Ohio**

(Address of principal executive offices)

**43217**

(Zip Code)

**(614) 409-4900**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 8, 2006, 10,153,599 of the Registrant's common shares, par value \$0.01, were outstanding.

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**AIRNET SYSTEMS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

In thousands, except par value data

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,881	\$1,590
Accounts receivable, less allowances	24,313	23,475
Taxes receivable	1,811	1,787
Deposits and prepaids	2,292	2,638
Total current assets	30,297	29,490
Net property and equipment	92,625	93,643
Deposits and other assets	550	160
<b>Total assets</b>	<b>\$123,472</b>	<b>\$123,293</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$11,040	\$10,280
Salaries and related liabilities	3,340	5,180
Current portion of notes payable	3,923	3,852
Deferred income taxes	40	124
Total current liabilities	18,343	19,436
Notes payable, less current portion	50,671	52,167
Deferred income taxes	6,365	5,311
Shareholders' equity:		
Preferred shares, \$.01 par value; 10,000 shares authorized; no shares issued and outstanding	-	-
Common shares, \$.01 par value; 40,000 shares authorized; 12,753 shares issued at March 31, 2006 and at December 31, 2005	128	128
Additional paid-in-capital	76,288	76,318
Retained deficit	(4767)	(6454)
Accumulated other comprehensive loss - currency translation	(13)	(13)
Treasury shares, 2,609 and 2,614 shares held at cost at March 31, 2006 and December 31, 2005, respectively	(23543)	(23600)
Total shareholders' equity	48,093	46,379
<b>Total liabilities and shareholders' equity</b>	<b>\$123,472</b>	<b>\$123,293</b>

See notes to condensed consolidated financial statements

**AIRNET SYSTEMS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS- Unaudited**

In thousands, except per share data	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>NET REVENUES</b>		
Delivery services, net of excise tax:		
Bank services	<b>\$28,284</b>	\$27,293
Express services	<b>14,044</b>	13,105
Total delivery services revenues	<b>42,328</b>	40,398
Passenger charter services	<b>6,749</b>	9,328
Aviation services and other operations	<b>377</b>	167
<b>Total net revenues</b>	<b>49,454</b>	49,893
<b>COSTS AND EXPENSES</b>		
Wages and benefits	<b>6,243</b>	6,204
Aircraft fuel	<b>8,701</b>	8,254
Aircraft maintenance	<b>5,069</b>	5,387
Contracted air costs	<b>4,169</b>	3,268
Ground courier	<b>8,179</b>	7,889
Depreciation	<b>3,700</b>	3,642
Insurance, rent and landing fees	<b>2,164</b>	2,562
Travel, training and other	<b>3,013</b>	3,443
Selling, general and administrative	<b>4,512</b>	5,487
Net gain on disposition of assets	<b>(8)</b>	(50)
<b>Total costs and expenses</b>	<b>45,742</b>	46,086
Income from operations	<b>3,712</b>	3,807
Interest expense	<b>1,025</b>	855
Income before income taxes	<b>2,687</b>	2,952
Provision for income taxes	<b>1,000</b>	1,435
<b>Net income</b>	<b>\$1,687</b>	\$1,517
Net income per share - basic and diluted	<b>\$0.17</b>	\$0.15

See notes to condensed consolidated financial statements

**AIRNET SYSTEMS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited**

In thousands	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities:</b>		
Net income	<b>\$1,687</b>	\$1,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	<b>3,700</b>	3,642
Deferred taxes	<b>1,054</b>	1,437
Provision for losses on accounts receivable	<b>13</b>	18
Stock based compensation expense	<b>30</b>	-
Gain on disposition of assets	<b>(8)</b>	(50)
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable	<b>(851)</b>	(1260)
Taxes receivable	<b>(24)</b>	(63)
Accounts payable and accrued expenses	<b>760</b>	(262)
Salaries and related liabilities	<b>(1840)</b>	(165)
Other, net	<b>232</b>	198
<b>Net cash provided by operating activities</b>	<b>4753</b>	5012
<b>Investing activities:</b>		
Purchases of property and equipment - net	<b>(3072)</b>	(7900)
Proceeds from sales of property and equipment	<b>8</b>	100
<b>Net cash used in investing activities</b>	<b>(3,064)</b>	(7,800)
<b>Financing activities:</b>		
Proceeds from incentive stock plan programs	<b>27</b>	30
Net borrowings (repayments) of debt	<b>(1,425)</b>	2,522
<b>Net cash (used in) provided by financing activities</b>	<b>(1,398)</b>	2,552
Net increase (decrease) in cash	<b>291</b>	(236)
Cash and cash equivalents at beginning of period	<b>1,590</b>	1,086
<b>Cash and cash equivalents at end of period</b>	<b>\$1,881</b>	\$850

See notes to condensed consolidated financial statements

**AIRNET SYSTEMS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. Basis of Presentation**

AirNet Systems, Inc. ("AirNet") is a specialty air carrier for time-sensitive deliveries, operating between most major U.S. cities each working day. AirNet is the leading transporter of cancelled checks and related information for the U.S. banking industry. AirNet also provides specialized, high-priority delivery services to customers, primarily those involved in the medical and entertainment industries. AirNet also provides private passenger charter services through its wholly-owned subsidiary, Jetride, Inc. ("Jetride").

The accompanying condensed consolidated financial statements include the accounts of AirNet Systems, Inc. and its subsidiaries. These financial statements are unaudited and have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted as permitted by the instructions for Form 10-Q. The Balance Sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results for the full year.

The financial information included herein reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the results of interim periods.

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in those financial statements and accompanying notes thereto. Actual results could differ from those estimates.

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the three months ended March 31, 2006.

**2. Segment Reporting**

AirNet operates a national air transportation network and has determined that its reportable segments are based on AirNet's methods of internal reporting and management structure. AirNet's reportable segments are Delivery Services, which provides delivery service of time-critical shipments for bank customers and other express customers, and Passenger Charter Services. AirNet evaluates segment performance based on several factors, of which the primary financial measure is contribution margin. Contribution margin represents the net revenues of the reportable segment less costs and expenses directly associated with the reportable segment, including depreciation expense, but does not include interest and income taxes and certain selling, general and administrative costs. The accounting policies used for segment reporting are the same as those used for consolidated reporting described in the summary of Significant Accounting Policies included in Note 1 of the Notes to Consolidated Financial Statements in "Item 8 – Financial Statements and Supplementary Data" of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. There were no material amounts of revenues or transfers between reportable segments.

Financial information by reportable segments follows (*in thousands*):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>Net Revenues</b>		
Delivery Services	<b>\$42,328</b>	\$40,398
Passenger Charter Services	<b>6,749</b>	9,328
Total net revenues	<u><b>\$49,077</b></u>	<u><b>\$49,726</b></u>

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
<b>Contribution Margin</b>		
Delivery Services	<b>\$4,589</b>	\$3,469
Passenger Charter Services	<u><b>156</b></u>	<u>1,509</u>
Total contribution margin	<u><b>\$4,745</b></u>	<u>\$4,978</u>
<b>Depreciation Expense</b>		
Delivery Services	<b>\$2,532</b>	\$2,927
Passenger Charter Services	<u><b>818</b></u>	<u>526</u>
Total depreciation expense	<u><b>\$3,350</b></u>	<u>\$3,453</u>

A reconciliation of reportable segment net revenues to total net revenues follows (*in thousands*):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
Reportable segment net revenues	<b>\$49,077</b>	\$49,726
Aviation services and other	<u><b>377</b></u>	<u>167</u>
Total net revenues	<u><b>\$49,454</b></u>	<u>\$49,893</u>

A reconciliation of reportable segment contribution margin to income from operations follows (*in thousands*):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
Reportable segment contribution margin	<b>\$4,745</b>	\$4,978
Net selling and administrative expenses excluded from reportable segment contribution margin	<u><b>(1,033)</b></u>	<u>(1,171)</u>
Income from operations	<u><b>\$3,712</b></u>	<u>\$3,807</u>

A reconciliation of reportable segment depreciation expense to total depreciation expense follows (*in thousands*):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u><b>2006</b></u>	<u><b>2005</b></u>
Reportable segment depreciation	<b>\$3,350</b>	\$3,453
Corporate depreciation	<u><b>350</b></u>	<u>189</u>
Total depreciation expense	<u><b>\$3,700</b></u>	<u>\$3,642</u>

### 3. Stock Plans and Awards

At March 31, 2006, AirNet had two stock-based employee compensation plans, the Amended and Restated 1996 Incentive Stock Plan and the 2004 Stock Incentive Plan. Through December 31, 2005, AirNet accounted for the plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". Effective January 1, 2006, AirNet adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS 123(R)), that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. FAS 123(R) eliminates the ability to account for share-based compensation transactions, as AirNet formerly did, using the intrinsic value method as prescribed by

APB Opinion No. 25, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in the condensed consolidated statements of operations.

