
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2004**

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.)

**3939 International Gateway
Columbus, Ohio 43219**

(Address, including zip code, of registrant's principal executive offices)

(614) 237-9777

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 2, 2004, 10,085,829 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	June 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,338	\$ 125
Accounts receivable, less allowances	21,130	18,647
Inventory and spare parts	7,634	6,589
Taxes receivable	1,388	1,401
Deposits and prepaids	1,985	3,246
Total current assets	<u>33,475</u>	<u>30,008</u>
Net property and equipment	140,093	118,799
Other assets:		
Goodwill, net of accumulated amortization	4,018	4,018
Other	382	448
Total assets	<u>\$ 177,968</u>	<u>\$ 153,273</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,827	\$ 7,442
Salaries and related liabilities	4,568	4,955
Deferred revenues	2,488	184
Accrued expenses	675	887
Taxes payable	—	76
Deferred income taxes	4	4
Current portion of notes payable	5,348	5,256
Total current liabilities	<u>22,910</u>	<u>18,804</u>
Other liabilities	1,004	1,280
Notes payable, less current portion	53,003	32,520
Deferred tax liability	16,391	16,389
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 June 30, 2004 and at December 31, 2003	128	128
Additional paid-in-capital	77,251	77,759
Retained earnings	32,142	31,938
Accumulated other comprehensive loss	(32)	(35)
Treasury shares, 2,677 and 2,720 shares held at cost at June 30, 2004 and December 31, 2003, respectively	(24,829)	(25,510)
Total shareholders' equity	<u>84,660</u>	<u>84,280</u>
Total liabilities and shareholders' equity	<u>\$ 177,968</u>	<u>\$ 153,273</u>

See notes to condensed consolidated financial statements

AIRNET SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - Unaudited

In thousands, except per share data	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
NET REVENUES				
Air transportation, net of excise tax				
Delivery services:				
Bank services	\$ 26,230	\$ 25,682	\$ 52,062	\$ 52,005
Express services	12,083	8,631	22,881	17,641
Total delivery services revenues	38,313	34,313	74,943	69,646
Passenger charter services	3,616	1,777	7,253	3,216
Aviation services and other operations	211	494	415	798
Total net revenues	42,140	36,584	82,611	73,660
COSTS AND EXPENSES				
Air transportation				
Wages and benefits	6,657	6,148	13,003	12,360
Aircraft fuel	6,186	4,951	11,722	9,893
Aircraft maintenance	3,690	2,954	6,880	6,335
Contracted air costs	3,127	2,378	6,197	5,185
Ground courier	7,887	6,174	15,029	12,440
Depreciation	5,050	4,319	9,939	8,511
Insurance, rent and landing fees	2,638	2,384	5,202	4,628
Travel, training and other	2,650	2,165	5,211	4,343
Selling, general and administrative	4,050	3,648	8,009	7,543
Net (gain) loss on disposition of assets	(3)	—	289	35
Total costs and expenses	41,932	35,121	81,481	71,273
Income from continuing operations	208	1,463	1,130	2,387
Interest expense	407	340	774	742
Income(loss) from continuing operations before income taxes	(199)	1,123	356	1,645
Provision for income taxes	(86)	438	153	641
Income(loss) from continuing operations	\$ (113)	\$ 685	\$ 203	\$ 1,004
Income from discontinued operations, net of taxes	\$ 0	\$ 39	\$ 0	\$ 17
Net income (loss)	\$ (113)	\$ 724	\$ 203	\$ 1,021
Income (loss) per share - basic and diluted				
Continuing operations	\$ (0.01)	\$ 0.07	\$ 0.02	\$ 0.10
Discontinued operations	—	—	—	—
Net income (loss) per share - basic and diluted	\$ (0.01)	\$ 0.07	\$ 0.02	\$ 0.10

See notes to condensed consolidated financial statements

AIRNET SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited

In thousands	Six Months Ended	
	June 30,	
	2004	2003
Operating activities:		
Net income	\$ 203	\$ 1,021
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	9,939	8,511
Deferred taxes	(3)	—
Provision for losses on accounts receivable	117	188
Loss on disposition of assets	289	35
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable	(2,599)	725
Inventory and spare parts	(1,045)	(174)
Prepaid expenses	1,260	1,254
Accounts payable	2,106	177
Deferred revenues and accrued expenses	2,103	2,126
Taxes payable	(59)	384
Salaries and related liabilities	(387)	(507)
Other, net	62	435
Net assets of discontinued operations	—	397
Net cash provided by operating activities	11,986	14,572
Investing activities:		
Purchases of property and equipment	(34,625)	(8,782)
Proceeds from sales of property and equipment	3,103	109
Net cash used in investing activities	(31,522)	(8,673)
Financing activities:		
Proceeds from incentive stock plan programs	80	98
Net borrowings (repayments) under the revolving credit facility	4,000	(6,100)
Net borrowings (repayments) of long-term debt	16,575	(594)
Issuance (purchase) of treasury shares	94	(250)
Net cash provided by (used in) financing activities	20,749	(6,846)
Net increase (decrease) in cash	1,213	(947)
Cash and cash equivalents at beginning of period	125	1,054
Cash and cash equivalents at end of period	\$ 1,338	\$ 107

See notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

AirNet Systems, Inc. and its subsidiaries (“AirNet” or the “Company”) operate a fully integrated national air transportation network which provides delivery service for time-critical shipments for customers in the U.S. banking industry and other industries requiring the express delivery of packages. AirNet also offers passenger charter services and retail aviation fuel sales and related ground services.

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 pursuant to the rules and regulations of the United States Securities and Exchange Commission.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by such rules and regulations. 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, 2003. The results of operations for the quarterly and six month periods ended June 30, 2004 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 and six month periods ended June 30, 2004.

2. Stock Plans and Awards

SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, requires prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for its employee and director stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted have an exercise price equal to the market value of the underlying common shares on the date of grant. Pro forma information regarding net income and net income per share, as required by SFAS No. 148, has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123, *Accounting for Stock-Based Compensation*. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model.

The following table illustrates the effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income (loss), as reported	\$ (113)	\$ 724	\$ 203	\$ 1,021
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(29)	(28)	(182)	(88)
Pro forma net income (loss)	\$ (142)	\$ 696	\$ 21	\$ 933
Net income (loss) per share – basic and diluted:				
As reported	\$ (.01)	\$.07	\$.02	\$.10
Pro forma	\$ (.01)	\$.07	\$.00	\$.09

3. Income Per Share From Continuing Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Numerator:				
Income(loss) from continuing operations	\$ (113)	\$ 685	\$ 203	\$ 1,004
Denominator:				
Basic - weighted average shares outstanding	10,076	10,132	10,063	10,125
Diluted				
Stock options—employees, officers, and directors	40	0	35	0
Adjusted weighted average shares outstanding	10,116	10,132	10,098	10,125
Income (loss) per share from continuing operations -				
Basic and diluted:	\$ (0.01)	\$ 0.07	\$ 0.02	\$ 0.10

Common shares subject to outstanding stock options excluded from the diluted adjusted weighted average shares outstanding calculation, as the exercise price of the stock options exceeded the average fair market value of the underlying common shares for the period, were 729,370 and 709,370 for the three and six month periods ended June 30, 2004.

4. Comprehensive Income

Comprehensive income is comprised of net income of the Company and the change in the fair value of interest rate swap agreements, net of income taxes. Comprehensive income for the six months ended June 30, 2004 and June 30, 2003 was \$543,000 and \$1,021,000, respectively. Comprehensive income for the three months ended June 30, 2004 and 2003 was \$203,000 and \$722,000, respectively.

5. Discontinued Operations

On August 11, 2003, AirNet Systems, Inc. completed the sale of substantially all of the assets of its Mercury Business Services unit to Mercury Business Services, Inc., a Delaware corporation owned by a group that include the original owners of the Mercury business.

The sales price of the transaction was approximately \$1.1 million. Mercury Business Services, Inc. paid approximately \$455,000 of the sales price through the issuance of a ninety day promissory note secured by the assets being sold and guaranteed by each of the shareholders of Mercury Business Services, Inc. Under the terms of the Asset Purchase Agreement, approximately \$536,000 of the purchase price was paid with AirNet Systems, Inc. common shares owned by the shareholders of Mercury Business Services, Inc., including 56,000 common shares tendered to AirNet Systems, Inc. prior to closing at \$4.30 per share (the closing price of the AirNet Systems, Inc. common shares on the NYSE on July 25, 2003) and 68,494 common shares tendered to AirNet Systems, Inc. on the closing date at \$4.31 per share (the average closing price of the AirNet Systems, Inc. common shares on the NYSE on August 4-6, 2003). The balance of the sales price was paid in cash.

AirNet accounted for these operations as discontinued operations.

The Mercury Business Services unit had revenues for of \$2,487,000 and \$4,919,000 for the three months ended June 30, 2003 and the six months ended June 30, 2003, respectively.

Pre-tax profit for AirNet's Mercury Business Services unit was \$64,000 and \$28,000 for the three months ended June 30, 2003 and for the six months ended June 30, 2003, respectively.