AirNet adopted FAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. AirNet's condensed consolidated statement of operations as of and for the quarter ended March 31, 2006 reflects the impact of adopting FAS 123(R). In accordance with the modified prospective method, the condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of FAS 123(R).

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the condensed consolidated statement of operations during the first quarter of 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of FAS 148. Although there have been no grants subsequent to December 31, 2005, compensation expense for the stock-based payment awards to be granted subsequent to December 31, 2005 will be based on the grant date fair value estimated in accordance with FAS 123(R). As stock-based compensation expense recognized in the condensed consolidated statements of income for the first quarter of 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under FAS 148 for the periods prior to 2006, AirNet accounted for forfeitures as they occurred.

*Impact of the Adoption of FAS 123(R)*

Currently, AirNet uses the Black-Scholes option pricing model to estimate the value of stock options granted to employees for purposes of computing the disclosures required by FAS No. 123(R). During the quarter ended March 31, 2006, AirNet recognized stock-based compensation expense of approximately \$30,000 (approximately \$18,000 net of tax) related to outstanding stock options according to the provisions of FAS 123(R), using the modified-prospective transition method. Basic and diluted net income per share for the quarter ended March 31, 2006 did not change as a result of the adoption of FAS 123(R).

The following table illustrates the effect on operating results and per share information had AirNet accounted for share-based compensation in accordance with FAS 123(R) for the period indicated (in thousands, except per share data):

	<b>Three Months Ended March 31, 2005</b>
Net income, as reported	\$1,517
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	<u>(45)</u>
Pro forma net income	<u>\$1,472</u>
Net income per share – basic and diluted:	
As reported	\$0.15
Pro forma	\$0.15

The fair value of the options are estimated at the date of grant using the Black-Scholes option pricing model. There have been no grants of stock-based payment awards during the quarter ended March 31, 2006 and 2005. As of March 31, 2006, total unamortized stock-based compensation expense for outstanding stock options was approximately \$0.2 million and is expected to be recognized over a period of 3.75 years.

#### 4. Net Income Per Common Share

The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share data):

	Three Months Ended March 31,	
	2006	2005
Numerator:		
Net income	\$1,687	\$1,517
Denominator:		
Basic – weighted average common shares outstanding	10,137	10,089
Diluted		
Dilutive effect of stock options—employees, officers, and directors	-	5
Adjusted weighted average common shares outstanding	10,137	10,094
Net income per common share –		
Basic and diluted	\$0.17	\$0.15

Common shares subject to outstanding stock options excluded from the diluted adjusted weighted average shares outstanding calculation were 823,980 and 851,970 for the three month periods ended March 31, 2006 and 2005, respectively. These stock options were antidilutive and excluded from the calculation because the exercise prices of these stock options were greater than the average fair market value of the underlying common shares in the respective periods.

#### 5. Bank Financing Matters

##### *Term Notes and Revolving Credit Facility*

In September 2002, AirNet entered into a \$35.0 million unsecured revolving credit facility and a five-year \$20.0 million unsecured term loan (collectively, the "Credit Agreement"). The term loan required quarterly installments of \$1.0 million beginning in December 2002 and continuing through September 30, 2007. The revolving credit facility under the Credit Agreement was originally scheduled to expire on September 30, 2005 and the secured term loan was to mature on September 30, 2007.

On May 28, 2004, AirNet and its lenders amended the terms and conditions of the Credit Agreement (the "Amended Credit Agreement"). The Amended Credit Agreement has been further amended by the First, Second, Third and Fourth Change in Terms Agreements as described below. The Amended Credit Agreement is secured by a first lien on all of the property of AirNet and its subsidiaries, other than any interest in real estate and certain excluded fixed assets. AirNet also pledged the stock and interests of its subsidiaries to secure the loans under the Amended Credit Agreement, and each of AirNet's subsidiaries guaranteed AirNet's obligations under the Amended Credit Agreement. The Amended Credit Agreement permits AirNet and its subsidiaries to incur other indebtedness for the purpose of purchasing or refinancing aircraft and related tangible fixed assets, subject to certain annual limitations. The Amended Credit Agreement contains limitations on operating leases, indebtedness, significant corporate changes including mergers and sales of assets, investments in subsidiaries and acquisitions, liens, capital expenditures, transactions with affiliates, sales of accounts receivable, sale and leaseback transactions and other off-balance sheet liabilities, contingent obligations and hedging transactions. The Amended Credit Agreement also contains certain financial covenants that require AirNet to maintain a minimum consolidated tangible net worth and to not exceed certain fixed charge coverage and leverage ratios specified in the Amended Credit Agreement.

The Amended Credit Agreement provided for a secured revolving credit facility of up to \$35.0 million and a secured term loan in the aggregate amount of \$14.0 million. The amount of revolving loans available under the Amended Credit Agreement was limited to a borrowing base equal to the aggregate of 80% of eligible accounts receivable, plus 50% of eligible inventory, plus 70% of the market value of certain fixed assets, reduced by the aggregate amount of AirNet's outstanding letters of credit. The Amended Credit Agreement bears interest, at AirNet's option, at (a) a fixed rate equal to LIBOR plus a margin determined by AirNet's leverage ratio as defined in the Amended Credit

Agreement, or (b) a floating rate based on the greater of (i) the prime rate established by The Huntington National Bank from time to time plus a margin determined by AirNet's leverage ratio or (ii) the sum of 0.5% plus the federal funds rate in effect from time to time plus a margin determined by AirNet's leverage ratio. At March 31, 2006, as a result of the various timing and duration of short-term debt maturities, AirNet's interest rates ranged from 5.0% to 7.0%.

As a result of the impairment charges recorded in September 2004 as described in Note 2 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, AirNet was not in compliance with certain terms of the Amended Credit Agreement, including the fixed charge coverage ratio and the leverage ratio calculated as of September 30, 2004, and AirNet would not have been in compliance with the minimum consolidated tangible net worth requirement as of December 31, 2004. On November 12, 2004, AirNet and its lenders under the Amended Credit Agreement agreed to modify the terms and conditions of the Amended Credit Agreement (the "First Change in Terms Agreement"). The First Change in Terms Agreement modified the fixed charge coverage ratio, the leverage ratio, and the minimum consolidated tangible net worth financial covenants in such a manner that, on a going-forward basis, the September 2004 impairment charges, in and of themselves, would not cause a default of these financial covenants in the future. At the same time as the First Change of Terms Agreement was entered into, AirNet and its lenders executed a waiver of any defaults or potential defaults under the Amended Credit Agreement which occurred, or may have occurred, as a result of AirNet's failure to comply with the foregoing financial covenants due to the September 2004 impairment charges.

On March 24, 2005, AirNet and its lenders entered into a "Second Change in Terms Agreement" that further modified the terms and conditions of the Amended Credit Agreement. In accordance with the Second Change in Terms Agreement, AirNet prepaid in full the remaining \$11.0 million balance outstanding on its secured term loan. Upon the prepayment of the term loan, the term loan portion of the Amended Credit Agreement was terminated. In addition, the revolving credit facility under the Amended Credit Agreement was reduced from \$35.0 million to \$30.0 million. Under the Second Change in Terms Agreement, the term of the revolving credit facility was extended from September 30, 2005 to October 15, 2006. The Second Change in Terms Agreement also provided for the release of certain fixed assets that were securing the loans under the Amended Credit Agreement and modified certain other financial covenants.

As a result of the impairment charge recorded in September 2005 as described in Note 2 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, AirNet was not in compliance with certain terms of the Amended Credit Agreement, including the fixed charge coverage ratio and the leverage ratio calculated as of September 30, 2005. On November 21, 2005, AirNet and its lenders under the Amended Credit Agreement agreed to modify the terms and conditions of the Amended Credit Agreement (the "Third Change in Terms Agreement"). The Third Change in Terms Agreement modified the fixed charge coverage ratio and the leverage ratio financial covenants in such a manner that, on a going-forward basis, the impairment charge recorded as of September 30, 2005, in and of itself, would not cause a default of these financial covenants in the future. At the same time as the Third Change of Terms Agreement was entered into, AirNet and its lenders executed a waiver of any defaults or potential defaults under the Amended Credit Agreement which occurred, or may have occurred, as a result of AirNet's failure to comply with the foregoing financial covenants due to the September 2005 impairment charge.

On March 28, 2006, AirNet and its lenders entered into a "Fourth Change in Terms Agreement" extending the term of the secured revolving credit facility under the Amended Credit Agreement from October 15, 2006 to October 15, 2007. The Fourth Change in Terms Agreement also reduced the amount of the secured revolving credit facility from \$30 million to \$25 million, reduced the amount of annual capital expenditures permitted under the terms of the Amended Credit Agreement from \$30 million to \$20 million, and modified the calculation of the borrowing base by lowering the percentage of fixed assets AirNet may borrow against from 70% to 50% of their market value. As a result of the Fourth Change in Terms Agreement, amounts outstanding under the revolving credit facility at March 31, 2006 and December 31, 2005 are classified as long-term debt in the Condensed Consolidated Balance Sheets.

As of March 31, 2006, \$16.0 million was outstanding under the secured revolving credit facility which is included in "Notes payable, less current portion" in the Condensed Consolidated Balance Sheet. In addition, AirNet had \$1.3 million in letters of credit outstanding as of such date related to insurance programs, which reduced the amount available under the revolving credit facility. After giving effect to the Fourth Change in Terms Agreement, AirNet had approximately \$7.7 million available to borrow under its secured revolving credit facility under the Amended Credit Agreement as of March 31, 2006.

#### *Other Term Notes*

On March 24, 2005, AirNet entered into a three-year term loan totaling \$11.0 million with a fixed interest rate of 8.12%. This term loan is secured by seven Cessna Caravans and nine Learjet 35's from AirNet's cargo aircraft fleet.

The aircraft securing this loan were released from the collateral securing the loans under the Amended Credit Agreement in accordance with the Second Change in Terms Agreement. The proceeds from this term loan were used to prepay in full AirNet's term loan under the Amended Credit Agreement as described above. As of March 31, 2006, \$9.3 million was outstanding under this term loan.

During the second quarter of 2004, Jetride entered into four seven-year term loans totaling \$22.5 million with fixed interest rates of approximately 6.7%. In July 2004, Jetride financed two additional passenger charter Learjet 60's for the Passenger Charter fleet at \$5.0 million each with seven-year terms and fixed rates of approximately 6.5%, for a total of \$32.5 million in financing related to AirNet's Passenger Charter Services. As of March 31, 2006 and December 31, 2005, there was \$29.3 million and \$29.8 million, respectively, outstanding under all six loans. These term loans are secured by aircraft used in the Passenger Charter fleet. Each of the term loans is guaranteed by AirNet. AirNet incurred approximately \$0.5 million in interest expense in the first quarter of 2006 related to the financing of the nine Passenger Charter aircraft under all six loans.

## **6. Income Taxes**

The difference between the effective income tax rate and the federal statutory income tax rate, for the three months ended March 31, 2006 and the three months ended March 31, 2005, are primarily attributable to changes in the valuation allowance for net operating loss carryforwards and Alternative Minimum Tax Credit carryforwards.

## **7. Contingencies**

In June 2005, AirNet relocated its corporate and operational headquarters from 3939 International Gateway in Columbus, Ohio (the "Port Columbus Facility") to its new facility at Rickenbacker International Airport ("the Rickenbacker Facility"). AirNet's lease of its Port Columbus Facility expired on August 31, 2005.

AirNet maintains certain assets at Port Columbus for dispensing aviation fuel under the terms and conditions of a separate lease agreement (the "Fuel Farm Lease"). The Fuel Farm Lease requires AirNet to return the premises leased under the Fuel Farm Lease to their original condition at the termination of the lease. In lieu of returning the premises to their original condition, the Port Columbus Airport Authority ("the Authority") may take title to any improvements constructed by AirNet on the leased premises. AirNet and the Authority have entered into discussions regarding the transfer of title of AirNet's fuel farm assets to the Authority, which includes two underground fuel storage tanks. If the Authority declines to take title to the fuel farm assets, or if AirNet and the Authority are unable to reach acceptable terms and conditions regarding the transfer of the fuel farm assets to the Authority, AirNet will remove the fuel farm assets and return the premises to their original condition. As of March 31, 2006, AirNet had an accrual of \$0.1 million for the cost of returning the fuel farm premises to their original condition.

## **8. Assets Held for Sale**

In February 2006, AirNet decided to market for sale all nine of the Cessna 310 Piston cargo aircraft as a result of the reduction in its airline capacity. At that date, AirNet determined that the plan of sale criteria in FASB Statement No. 144, "*Accounting for Impairment or Disposal of Long-Lived Assets*", had been met. The carrying value of the assets was determined to approximate the estimated fair value less cost to sell, based on recent aircraft appraisals. The carrying value of the aircraft held for sale approximates \$0.4 million, and is classified in "Deposit and Other Assets" in the Condensed Consolidated Balance Sheet.

## AIRNET SYSTEMS, INC.

### ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Safe Harbor Statement

Except for the historical information contained in this Form 10-Q, the matters discussed, including, but not limited to, information regarding future economic performance and plans and objectives of AirNet's management, are forward-looking statements that involve risks and uncertainties. When used in this document, the words "believe", "anticipate", "estimate", "expect", "intend", "may", "plan", "project" and similar expressions are intended to be among statements that identify forward-looking statements. Such statements involve risks and uncertainties which could cause actual results to differ materially from any forward-looking statement. The following factors, in addition to those included in the disclosure under the heading "Risk Factors" in Item 1A of AirNet's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, could cause actual results to differ materially from those expressed in our forward-looking statements: potential regulatory changes by the Federal Aviation Administration ("FAA"), Department of Transportation ("DOT") and Transportation Security Administration ("TSA"), which could increase the regulation of AirNet's business, or the Federal Reserve, which could change the competitive environment of transporting cancelled checks; changes in check processing and shipment patterns of bank customers; the continued acceleration of migration of AirNet's Bank customers to electronic alternatives to the physical movement of cancelled checks; the impact of prolonged weakness in the U.S. economy on time-critical shipment volumes; disruptions to operations due to adverse weather conditions, air-traffic control related constraints or aircraft accidents; potential further declines in the values of aircraft in AirNet's fleet and any related asset impairment charges; the ability to successfully market the Passenger Charter business in light of global changes in the commercial airline industry; potential changes in locally and federally mandated security requirements; increases in aviation fuel costs not fully offset by AirNet's fuel surcharge program; acts of war and terrorist activities; the acceptance of AirNet's time-critical service offerings within targeted Express markets; technological advances and increases in the use of electronic funds transfers; our substantial indebtedness; the availability and cost of financing required for operations; insufficient capital for future expansion; and the impact of unusual items resulting from ongoing evaluations of our business strategies; and other economic, competitive and domestic and foreign governmental factors affecting AirNet's markets, prices and other facets of its operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Please refer to the disclosure included in "Item 1A – Risk Factors" of Part I and sections captioned "Forward-looking statements" in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of the Annual Report on Form 10-K for the fiscal year ended December 31, 2005 of AirNet Systems, Inc. (File No. 1-13025) for additional details relating to risk factors that could affect AirNet's results and cause those results to differ materially from those expressed in forward-looking statements.

#### General

##### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. AirNet maintains a thorough process to review the application of its accounting policies and to evaluate the appropriateness of the estimates; however, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. Certain estimates that have a significant effect on quarterly results, such as incentive compensation expense and the effective income tax rates, could require substantial adjustments from quarter to quarter due to changes in estimates of net income for the year.

Management has discussed the development and selection of AirNet's critical accounting policies and estimates with the Audit Committee of AirNet Systems, Inc.'s Board of Directors and with AirNet's independent registered public accounting firm. AirNet's critical accounting policies have not changed significantly from the policies disclosed under the caption "Critical Accounting Policies and Estimates" in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

AirNet's audited consolidated financial statements for the fiscal year ended December 31, 2005, included in Item 8 – Financial Statements and Supplementary Data of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, contain additional disclosures regarding AirNet's significant accounting policies and Item 7 of that Annual Report on Form 10-K includes a summary of AirNet's critical accounting policies. The information appearing therein may be useful when reading this discussion and analysis of financial condition and results of operations.