6. Bank Financing Matters

In June 2004, AirNet entered into an amended and restated term loan and revolving loan facility (collectively, the "Amended Credit Agreement") with its banks. The Amended Credit Agreement provides AirNet with a secured revolving credit facility with up to \$35.0 million available and a secured term loan in the aggregate amount of \$14.0 million. The amount of revolving loans available under the Amended Credit Agreement is further 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. As of June 30, 2004, \$22.8 million and \$13.0 million were outstanding under the secured revolving credit facility and secured term loan, respectively. As of June 30, 2004, AirNet had approximately \$10.7 million available to borrow on its secured revolving loan facility.

The revolving credit facility under the Amended Credit Agreement expires on September 30, 2005 and the secured term loan matures on September 30, 2007. Quarterly principal payments of \$1.0 million are required for the secured term loan beginning in June 2004 and continuing through September 30, 2007. 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. 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. AirNet has also pledged the interests in its subsidiaries, and each of AirNet's subsidiaries has guaranteed AirNet's obligations under the Amended Credit Agreement. 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 financial covenants that require AirNet to maintain a minimum consolidated tangible net worth and to not exceed fixed charge coverage and leverage ratios specified in the Amended Credit Agreement. As of June 30, 2004, AirNet was in compliance with these covenants. 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 the sum of (i) the prime rate established by The Huntington National Bank from time to time plus a margin determined by AirNet's leverage ratio and (ii) the sum of 0.5% plus the federal funds rate in effect from time to time. After the effective date of the Amended Credit Agreement, AirNet paid off its three five-year term loans totaling approximately \$3.4 million incurred during first quarter 2002.

During the second quarter 2004, AirNet entered into four seven-year term loans totaling \$22.5 million with fixed interest rates of approximately 6.7%. Each of the term loans is secured by aircraft used in the Passenger Charter fleet. As of June 30, 2004, there was \$22.5 million outstanding on these secured term loans, and the net book value of the aircraft securing the loans totaled approximately \$28.9 million. In July 2004, AirNet financed two additional passenger charter Learjet 60's for the Passenger Charter fleet at \$5.0 million each, for a total of \$32.5 million in financing related to AirNet's Passenger Charter services.

**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 including, but not limited to, the following which could cause actual results to differ materially from any forward-looking statement: potential regulatory changes by the Federal Aviation Administration ("FAA"), which could increase the regulation of AirNet's business, or potential regulatory changes by the Federal Reserve which could change the competitive environment of transporting cancelled checks; changes in check processing and shipment patterns of bank customers; adverse weather conditions; potential 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; potential cost overruns associated with the construction of a new facility at Rickenbacker International Airport; 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; as well as 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 sections captioned "Forward-looking statements" and "Risk Factors" in Item 7 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2003 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.

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 its independent auditors. AirNet's critical accounting policies have not changed significantly from the policies disclosed in Item 7 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

AirNet's audited consolidated financial statements for the fiscal year ended December 31, 2003, included in Item 8 of AirNet Systems, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, 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.

Results of Operations

Net Revenues

In '000's Revenues	3 months ending June 30, 2004	3 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004	6 months ending June 30, 2004	6 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004
Package Delivery Services:								
Bank Services	\$ 26,230	\$ 25,682	\$ 548	2%	\$ 52,062	\$ 52,005	\$ 57	0%
Express Services	12,083	8,631	3,452	40%	22,881	17,641	5,240	30%
Total Package Delivery Services	38,313	34,313	4,000	12%	74,943	69,646	5,297	8%
Passenger Charter Services	3,616	1,777	1,839	103%	7,253	3,216	4,037	126%
Aviation Services	211	494	-283	-57%	415	798	-383	-48%
Total Net Revenues	\$ 42,140	\$ 36,584	\$ 5,556	15%	\$ 82,611	\$ 73,660	\$ 8,951	12%

AirNet has experienced overall net revenue growth for the quarter and six months ended June 30, 2004 over the same periods of the prior year. This can be attributed to several factors including increased Express shipment volume and growth in Passenger Charter services as well as additional fuel surcharge revenues.

Bank Services Revenues

In '000's Revenues	3 months ending June 30, 2004	3 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004	6 months ending June 30, 2004	6 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004
Bank Weekday	\$ 23,831	\$ 23,840	\$ -9	0%	\$ 47,428	\$ 47,535	\$ -107	0%
Bank Weekend	1,901	1,742	159	9%	3,807	3,597	210	6%
Fuel Surcharge	1,150	695	455	65%	2,104	2,131	-27	-1%
Federal Excise Tax	-652	-595	-57	10%	-1,276	-1,258	-18	1%
Net Revenues	\$ 26,230	\$ 25,682	\$ 548	2%	\$ 52,062	\$ 52,005	\$ 57	0%

Bank weekday and weekend revenues held constant for the three and six month periods ended June 30, 2004 as compared to the same periods of the prior year. Increased fuel prices in the quarter of 2004 resulted in significantly higher fuel surcharge revenues compared to the same quarter of 2003. AirNet believes that lower check delivery volume as a result of historically low interest rates, the declining use of checks, and the Check 21 Act which becomes effective in October 2004, will contribute to a reduction in bank revenues in future periods, as will increased competitive factors from regional carriers and transportation cost reduction initiatives by AirNet's Bank customers. AirNet is unable to predict the ultimate impact of these factors on future periods.