During the first quarter of 2006, AirNet adopted Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS 123(R)). For detailed information regarding this pronouncement and the impact thereof on AirNet's business, see Note 3 to AirNet's Condensed Consolidated Financial Statements.

## Results of Operations

### Financial Overview – First Quarter 2006

Total Delivery Services revenues increased \$1.9 million, or 5%, in the first quarter of 2006 as compared to 2005. Offsetting this increase was a decrease in Passenger Charter Services revenues of \$2.6 million, or 28%, in the first quarter of 2006 as compared to 2005.

AirNet's total contribution margin decreased \$0.2 million, or 5%, to \$4.8 million in the first quarter of 2006 from \$5.0 million in the first quarter of 2005. A decrease in Passenger Charter Services contribution margin of \$1.3 million was offset, in part, by a \$1.1 million increase in contribution margin from Delivery Services. The decrease in Passenger Charter Services contribution margin generally resulted from a \$2.6 million decrease in revenues attributed to a 28% decline in flight hours. The decrease in flight hours was primarily the result of the net loss of two passenger charter aircraft operated under management agreements in the first quarter of 2005. The net loss reflected the addition of one new Learjet 60 agreement and the loss of three agreements covering two Challenger aircraft and one Learjet 60. Also contributing to the decrease in Passenger Charter Services contribution margin were increased pilot travel and training expense, and increased fuel costs. The increase in Delivery Services contribution margin primarily resulted from a \$2.5 million increase in fuel surcharge revenues as a result of the 31% increase in fuel prices in the first quarter of 2006 over the first quarter 2005.

As a result of the continuing evolution of electronic alternatives to the physical movement of cancelled checks and other market factors, AirNet's Bank Services net revenues are expected to decline over time. This expected decline in Bank Services revenues requires that AirNet restructure its existing transportation network which was originally established to service its bank customers. AirNet continues to evaluate and adjust its operations, including aircraft mix and fleet size, in response to these changing business conditions as well as review its ground operations for efficiencies and cost reductions. In February 2006, AirNet decided to market for sale all nine of the Cessna 310 piston cargo aircraft it operates as a result of the reduction in its required airline capacity.

### Net Revenues

Dollars in '000's	Three Months Ended March 31,				Increase (Decrease) 2006 to 2005	
	2006	% of Total	2005	% of Total	Dollars (\$)	Percentage (%)
<b>Net Revenues</b>						
Delivery Services Revenues, Net of						
Excise Tax:						
Bank Services	\$ 28,284	57%	\$ 27,293	55%	\$ 991	4%
Express Services	14,044	28%	13,105	26%	939	7%
Total Delivery Services Revenues	42,328	85%	40,398	81%	1,930	5%
Passenger Charter Services Revenues	6,749	14%	9,328	19%	(2,579)	(28)%
Aviation Services and Other Revenues	377	1%	167	0%	210	126%
<b>Total Net Revenues</b>	<b>\$ 49,454</b>	<b>100%</b>	<b>\$ 49,893</b>	<b>100%</b>	<b>\$ (439)</b>	<b>(1)%</b>

Total net revenues decreased \$0.4 million, or 1%, for the three months ended March 31, 2006 over the same period in 2005. The \$2.6 million decrease in Passenger Charter services revenues was partially offset by a \$1.9 million increase in Delivery Services revenues attributable to increased fuel surcharge revenues.

AirNet generally assesses its Bank Services customers a fuel surcharge, which is based on the Oil Price Index Summary – Columbus, Ohio (OPIS-CMH index). As index rates increase above a set threshold, surcharge rates increase. The first quarter 2006 average price on the OPIS index increased approximately 31% from the first quarter 2005 average price. AirNet also assesses most of its Express Services customers a fuel surcharge which is based on the OPIS index, which is adjusted monthly based on changes in the OPIS index. In addition, Jetride charges its customers a fuel surcharge per hour based upon prevailing market rates.

#### *Bank Services Revenues*

<b>Dollars in '000's</b>	<b>Three Months Ended</b>		<b>Increase (Decrease)</b>	
	<b>March 31,</b>		<b>2006 to 2005</b>	
<b>Bank Services Revenues</b>	<b>2006</b>	<b>2005</b>	<b>Dollars (\$)</b>	<b>Percentage (%)</b>
Bank Services Revenues	\$ 25,336	\$ 25,665	\$ (329)	(1)%
Fuel Surcharge	3,538	2,111	1,427	68%
Federal Excise Tax	(590)	(483)	(107)	(22)%
<b>Total Net Bank Services Revenues</b>	<b>\$ 28,284</b>	<b>\$ 27,293</b>	<b>\$ 991</b>	<b>4%</b>

Although Bank Services pounds shipped per flying day decreased approximately 4%, total net Bank Services revenues increased during the three months ended March 31, 2006 from the same period in 2005, primarily due to rate increases and higher fuel surcharge revenues as a result of higher fuel prices. There were the same number of flying days for the three months ended March 31, 2006 as there were in the same period of the prior year.

On December 7, 2005, AirNet received notice from a bank customer that the customer intended to terminate a portion of the air transportation services provided by AirNet, effective March 3, 2006. During AirNet's first quarter ended March 31, 2006 and fiscal year ended December 31, 2005, these air transportation services accounted for approximately \$0.3 million and \$1.4 million, respectively, of AirNet's Bank Services revenues (including \$37,000 and \$216,000, respectively, in fuel surcharge revenues).

On January 9, 2006, AirNet received notice from a bank customer that the customer intended to terminate a substantial portion of the air transportation services provided by AirNet, effective March 3, 2006. During AirNet's first quarter ended March 31, 2006 and fiscal year ended December 31, 2005, these air transportation services accounted for approximately \$0.2 million and \$1.1 million, respectively, of AirNet's Bank Services revenues (including \$25,000 and \$138,000, respectively, in fuel surcharge revenues).

AirNet continues to evaluate its operational structure and associated costs to more closely align them with the expected volume and revenue changes. However, given the high fixed cost nature of AirNet's national airline network, it will become increasingly difficult to reduce costs in proportion to decreases in Bank Services revenues. AirNet continues to focus on additional services for banks, such as proof of deposit and interoffice mail delivery services, which provide additional revenue but at lower yields than AirNet's traditional cancelled check business.

Revenue yields per pound are similar for Bank and Express shipments; however, because the density of cancelled check shipments is much greater than the typical Express shipment, contribution margins on Bank shipments are substantially higher than Express shipments after considering the cubic dimension of shipments. Furthermore, due to the unscheduled nature of Express shipments, pick-up and delivery costs per shipment are higher for Express shipments than Bank shipments. AirNet believes that lower check delivery volume as a result of the declining use of checks and electronic alternatives to the physical movement of cancelled checks will contribute to a significant reduction in Bank Services revenues and the contribution margin from Delivery Services in future periods. As Bank Services revenues decline, it will be necessary to reduce AirNet's airline capacity because Express Services contribution margins are insufficient to support the operation of AirNet's airline as presently configured.

#### *Express Services Revenues*

Dollars in '000's	Three Months Ended		Increase (Decrease)	
	March 31,		2006 to 2005	
<i>Express Services Revenues</i>	2006	2005	Dollars (\$)	Percentage (%)
Express Revenues - Non Charter	\$ 8,931	\$ 9,031	\$ (100)	(1)%
Express Revenues - Charters	3,610	3,587	23	1%
Fuel Surcharge	1,942	876	1,066	122%
Federal Excise Tax	(439)	(389)	(50)	(13)%
<b>Total Net Express Services Revenues</b>	<b>\$ 14,044</b>	<b>\$ 13,105</b>	<b>\$ 939</b>	<b>7%</b>

Express Revenues – Non Charter represent revenues AirNet derives from shipments on AirNet's airline, commercial airlines and point-to-point surface (ground only) shipments. The total number of Non Charter Express shipments decreased approximately 2% in the first quarter of 2006 compared to the first quarter of 2005 as a result of reduced shipment volume from Express Services customers.

Express Revenues – Charters represent revenues AirNet derives from cargo charters transported on AirNet's airline and on aircraft operated by other third parties. Charter revenues increased 1% in the first quarter of 2006 compared to 2005. AirNet expects Express charter revenues to decrease in 2006 as compared to 2005 generally as a result of the loss of certain radioactive pharmaceutical industry charters due to the availability of lower cost non-charter transportation alternatives.