Express Services Revenues

In '000's Revenues	3 months ending June 30, 2004	3 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004	6 months ending June 30, 2004	6 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004
Express services	\$ 12,033	\$ 8,646	\$ 3,387	39%	\$ 22,830	\$ 17,640	\$ 5,190	29%
Fuel Surcharge	437	246	191	78%	761	533	228	43%
Federal Excise Tax	-387	-261	-126	-48%	-710	-532	-178	33%
Net Revenues	\$ 12,083	\$ 8,631	\$ 3,452	40%	\$ 22,881	\$ 17,641	\$ 5,240	30%

Express services revenues continue to increase as a percentage of total revenues, increasing from 24% to 29% of total revenues for both the three and six month periods ended June 30, 2004, compared to the same periods of the prior year. Shipments using AirNet's air transportation network were up 9% and 5% for the quarter and year to date, respectively. Shipments sent via commercial airlines and point to point surface shipments were up over 50% and 40% for the quarter and year to date, respectively. Commercial air and point to point surface shipments incur higher courier costs compared to shipments using AirNet's airline. The increase in shipments sent via commercial

airlines is principally due to an increase in shipments outside the AirNet airline's scheduled delivery times and locations, which generally results in lower gross margins per shipment than shipments carried on AirNet's airline.

Passenger Charter Services Revenues

In '000's Revenues	3 months ending June 30, 2004	3 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004	6 months ending June 30, 2004	6 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004
Passenger Charter Services	\$ 3,616	\$ 1,777	\$ 1,839	103%	\$ 7,253	\$ 3,216	\$ 4,037	126%

Passenger Charter services revenues continue to grow as a percentage of total revenues, as AirNet invests in additional aircraft to support additional passenger charter demand. Revenues increased from 4.9% to 8.6% of total revenue for the quarter and from 4.4% to 8.8% year to date compared to the same periods of the prior year. AirNet increased the number of passenger charter aircraft it operates from seven aircraft (two Learjet 60's and five Learjet 35's) at June 30, 2003 to fourteen (nine Learjet 60's and five Learjet 35's) at June 30, 2004.

In '000's Costs and Expenses	3 months ending June 30, 2004	3 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004	6 months ending June 30, 2004	6 months ending June 30, 2003	\$ Increase (Decrease) 2003 to 2004	% Increase (Decrease) 2003 to 2004
Wages and benefits	\$ 6,657	\$ 6,148	\$ 509	8%	\$ 13,003	\$ 12,360	\$ 643	5%
Aircraft fuel	6,186	4,951	1,235	25%	11,722	9,893	1,829	18%
Aircraft maintenance	3,690	2,954	736	25%	6,880	6,335	545	9%
Contracted air costs	3,127	2,378	749	31%	6,197	5,185	1,012	20%
Ground courier	7,887	6,174	1,713	28%	15,029	12,440	2,589	21%
Depreciation	5,050	4,319	731	17%	9,939	8,511	1,428	17%
Insurance, rent and landing fees	2,638	2,384	254	11%	5,202	4,628	574	12%
Travel, training and other	2,650	2,165	485	22%	5,211	4,343	868	20%
Selling, general and administrative	4,050	3,648	402	11%	8,009	7,578	431	6%
Net loss on disposition of assets	-3	—	-3		289	—	289	
Total costs and expenses	\$ 41,932	\$ 35,121	\$ 6,811	19%	\$ 81,481	\$ 71,273	\$ 10,208	14%

Costs and Expenses

As operating activities for AirNet's Express and Passenger Charter services continue to increase, total operating costs and expenses increased for both the quarter and year to date compared to the same periods of the prior year.

Increases in fuel costs, wages, maintenance and depreciation are attributable, in part, to the expansion of AirNet's Passenger Charter Services. Seven aircraft, two of which are managed aircraft, have been added to AirNet's Passenger Charter fleet in the first six months of 2004. An additional 20 pilots were hired during this six month period to support Passenger Charter Services. Wages and benefits associated with these additional pilots were \$381,000 and \$631,000, respectively, for the quarter and year to date.

Fuel costs increased for both the quarter and year to date as a result of increasing fuel prices, additional fuel purchased at higher retail rates at FBO locations outside of the Port Columbus facility, and additional fuel purchases related to the increase in Passenger Charter Services. Fuel costs related to Passenger Charter Services increased by \$358,000 and \$691,000, respectively, for the quarter and year to date. The increase in fuel costs, net of fuel surcharge, related to AirNet's package delivery services was \$231,000 and \$937,000 for the quarter and year to date.