Higher fuel prices during the first quarter 2006 resulted in significantly higher fuel surcharge revenues compared to the same quarter in 2005.

#### *Passenger Charter Services Revenues*

Dollars in '000's	Three Months Ended		Increase (Decrease)	
	March 31,		2006 to 2005	
<i>Passenger Charter Services Revenues</i>	2006	2005	Dollars (\$)	Percentage (%)
Passenger Charter Services revenues	\$ 5,850	\$ 8,559	\$ (2,709)	(32)%
Management fee revenues	214	363	(149)	(41)%
Fuel Surcharge	685	406	279	69%
<b>Total Passenger Charter Services Revenues</b>	<b>\$ 6,749</b>	<b>\$ 9,328</b>	<b>\$ (2,579)</b>	<b>(28)%</b>

Passenger Charter Services derives its revenues primarily from companies that provide fractional aircraft ownership programs, card membership programs and passenger charter broker services. AirNet's Passenger Charter Services revenues include revenue from both owned and managed aircraft. Management fee revenues generally include a monthly fee and a specified percentage of revenues earned under each managed aircraft agreement. Passenger Charter Services revenues decreased approximately \$2.6 million, primarily due to the 28% decrease in flight hours for the three months ended March 31, 2006 compared to the same period in the prior year. Approximately \$2.0 million of the decrease in Passenger Charter Services revenue was directly attributable to the net loss of two passenger aircraft that were operated under management agreements in the first quarter of 2005. The net loss reflected the addition of one new Learjet 60 agreement and the loss of three agreements covering two Challenger aircraft and one Learjet 60.

In April 2006, the owner of three Model 60 Learjet aircraft managed by AirNet has informed AirNet that the owner may sell one or more of the aircraft and, as a result, may terminate the related aircraft management agreements with respect to such aircraft. Revenues related to the three managed aircraft amounted to approximately \$2.1 million and \$5.2 million for the three month period ended March 31, 2006 and twelve month period ended December 31, 2005. In the event the owner does terminate the agreements, AirNet has identified direct cost reductions of approximately 90% of the revenues that would be lost if these aircraft were eliminated from the Passenger Charter fleet.

At March 31, 2006, AirNet's Passenger Charter fleet consisted of fourteen passenger Learjets; nine owned and five aircraft that were managed for other owners. At March 31, 2005 the fleet consisted of sixteen aircraft; nine owned and seven aircraft that were managed for other owners, including 2 Challenger passenger aircraft.

#### *Aviation Services and Other Revenues*

Aviation services revenues primarily relate to AirNet's fixed base operation services provided in Columbus, Ohio.

*Costs and Expenses*

<b>Dollars in '000's</b>	<b>Three Months Ended</b>		<b>Increase (Decrease)</b>	
	<b>March 31,</b>		<b>2006 to 2005</b>	
<b>Costs and Expenses</b>	<b>2006</b>	<b>2005</b>	<b>Dollars (\$)</b>	<b>Percentage (%)</b>
Wages and benefits	\$ 6,243	\$ 6,204	\$ 39	1%
Aircraft fuel	8,701	8,254	447	5%
Aircraft maintenance	5,069	5,387	(318)	(6)%
Contracted air costs	4,169	3,268	901	28%
Ground courier	8,179	7,889	290	4%
Depreciation	3,700	3,642	58	2%
Insurance, rent and landing fees	2,164	2,562	(398)	(16)%
Travel, training and other	3,013	3,443	(430)	(12)%
Selling, general and administrative	4,512	5,487	(975)	(18)%
Net gain on disposition of assets	(8)	(50)	42	84%
<b>Total Costs and Expenses</b>	<b>\$ 45,742</b>	<b>\$ 46,086</b>	<b>\$ (344)</b>	<b>(1)%</b>

Total costs and expenses decreased approximately \$0.3 million, or 1%, in the first quarter of 2006 compared to 2005, primarily as a result of the decreases in costs and expenses related to Passenger Charter Services and a decrease in selling, general and administrative expenses. Total costs and expenses for Passenger Charter Services decreased \$1.3 million, reflecting the approximate 28% decrease in Passenger Charter Services flight hours. Offsetting the decreases were increases in costs and expenses due to additional aircraft fuel expense, and contracted air costs and ground courier costs to support AirNet's Delivery Services.

<b>Dollars in '000's</b>	<b>Three Months Ended</b>		<b>Increase (Decrease)</b>	
	<b>March 31,</b>		<b>2006 to 2005</b>	
<b>Aircraft Fuel</b>	<b>2006</b>	<b>2005</b>	<b>Dollars (\$)</b>	<b>Percentage (%)</b>
Delivery Services aircraft fuel	\$ 6,992	\$ 6,209	\$ 783	13%
Passenger Charter Services aircraft fuel	1,709	2,045	(336)	(16)%
<b>Total Aircraft Fuel</b>	<b>\$ 8,701</b>	<b>\$ 8,254</b>	<b>\$ 447</b>	<b>5%</b>

Total aircraft fuel expense increased \$0.4 million, or 5%, in the first quarter of 2006 compared to the same period in 2005 as a result of higher fuel prices. As stated above, the first quarter 2006 average price on the OPIS index increased approximately 31% from the first quarter 2005 average price. A portion of the increase in Delivery Services fuel expense was offset by reduced fuel usage attributable to a 17% decrease in hours flown in the first quarter of 2006 compared to the same period in 2005. Because part of these flight hours were subcontracted to other carriers, a portion of this aircraft fuel expense decrease was offset by an increase in contracted air costs. Aircraft fuel expense for Passenger Charter services decreased in the first quarter of 2006 compared to the same period in 2005 as a result of the decrease in hours flown.

Dollars in '000's	Three Months Ended		Increase (Decrease)	
	March 31,		2006 to 2005	
Aircraft Maintenance	2006	2005	Dollars (\$)	Percentage (%)
Delivery Services aircraft maintenance	\$ 4,094	\$ 3,879	\$ 215	6%
Passenger Charter Services:				
Owned aircraft	604	373	231	62%
Managed aircraft	371	1,135	(764)	(67)%
Total Passenger Charter Services aircraft maintenance	975	1,508	(533)	(35)%
<b>Total Aircraft Maintenance</b>	<b>\$ 5,069</b>	<b>\$ 5,387</b>	<b>\$ (318)</b>	<b>(6)%</b>

Aircraft maintenance is primarily based on pre-determined inspection intervals determined by usage, hours flown, cycles and the number of aircraft take-offs and landings. Consequently, high use, aging aircraft such as those in AirNet's cargo fleet require greater maintenance than lower use, newer aircraft.

Total aircraft maintenance expense decreased approximately \$0.3 million, or 6%, in the first quarter of 2006 compared to 2005. The increase in the Delivery Services aircraft maintenance of \$0.2 million primarily reflects the age of AirNet's cargo fleet, including Learjets, which averaged approximately 24 years in service at the end of 2005. Given the age of the Delivery Services aircraft and the impairment charge taken on September 30, 2005, management determined that none of the major maintenance expenditures incurred after September 30, 2005, with the exception of engine maintenance, extended the useful life of the Delivery Services aircraft. Consequently, such expenditures were charged to aircraft maintenance expense. AirNet does not expect to make any capital additions to the Delivery Services aircraft fleet in 2006, with the exception of certain engine repairs and improvements and payments under manufacturer engine maintenance plans.

Aircraft maintenance expense for managed passenger charter aircraft, which is reimbursed by the aircraft's owner, decreased \$0.8 million in the first quarter of 2006 compared to 2005 primarily from a reduction in the number of managed aircraft and significant scheduled maintenance events incurred.

Contracted air costs include expenses associated with shipments transported on commercial airlines and costs to third-party aircraft operators for subcontracted air routes to support AirNet's national air transportation network. Subcontracted charter expenses increased approximately \$0.7 million, or 42%, in the first quarter of 2006 from 2005 as AirNet increased the outsourcing of certain routes to third-party operators. Commercial airline costs increased approximately \$0.2 million, or 12%, in the first quarter of 2006 from 2005 primarily due to increased fuel surcharges and an approximate 2% increase in Express Services shipments transported on commercial airlines.

Ground courier costs increased approximately \$0.3 million, or 4%, in the first quarter of 2006 from 2005. AirNet's Express customers are more costly to serve than AirNet's traditional Bank customers due to more unscheduled pickup and delivery services and more geographically dispersed locations. AirNet has experienced higher ground courier costs from its vendors as fuel prices have increased.

Insurance, rent and landing fees decreased approximately \$0.4 million, or 16%, in the first quarter of 2006 compared to 2005 generally attributable to a decrease in insurance expense as well as reduced landing and tie-down fees as a result of the decline in flight hours in the first quarter of 2006 compared to 2005.

The fees paid to managed Passenger Charter aircraft owners under aircraft management agreements are included in travel, training and other expenses. Fees paid to managed Passenger Charter aircraft owners decreased approximately \$0.4 million, or 34%, in the first quarter of 2006 compared to 2005 primarily due to the net loss of two passenger aircraft that were operated under management agreements in the first quarter of 2005. At March 31, 2006, Jetride managed five aircraft compared to seven aircraft at March 31, 2005.

The decrease in selling, general and administrative costs is primarily due to a \$0.6 million decrease in incentive compensation expense accrued in the first quarter of 2006 compared to 2005 due to lower anticipated incentive

compensation and earnings in 2006. The decrease is also attributable to decreases in travel and advertising expenses.

The increase in interest expense of approximately \$0.2 million in the first quarter of 2006 compared to 2005 reflects the capitalization of interest related to the construction of the Rickenbacker Facility in 2005.

The provision for income taxes in the first quarter of 2006 declined approximately \$0.4 million from the same period in 2005 as a result of a lower annual effective tax rate anticipated in 2006. The effective tax rate for the first quarter of 2006 was 37.2% compared to 48.6% in the first quarter of 2005. The lower annual effective tax rate is anticipated for 2006 due to changes in the valuation allowance for deferred tax assets.

### **Liquidity and Capital Resources**

*Cash flow from operating activities.* Net cash provided by operating activities was approximately \$4.8 million for the three months ended March 31, 2006, compared to approximately \$5.0 million for the same period in 2005.

#### *Financing Matters*

In September 2002, AirNet entered into a \$35.0 million unsecured revolving credit facility and a five-year \$20.0 million unsecured term loan (collectively, the "Credit Agreement"). The term loan required quarterly installments of \$1.0 million beginning in December 2002 and continuing through September 30, 2007. The revolving credit facility under the Credit Agreement was originally scheduled to expire on September 30, 2005 and the secured term loan was to mature on September 30, 2007.

On May 28, 2004, AirNet and its lenders amended the terms and conditions of the Credit Agreement (the "Amended Credit Agreement"). The Amended Credit Agreement has been further amended by the First, Second, Third and Fourth Change in Terms Agreements as described below. The Amended Credit Agreement is secured by a first lien on all of the property of AirNet and its subsidiaries, other than any interest in real estate and certain excluded fixed assets. AirNet also pledged the stock and interests of its subsidiaries to secure the loans under the Amended Credit Agreement, and each of AirNet's subsidiaries guaranteed AirNet's obligations under the Amended Credit Agreement. The Amended Credit Agreement permits AirNet and its subsidiaries to incur other indebtedness for the purpose of purchasing or refinancing aircraft and related tangible fixed assets, subject to certain annual limitations. The Amended Credit Agreement contains limitations on operating leases, indebtedness, significant corporate changes including mergers and sales of assets, investments in subsidiaries and acquisitions, liens, capital expenditures, transactions with affiliates, sales of accounts receivable, sale and leaseback transactions and other off-balance sheet liabilities, contingent obligations and hedging transactions. The Amended Credit Agreement also contains certain financial covenants that require AirNet to maintain a minimum consolidated tangible net worth and to not exceed certain fixed charge coverage and leverage ratios specified in the Amended Credit Agreement.

The Amended Credit Agreement provided for a secured revolving credit facility of up to \$35.0 million and a secured term loan in the aggregate amount of \$14.0 million. The amount of revolving loans available under the Amended Credit Agreement was limited to a borrowing base equal to the aggregate of 80% of eligible accounts receivable, plus 50% of eligible inventory, plus 70% of the market value of certain fixed assets, reduced by the aggregate amount of AirNet's outstanding letters of credit. The Amended Credit Agreement bears interest, at AirNet's option, at (a) a fixed rate equal to LIBOR plus a margin determined by AirNet's leverage ratio as defined in the Amended Credit Agreement, or (b) a floating rate based on the greater of (i) the prime rate established by The Huntington National Bank from time to time plus a margin determined by AirNet's leverage ratio or (ii) the sum of 0.5% plus the federal funds rate in effect from time to time plus a margin determined by AirNet's leverage ratio. At March 31, 2006, as a result of the various timing and duration of short-term debt maturities, AirNet's interest rates ranged from 5.0% to 7.0%.

As a result of the impairment charges recorded in September 2004 as described in Note 2 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, AirNet was not in compliance with certain terms of the Amended Credit Agreement, including the fixed charge coverage ratio and the leverage ratio calculated as of September 30, 2004, and AirNet would not have been in compliance with the minimum consolidated tangible net worth requirement as of December 31, 2004. On November 12, 2004, AirNet and its lenders under the Amended Credit Agreement agreed to modify the terms and conditions of the Amended Credit Agreement (the "First Change in Terms Agreement"). The First Change in Terms Agreement modified the fixed charge coverage ratio, the leverage ratio, and the minimum consolidated tangible net worth financial covenants in such a manner that, on a going-forward basis, the September 2004 impairment charges, in and of themselves, would not cause a default of these financial covenants in the future. At the same time as the First Change of Terms Agreement was entered into, AirNet and its lenders executed a waiver of any defaults or potential defaults under the Amended Credit Agreement which occurred,

or may have occurred, as a result of AirNet's failure to comply with the foregoing financial covenants due to the September 2004 impairment charges.

On March 24, 2005, AirNet and its lenders entered into a "Second Change in Terms Agreement" that further modified the terms and conditions of the Amended Credit Agreement. In accordance with the Second Change in Terms Agreement, AirNet prepaid in full the remaining \$11.0 million balance outstanding on its secured term loan. Upon the prepayment of the term loan, the term loan portion of the Amended Credit Agreement was terminated. In addition, the revolving credit facility under the Amended Credit Agreement was reduced from \$35.0 million to \$30.0 million. Under the Second Change in Terms Agreement, the term of the revolving credit facility was extended from September 30, 2005 to October 15, 2006. The Second Change in Terms Agreement also provided for the release of certain fixed assets that were securing the loans under the Amended Credit Agreement and modified certain other financial covenants.

As a result of the impairment charge recorded in September 2005 as described in Note 2 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, AirNet was not in compliance with certain terms of the Amended Credit Agreement, including the fixed charge coverage ratio and the leverage ratio calculated as of September 30, 2005. On November 21, 2005, AirNet and its lenders under the Amended Credit Agreement agreed to modify the terms and conditions of the Amended Credit Agreement (the "Third Change in Terms Agreement"). The Third Change in Terms Agreement modified the fixed charge coverage ratio and the leverage ratio financial covenants in such a manner that, on a going-forward basis, the impairment charge recorded as of September 30, 2005, in and of itself, would not cause a default of these financial covenants in the future. At the same time as the Third Change of Terms Agreement was entered into, AirNet and its lenders executed a waiver of any defaults or potential defaults under the Amended Credit Agreement which occurred, or may have occurred, as a result of AirNet's failure to comply with the foregoing financial covenants due to the September 2005 impairment charge.

On March 28, 2006, AirNet and its lenders entered into a "Fourth Change in Terms Agreement" extending the term of the secured revolving credit facility under the Amended Credit Agreement from October 15, 2006 to October 15, 2007. The Fourth Change in Terms Agreement also reduced the amount of the secured revolving credit facility from \$30 million to \$25 million, reduced the amount of annual capital expenditures permitted under the terms of the Amended Credit Agreement from \$30 million to \$20 million, and modified the calculation of the borrowing base by lowering the percentage of fixed assets AirNet may borrow against from 70% to 50% of their market value. As a result of the Fourth Change in Terms Agreement, amounts outstanding under the revolving credit facility at March 31, 2006 and December 31, 2005 are classified as long-term debt in the Condensed Consolidated Balance Sheets.