Ground courier costs continue to increase as AirNet serves a broader group of customers outside of AirNet's traditional bank customer. AirNet's growing number of Express customers are more costly to serve than the traditional bank customer due to more unscheduled pickup and delivery services and more geographically dispersed locations. Ground courier costs have risen as Express shipments continue to increase as a proportion of total shipments. The growth rate in shipments transported either exclusively via point to point surface or commercial airlines is increasing as AirNet expands the number of Express customers; a trend Management believes will continue.

Depreciation increased as a result of the addition of five Learjet 60's (acquired in December 2003, January, May and June 2004) to the Passenger Charter fleet since the end of the 2003 fiscal year and continuing reductions to AirNet's estimates of aircraft and engine salvage values.

AirNet recognized a net loss on disposition of assets during the six months ended June 30, 2004. This amount included a loss of approximately \$584,000 related to an accident involving one of its cargo aircraft (net of insurance proceeds of \$2,300,000). In addition, as AirNet continues to adjust its aircraft fleet in response to changing customer needs, AirNet sold seven piston aircraft during the six months ended June 30, 2004 resulting in a loss on sale of approximately \$114,000. Offsetting these losses was a gain on the sale of an aircraft of approximately \$400,000.

Liquidity and Capital Resources

Cash flow from operating activities. Net cash provided by operating activities was \$12.0 million for the six months ended June 30, 2004, compared to \$14.6 million for the same period in 2003.

Bank Financing Matters

In June 2004, AirNet entered into an amended and restated term loan and revolving loan facility (collectively, the “Amended Credit Agreement”) with its banks. The Amended Credit Agreement provides AirNet with a secured revolving credit facility with up to \$35.0 million available and a secured term loan in the aggregate amount of \$14.0 million. The amount of revolving loans available under the Amended Credit Agreement is further 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. As of June 30, 2004, \$22.8 million and \$13.0 million were outstanding under the secured revolving credit facility and secured term loan, respectively. As of June 30, 2004, AirNet had approximately \$10.7 million available to borrow on its secured revolving loan facility.

The revolving credit facility under the Amended Credit Agreement expires on September 30, 2005 and the secured term loan matures on September 30, 2007. Quarterly principal payments of \$1.0 million are required for the secured term loan beginning in June 2004 and continuing through September 30, 2007. 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. 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. AirNet has also pledged the interests in its subsidiaries, and each of AirNet’s subsidiaries has guaranteed AirNet’s obligations under the Amended Credit Agreement. 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 financial covenants that require AirNet to maintain a minimum consolidated tangible net worth and to not exceed fixed charge coverage and leverage ratios specified in the Amended Credit Agreement. As of June 30, 2004, AirNet was in compliance with these covenants. 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 the sum of (i) the prime rate established by The Huntington National Bank from time to time plus a margin determined by AirNet’s leverage ratio and (ii) the sum of 0.5% plus the federal funds rate in effect from time to time. After the effective date of the Amended Credit Agreement, AirNet paid off its three five-year term loans totaling approximately \$3.4 million incurred during first quarter 2002.

During the second quarter 2004, AirNet entered into four seven-year term loans totaling \$22.5 million with fixed interest rates of approximately 6.7%. Each of the term loans is secured by aircraft used in the Passenger Charter fleet. As of June 30, 2004, there was \$22.5 million outstanding on these secured term loans, and the net book value of the aircraft securing the loans totaled approximately \$28.9 million. In July 2004, AirNet financed two additional passenger charter Learjet 60’s for the Passenger Charter fleet at \$5.0 million each, for a total of \$32.5 million in financing related to AirNet’s Passenger Charter services.

Investing activities. Capital expenditures totaled \$35.0 million for the six months ended June 30, 2004 versus \$8.8 million for the same period in 2003. Of the 2004 expenditures, \$31.6 million was for the purchase of four Learjet 60’s dedicated to Passenger Charter services, major periodic aircraft inspections, and major engine overhauls and related flight equipment.. AirNet anticipates it will spend between \$41.5 million and \$56 million in total capital expenditures in 2004. AirNet anticipates it will continue to acquire aircraft and flight equipment as necessary to maintain growth and continue offering quality service to its customers and will evaluate whether future asset acquisitions should be purchases or leases.

AirNet Systems, Inc. announced a stock repurchase plan in February 2000 allowing AirNet Systems, Inc., 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 the common shares of AirNet Systems, Inc., may still be made over time in the

open market or through privately negotiated transactions. Such future purchases would be considered based on current market conditions, the stock price and funds available for repurchase. AirNet Systems, Inc., acquired 52,410 common shares, outside the repurchase plan, for \$249,996 on January 2, 2003 from former Chairman Gerald Mercer under the terms of his retirement agreement.

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 June 30, 2004, other than the Company's construction of its new office and hangar facility described below.

In anticipation of AirNet's move to its new facility within the Rickenbacker International Airport ("Rickenbacker"), on January 20, 2004, AirNet entered into an agreement to sell its current facility at 3939 International Gateway in Columbus, Ohio (the "Port Columbus Facility") to the Columbus Regional Airport Authority for \$3.9 million. AirNet has retained the right to continue to occupy the Port Columbus Facility until construction and relocation to the new the Rickenbacker site (the "Rickenbacker Facility") is complete, which is expected to be the second quarter of 2005.

On January 20, 2004, AirNet entered into a Land Lease with the Columbus Regional Airport Authority to lease approximately 8 acres located within Rickenbacker. Rickenbacker is located in Franklin and Pickaway Counties, Ohio, southeast of Columbus, Ohio, approximately fifteen miles from AirNet's Port Columbus Facility. AirNet is constructing a new corporate and operational headquarters at the Rickenbacker Facility. Construction of the Rickenbacker Facility is anticipated to be completed in the summer of 2005. As of June 30, 2004, \$3.6 million has been invested in the construction of the Rickenbacker facility, with a total estimated cost of \$12.5 million. Upon completion of the Rickenbacker Facility, AirNet's current corporate and operational functions that are conducted at the Port Columbus Facility, and the administrative functions being conducted at 555 Morrison Avenue, will be consolidated at the new Rickenbacker Facility.

There have been no material changes in AirNet's contractual obligations from those disclosed in AirNet System Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, except for new debt as disclosed above.

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 June 30, 2004, AirNet had a \$35.8 million outstanding balance under its Amended Credit Agreement (described above in "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations") 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 the sum 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 and (ii) the sum of 0.5% plus the federal funds rate in effect from time to time. Assuming borrowing levels at June 30, 2004, a one hundred basis point change in interest rates would impact net interest expense by approximately \$358,000 per year.

Following the effectiveness of the Amended Credit Agreement, AirNet paid off three secured term loans which had been secured by aircraft. One of those loans had an interest rate swap agreement associated with it. This interest rate swap agreement with a notional amount of \$3.0 million and a fixed rate of 4.25% plus a margin based on AirNet's funded debt ratio remains in place. At June 30, 2004, the aggregate fair value of the interest rate swap was approximately (\$31,000).

Fuel Surcharge

AirNet assesses its 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. AirNet’s fuel surcharge program helps offset timing differences between market prices and the OPIS-CHM index used to determine surcharge 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 Systems, Inc. (the “Registrant”), the Registrant’s management has evaluated the effectiveness of the Registrant’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Registrant’s Chairman of the Board, Chief Executive Officer and President and the Registrant’s Chief Financial Officer, Treasurer and Secretary have concluded that:

- information required to be disclosed by the Registrant in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Registrant’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 the Registrant in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time period specified in the SEC’s rules and forms; and
- the Registrant’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 the Registrant and its consolidated subsidiaries is made known to them, particularly during the period for which the Registrant’s periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

Changes in Internal Control Over Financial Reporting

In addition, there were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q in the Registrant’s internal control over financial reporting (as defined in Rule 13a -15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Registrant’s internal control over financial reporting.

AIRNET SYSTEMS, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending legal proceedings involving AirNet other than routine litigation incidental to its 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 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.
- (e) AirNet Systems, Inc. did not purchase any common shares during the fiscal quarter ended June 30, 2004. 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 June 30, 2004, 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.

(a) The Annual Meeting of Shareholders (the "Annual Meeting") of AirNet Systems, Inc. was held on June 4, 2004. The number of common shares of AirNet Systems, Inc. outstanding and entitled to vote at the Annual Meeting was 10,063,167. The number of common shares represented in person or by proxy at the Annual Meeting was 9,173,402.

(b) Directors elected at the Annual Meeting:

Joel E. Biggerstaff			
For:	8,328,263		
Withheld:	848,939	Broker non-vote:	-0-
Russell M. Gertmenian			
For:	8,336,867		
Withheld:	840,335	Broker non-vote:	-0-
David P. Lauer			
For:	8,228,137		
Withheld:	949,065	Broker non-vote:	-0-
Bruce D. Parker			
For:	8,317,029		
Withheld:	860,173	Broker non-vote:	-0-
James E. Riddle			
For:	8,318,667		
Withheld:	858,535	Broker non-vote:	-0-

- (c) Matters voted upon at the Annual Meeting
 - (i) See Item 4(b) for voting results for directors.