As of March 31, 2006, \$16.0 million was outstanding under the secured revolving credit facility which is included in "Notes payable, less current portion" in the Condensed Consolidated Balance Sheet. In addition, AirNet had \$1.3 million in letters of credit outstanding as of such date related to insurance programs, which reduced the amount available under the revolving credit facility. After giving effect to the Fourth Change in Terms Agreement, AirNet had approximately \$7.7 million available to borrow under its secured revolving credit facility under the Amended Credit Agreement as of March 31, 2006.

On March 24, 2005, AirNet entered into a three-year term loan totaling \$11.0 million with a fixed interest rate of 8.12%. This term loan is secured by seven Cessna Caravans and nine Learjet 35's from AirNet's cargo aircraft fleet. The aircraft securing this loan were released from the collateral securing the loans under the Amended Credit Agreement in accordance with the Second Change in Terms Agreement. The proceeds from this term loan were used to prepay in full AirNet's term loan under the Amended Credit Agreement as described above. As of March 31, 2006, \$9.3 million was outstanding under this term loan.

During the second quarter of 2004, Jetride entered into four seven-year term loans totaling \$22.5 million with fixed interest rates of approximately 6.7%. In July 2004, Jetride financed two additional passenger charter Learjet 60's for the Passenger Charter fleet at \$5.0 million each with seven-year terms and fixed rates of approximately 6.5%, for a total of \$32.5 million in financing related to AirNet's Passenger Charter Services. As of March 31, 2006 and December 31, 2005, there was \$29.3 million and \$29.8 million, respectively, outstanding under all six loans. These term loans are secured by aircraft used in the Passenger Charter fleet. Each of the term loans is guaranteed by AirNet. AirNet incurred approximately \$0.5 million in interest expense in the first quarter of 2006 related to the financing of the nine Passenger Charter aircraft under all six loans.

*Investing activities.* Capital expenditures totaled \$3.1 million for the three months ended March 31, 2006 versus \$7.9 million for the same period in 2005. The 2006 expenditures were primarily for major aircraft engine overhauls. Of the 2005 expenditures, \$4.0 million was for major periodic aircraft inspections, major aircraft engine overhauls and related flight equipment. AirNet's income from operations was used to finance the 2006 expenditures, while income from

operations and the revolving credit facility had been used to finance the 2005 capital expenditures. AirNet anticipates it will spend between \$12.0 million and \$16.0 million in total capital expenditures in 2006.

In February 2000, AirNet announced a stock repurchase plan allowing AirNet to purchase up to \$3.0 million of its common shares. As of the end of the 2001 fiscal year, \$2.4 million of common shares had been repurchased, and there has been no repurchase activity under the plan since. As such, purchases of approximately \$0.6 million of AirNet's common shares may still be made in the open market or through privately negotiated transactions. Such future purchases would be considered based on availability of funds, current market conditions, the stock price and the restrictions on share repurchases in AirNet's financing agreements.

AirNet anticipates that operating cash and capital expenditure requirements will continue to be funded by cash flow from operations, cash on hand, borrowings in conjunction with the Amended Credit Agreement or other sources, including leasing. There were no material capital commitments at March 31, 2006.

AirNet maintains certain assets at Port Columbus for dispensing aviation fuel under the terms and conditions of a separate lease agreement (the "Fuel Farm Lease"). The Fuel Farm Lease requires AirNet to return the premises leased under the Fuel Farm Lease to their original condition at the termination of the lease. In lieu of returning the premises to their original condition, the Port Columbus Airport Authority ("the Authority") may take title to any improvements constructed by AirNet on the leased premises. AirNet and the Authority have entered into discussions regarding the transfer of title of AirNet's fuel farm assets to the Authority, which includes two underground fuel storage tanks. If the Authority declines to take title to the fuel farm assets, or if AirNet and the Authority are unable to reach acceptable terms and conditions regarding the transfer of the fuel farm assets to the Authority, AirNet will remove the fuel farm assets and return the premises to their original condition. As of March 31, 2006, AirNet had an accrual of \$0.1 million for the cost of returning the fuel farm premises to their original condition.

There have been no material changes in AirNet's contractual obligations from those disclosed in AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

## **Regulation**

AirNet holds an air carrier operating certificate granted by the FAA pursuant to Part 135 of the Federal Aviation Regulations. AirNet also holds a repair station certificate granted by the FAA pursuant to Part 145 of the Federal Aviation Regulations. In addition, Jetride holds its own air carrier operating certificate granted by the FAA pursuant to Part 135. These certificates are of unlimited duration and remain in effect so long as AirNet and Jetride maintain the required standards of safety and meet the operational requirements of the Federal Aviation Regulations. The FAA's regulatory authority relates primarily to operational aspects of air transportation, including aircraft standards and maintenance, personnel, and ground facilities.

The U. S. Department of Transportation ("DOT") and Transportation Security Administration ("TSA") have regulatory authority concerning operational and security concerns in transportation, including safety, insurance and hazardous materials. AirNet holds various operational certificates issued by these agencies, including a DOT-SP 7060 special permit, which permits AirNet to transport higher volumes of time-critical radioactive pharmaceuticals than is allowed by the DOT for most carriers. On April 24, 2006, Transport Canada issued AirNet a "Permit for Equivalent Level of Safety". The Permit for Equivalent Level of Safety is comparable to AirNet's DOT-SP 7060 permit and allows AirNet to transport higher volumes of time-critical radioactive pharmaceuticals in Canada than is allowed by Transport Canada for most carriers.

AirNet conducts a portion of its operations through the transportation of packages via commercial airlines. TSA regulations provide that only indirect air carriers that maintain a TSA approved Indirect Air Carrier Standard Security Program ("IACSSP") may tender packages to commercial airlines. AirNet Management, Inc. ("AirNet Management"), a wholly-owned subsidiary of AirNet, maintains a TSA approved IACSSP. AirNet has entered into a service agreement with AirNet Management under which AirNet has retained the services of AirNet Management to process and tender packages to commercial airlines.

AirNet is also subject to Food and Drug Administration regulation of AirNet's transportation of pharmaceuticals and live animals. In addition to federal regulations, AirNet's operations are subject to various state and local regulations, and in many instances, require permits and licenses from state authorities.

AirNet believes that both AirNet and Jetride have all permits, approvals and licenses required to conduct their respective operations and that they are in compliance with applicable regulatory requirements relating to their operations, including all applicable noise level regulations. Some of these permits, approvals and licenses are of limited duration and must be periodically renewed. The ability of AirNet, AirNet Management and Jetride to maintain

these permits, approvals and licenses is conditioned upon continuing compliance with the rules and regulations under which such permits, approvals and licenses are granted.

### **Continuation of Brown Gibbons Lang & Company Engagement and Establishment of Strategy Committee**

On January 5, 2005, upon the approval of the Board of Directors (the "Board") of AirNet, AirNet engaged Brown Gibbons Lang & Company ("BGL") to serve as AirNet's exclusive financial advisor and investment banker to review, develop and evaluate various strategic alternatives to enhance shareholder value, including the possible sale of AirNet. AirNet's Board also established a Special Committee, consisting solely of independent directors, to oversee the marketing process. While the Special Committee evaluated several proposed transactions, none of the proposed transactions met the Special Committee's criteria and none of the proposed transactions resulted in the execution of a definitive sales agreement.

In December of 2005, the Board dissolved the Special Committee and appointed a Strategy Committee to work with management on the ongoing business strategy and alternatives for AirNet to enhance shareholder value. The Strategy Committee, together with the full Board, determined that AirNet's business strategy would include operating its businesses with emphasis on cash flows from operations while seeking other de-leveraging opportunities. The Board has elected to continue its engagement of BGL as its financial advisor on a month-to-month basis in connection with the development and evaluation of various strategies and opportunities to enhance shareholder value and de-leverage the business.

### **Off-Balance Sheet Arrangements**

AirNet had no "off-balance sheet" arrangements as of March 31, 2006, as that term is described by the Securities and Exchange Commission.