(ii) Approval of the AirNet Systems, Inc. 2004 Stock Incentive Plan:

Common Shares Voted "For"	4,412,110
Common Shares Voted "Against"	1,663,061
Common Shares Voted "Abstain"	8,915
Common Shares Subject to Broker Non-Votes	3,093,116

(d) Not applicable.

Item 5. Other Information.

In July 2004 Airnet became aware that some of its employees had received a letter from a union regarding potential union representation. Airnet believes that its relationship with employees is good.

In June 2004 Airnet underwent a Regional Aviation Safety Inspection (RASIP) by a team of FAA inspectors to determine compliance with Federal Aviation Regulations. The FAA and Airnet are currently discussing the outcome of this inspection.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
4.1	Amended and Restated Credit Agreement, dated as of May 28, 2004, among AirNet Systems, Inc., the lenders from time to time party thereto, and The Huntington National Bank, as LC Issuer, as Swingline Lender and as Administrative Agent [Incorporated herein by reference from Exhibit 4.1 to the Current Report on Form 8-K, dated June 21, 2004, filed by AirNet Systems, Inc. with the SEC on June 22, 2004 (File No. 1-13025)(the "June 2004 Form 8-K")]
4.2	Continuing Security Agreement, dated as of May 28, 2004, between AirNet Systems, Inc. and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.2 to the June 2004 Form 8-K]
4.3	Continuing Security Agreement, dated as of May 28, 2004, between Float Control, Inc. and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.3 to the June 2004 Form 8-K]
4.4	Continuing Security Agreement, dated as of May 28, 2004, between AirNet Management, Inc. and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.4 to the June 2004 Form 8-K]
4.5	Continuing Security Agreement, dated as of May 28, 2004, between Jetride, Inc. and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.5 to the June 2004 Form 8-K]
4.6	Continuing Security Agreement, dated as of May 28, 2004, between timexpress.com, inc. and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.6 to the June 2004 Form 8-K]
4.7	Continuing Security Agreement, dated as of May 28, 2004, between Fast Forward Solutions, LLC and The Huntington National Bank, as lender and as agent [Incorporated herein by reference from Exhibit 4.7 to the June 2004 Form 8-K]

- 4.8 Stock Pledge Agreement, dated as of May 28, 2004, by AirNet Systems, Inc. in favor of The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.8 to the June 2004 Form 8-K]
- 4.9 Security Agreement Pledge and Assignment of Membership Interest, dated as of May 28, 2004, between AirNet Systems, Inc. and The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.9 to the June 2004 Form 8-K]
- 4.10 Mortgage, Security Agreement and Assignment, dated as of May 28, 2004 between AirNet Systems, Inc. and The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.10 to the June 2004 Form 8-K]
- 4.11 Replacement Subsidiary Guaranty, dated as of May 29, 2004, by AirNet Management, Inc., Float Control, Inc. and Jetride, Inc. in favor of the Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.11 to the June 2004 Form 8-K]
- 4.12 Subsidiary Guaranty, dated as of May 29, 2004, by timexpress.com, inc. in favor of The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.12 to the June 2004 Form 8-K]
- 4.13 Subsidiary Guaranty, dated as of May 29, 2004, by Fast Forward Solutions, LLC in favor of The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.13 to the June 2004 Form 8-K]
- 10.1 AirNet Systems, Inc. 2004 Stock Incentive Plan (reflects amendments through June 4, 2004) [Filed herewith]
- 31.1 Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer) [Filed herewith]
- 31.2 Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer) [Filed herewith]
- 32.1 Section 1350 Certification (Principal Executive Officer) [Filed herewith]
- 32.2 Section 1350 Certification (Principal Financial Officer) [Filed herewith]

(b) Reports on Form 8-K:

On May 19, 2004, AirNet Systems, Inc. (the “Registrant”) filed a Current Report on Form 8-K, dated May 19, 2004, reporting under Item 5. Other Events and Regulation FD Disclosure, that on May 17, 2004, Fiserv, Inc. (“Fiserv”) issued a news release announcing that Fiserv and Fast Forward Solutions, LLC (“Fast Forward”), the wholly-owned electronic check processing subsidiary of the Registrant, are pursuing an agreement that will allow Fiserv and Fast Forward to provide a comprehensive substitute check solution including printing and delivery.

On June 22, 2004, the Registrant filed a Current Report on Form 8-K, dated June 21, 2004, reporting under Item 2. Acquisition or Disposition of Assets, that on June 7, 2004, the conditions precedent to the effectiveness of the Amended and Restated Credit Agreement, dated May 28, 2004, among the Registrant, the lenders party thereto and The Huntington National Bank, as LC Issuer, as Swingline Lender and as Administrative Agent, were satisfied.

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.