### **Seasonality and Variability in Quarterly Results**

AirNet's operations historically have been somewhat seasonal and somewhat dependent on the number of banking holidays falling during the week. Because financial institutions are currently AirNet's principal customers, AirNet's air system is scheduled primarily around the needs of financial institution customers. When financial institutions are closed, AirNet does not operate a full system. AirNet's fiscal quarter ending December 31 is often the most impacted by bank holidays (including Thanksgiving and Christmas) recognized by its primary customers. When these holidays fall on Monday through Thursday, AirNet's revenues and net income are adversely affected. AirNet's annual results fluctuate as well based on when holidays fall during the week over the course of the year. Operating results are also affected by the weather. AirNet generally experiences higher maintenance costs during its fiscal quarter ending March 31. Winter weather often requires additional costs for de-icing, hangar rental and other aircraft services.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

### **Inflation and Interest Rates**

AirNet is exposed to certain market risks from transactions that are entered into during the normal course of business. AirNet's primary market risk exposure relates to interest rate risk. At March 31, 2006, AirNet had a \$16.0 million outstanding balance under its Amended Credit Agreement (described above in "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operation") subject to market rate changes in interest. The Amended Credit Agreement bears interest, at AirNet's option, at (a) a fixed rate equal to LIBOR plus a margin determined by AirNet's leverage ratio as defined in the Amended Credit Agreement, or (b) a floating rate based on the greater of (i) the prime rate established by The Huntington National Bank from time to time plus a margin determined by AirNet's leverage ratio as defined in the Amended Credit Agreement or (ii) the sum of 0.5% plus the federal funds rate in effect from time to time plus a margin determined by AirNet's leverage ratio. Assuming borrowing levels at March 31, 2006, a one hundred basis point change in interest rates would impact net interest expense by approximately \$160,000 per year.

### **Fuel Surcharge**

AirNet generally assesses its bank services customers a fuel surcharge which is based on the Oil Price Index Summary – Columbus, Ohio (OPIS-CMH Index). Fuel surcharges are assessed to Delivery Services customers as a percentage of transportation charges. As index rates increase above established base rates, AirNet increases the fuel surcharge percentage applied to the transportation charges. AirNet also assesses most of its express services customers a fuel surcharge which is based on the OPIS index, which is adjusted monthly based on changes in the OPIS index. In addition, Jetride charges its

customers a fuel surcharge stated as an hourly rate based upon current fuel prices which changes according to prevailing market rates.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

With the participation of the Chairman of the Board, Chief Executive Officer and President (the principal executive officer) and the Chief Financial Officer, Treasurer and Secretary (the principal financial officer) of AirNet, AirNet's management has evaluated the effectiveness of AirNet's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, AirNet's Chairman of the Board, Chief Executive Officer and President and AirNet's Chief Financial Officer, Treasurer and Secretary have concluded that:

- information required to be disclosed by AirNet in this Quarterly Report on Form 10-Q and the other reports that AirNet files or submits under the Exchange Act would be accumulated and communicated to AirNet's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;
- information required to be disclosed by AirNet in this Quarterly Report on Form 10-Q and the other reports that AirNet files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms; and
- AirNet's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to AirNet and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q is being prepared.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes in AirNet's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during AirNet's fiscal quarter ended March 31, 2006, that have materially affected, or are reasonably likely to materially affect, AirNet's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

#### **Item 1. Legal Proceedings.**

In July 2005, AirNet received a letter from an attorney representing an association of software publishers indicating that the association had evidence that AirNet had engaged in the unlawful installation and use of certain software products. At the request of the association's attorney, AirNet conducted a company wide review of its use of software published by members of the association. The internal review did not disclose any unauthorized installation or use of such software and the results of the review were submitted to the association's attorney. The attorney for the association has requested certain supplemental information regarding AirNet's software usage. AirNet is in the process of compiling the supplemental information regarding its software usage, which it intends to submit to the association's attorney. AirNet believes that it is in compliance with all software licensing requirements and that it has not engaged in any unlawful use of the software published by the association's members.

AirNet uses the services of independent contractors as couriers to pick up and deliver its packages. During 2004, the California Employment Development Department (the "EDD") concluded an employment tax audit of AirNet's operations in California. As a result of its audit, the EDD concluded

that certain independent contractors used by AirNet should be reclassified as employees. Based upon such reclassification, the EDD proposed a \$53,061 assessment against AirNet under Section 1127 of the California Unemployment Insurance Code. After receipt of the proposed assessment, AirNet filed a Petition for Reassessment with the California Unemployment Insurance Appeals Board. Since the filing of the Petition for Reassessment, AirNet has submitted further documentation to the EDD to reduce the assessment based upon employment taxes paid directly to the State of California by the affected independent contractors. No hearing has been scheduled with regard to AirNet's Petition for Reassessment.

Other than the items noted above, there are no pending legal proceedings involving AirNet and its subsidiaries other than routine litigation incidental to their respective business. In the opinion of AirNet's management, these proceedings should not, individually or in the aggregate, have a material adverse effect on AirNet's results of operations or financial condition.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the U.S. Securities and Exchange Commission on March 31, 2006 and available at [www.sec.gov](http://www.sec.gov). These risk factors could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (a) Not applicable.
- (b) Not applicable.
- (c) Neither AirNet Systems, Inc. nor any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, purchased any common shares of AirNet Systems, Inc. during the fiscal quarter ended March 31, 2006. On February 18, 2000, AirNet Systems, Inc. announced a stock repurchase plan under which up to \$3.0 million of its common shares may be repurchased from time to time. These repurchases may be made in open market transactions or through privately negotiated transactions. As of March 31, 2006, AirNet Systems, Inc. had the authority to still repurchase approximately \$0.6 million of its common shares under this stock repurchase plan.

Item 3. Defaults Upon Senior Securities. Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders. No response required

Item 5. Other Information

Appointment of Chairman of Strategy Committee:

On May 11, 2006, the Board of Directors of AirNet Systems, Inc. (the "Board") appointed Mr. Bruce D. Parker Chairman of the Strategy Committee. The Board also approved a \$5,000 quarterly fee for service in the capacity as the Chairman of the Strategy Committee, retroactive to January 1, 2006.

Resignation of Director:

On May 11, 2006, Mr. David P. Lauer notified the Board of his resignation from the Board effective that same date. Mr. Lauer, who has been a member of the Board of Directors since 1999, cited general time constraints as the reason for his decision.

Item 6. Exhibits

Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32	Section 1350 Certification (Principal Executive Officer and Principal Financial Officer)

**AIRNET SYSTEMS, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AIRNET SYSTEMS, INC.

Dated: May 15, 2006

By: /s/ Gary W. Qualmann  
 Gary W. Qualmann,  
 Chief Financial Officer, Treasurer and Secretary  
 (Duly Authorized Officer)  
 (Principal Financial Officer)

Dated: May 15, 2006

By: /s/ Ray L. Druseikis  
 Ray L. Druseikis,  
 Controller  
 (Duly Authorized Officer)  
 (Principal Accounting Officer)

**AIRNET SYSTEMS, INC.**

**INDEX TO EXHIBITS**

Exhibit No. \_\_\_\_\_ Description \_\_\_\_\_

31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32	Section 1350 Certification (Principal Executive Officer and Principal Financial Officer)

**Rule 13a-14(a)/15d-14(a) Certification  
(Principal Executive Officer)**

I, Joel E. Biggerstaff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 of AirNet Systems, 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 officer 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)) 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. [Reserved];
  - 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 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.

Dated: May 15, 2006

By: /s/ Joel E. Biggerstaff

Printed Name: Joel E. Biggerstaff

Title: Chairman of the Board, Chief Executive Officer and President

**Exhibit 31.2**

**Rule 13a-14(a)/15d-14(a) Certification  
(Principal Financial Officer)**

I, Gary W. Qualmann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 of AirNet Systems, 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 officer 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)) 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. [Reserved];
  - 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 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.

Dated: May 15, 2006

By: /s/ Gary W. Qualmann

Printed Name: Gary W. Qualmann

Title: Chief Financial Officer, Treasurer  
and Secretary

**Exhibit 32**

**SECTION 1350 CERTIFICATION\***

In connection with the Quarterly Report of AirNet Systems, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Joel E. Biggerstaff, Chairman of the Board, Chief Executive Officer and President, and Gary W. Qualmann, Chief Financial Officer, Treasurer and Secretary, certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

- (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 Corporation and its subsidiaries.

/s/ Joel E. Biggerstaff  
Joel E. Biggerstaff  
Chairman of the Board, Chief Executive Officer and  
President

/s/ Gary W. Qualmann  
Gary W. Qualmann  
Chief Financial Officer, Treasurer and  
Secretary

Dated: May 15, 2006

Dated: May 15, 2006

\* This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Corporation specifically incorporates it by reference into any such filing.