Dated: August 13, 2004

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

Dated: August 13, 2004

By: /s/ Denise D. Brown
Denise D. Brown,
Controller
(Duly Authorized Officer)
(Principal Accounting Officer)

AIRNET SYSTEMS, INC.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
4.1	Amended and Restated Credit Agreement, dated as of May 28, 2004, among AirNet Systems, Inc., the lenders from time to time party thereto, and The Huntington National Bank, as LC Issuer, as Swingline Lender and as Administrative Agent (incorporated herein by reference from Exhibit 4.1 to the Current Report on Form 8-K, dated June 21, 2004, filed by AirNet Systems, Inc. with the SEC on June 22, 2004(File No. 1-13025)(the “June 2004 Form 8-K”))
4.2	Continuing Security Agreement, dated as of May 28, 2004, between AirNet Systems, Inc. and The Huntington National Bank, as lender and as agent (incorporated herein by reference from Exhibit 4.2 to the June 2004 Form 8-K)
4.3	Continuing Security Agreement, dated as of May 28, 2004, between Float Control, Inc. and The Huntington National Bank, as lender and as agent (incorporated herein by reference from Exhibit 4.3 to the June 2004 Form 8-K)
4.4	Continuing Security Agreement, dated as of May 28, 2004, between AirNet Management, Inc. and The Huntington National Bank, as lender and as agent (incorporated herein by reference from Exhibit 4.4 to the June 2004 Form 8-K)
4.5	Continuing Security Agreement, dated as of May 28, 2004, between Jetride, Inc. and The Huntington National Bank, as lender and as agent(incorporated herein by reference from Exhibit 4.5 to the June 2004 Form 8-K)
4.6	Continuing Security Agreement, dated as of May 28, 2004, between timexpress.com, inc. and The Huntington National Bank, as lender and as agent (incorporated herein by reference from Exhibit 4.6 to the June 2004 Form 8-K)
4.7	Continuing Security Agreement, dated as of May 28, 2004, between Fast Forward Solutions, LLC and The Huntington National Bank, as lender and as agent (incorporated herein by reference from Exhibit 4.7 to the June 2004 Form 8-K)
4.8	Stock Pledge Agreement, dated as of May 28, 2004, by AirNet Systems, Inc. in favor of The Huntington National Bank, as agent (incorporated herein by reference from Exhibit 4.8 to the June 2004 Form 8-K)
4.9	Security Agreement Pledge and Assignment of Membership Interest, dated as of May 28, 2004, between AirNet Systems, Inc. and The Huntington National Bank, as agent (incorporated herein by reference from Exhibit 4.9 to the June 2004 Form 8-K)
4.10	Mortgage, Security Agreement and Assignment, dated as of May 28, 2994m between AirNet Systems, Inc. and The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.10 to the June 2994 Form 8-K]
4.11	Replacement Subsidiary Guaranty, dated as of May 29, 2004, by AirNet Management, Inc., Float Control, Inc. and Jetride, Inc. in favor of the Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.11 to the June 2004 Form 8-K]
4.12	Subsidiary Guaranty, dated as of May 29, 2994, by timexpress.com, inc. in favor of The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.12 to the June 2004 Form 8-K]
4.13	Subsidiary Guaranty, dated as of May 29, 2004, by Fast Forward Solutions, LLC in favor of The Huntington National Bank, as agent [Incorporated herein by reference from Exhibit 4.13 to the June 2004 Form 8-K]
10.1	AirNet Systems, Inc. 2004 Stock Incentive Plan (reflects amendments through June 4, 2004) [Filed herewith]
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer) [Filed herewith]
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer) [Filed herewith]
32.1	Section 1350 Certification (Principal Executive Officer) [Filed herewith]
32.2	Section 1350 Certification (Principal Financial Officer) [Filed herewith]

AIRNET SYSTEMS, INC.
2004 STOCK INCENTIVE PLAN
[Reflects amendments through June 4, 2004]

1.00 PURPOSE

This Plan is intended to foster and promote the long-term financial success of the Company and to materially increase shareholder value [1] by providing Employees and Eligible Directors an opportunity to acquire an ownership interest in the Company, and [2] enabling the Company to attract and retain the services of outstanding Employees and Eligible Directors upon whose judgment, interest and special efforts the successful conduct of the Company's business is largely dependent.

2.00 DEFINITIONS

When used in this Plan, the following terms have the meanings given to them in this Section 2.00 unless another meaning is expressly provided elsewhere in this Plan or clearly required by the context. When applying these definitions, the form of any term or word will include any of its other forms.

2.01 Act. The Securities Exchange Act of 1934, as amended.

2.02 Affiliated SAR. An SAR that is granted in conjunction with an Option and which is always deemed to have been exercised at the same time that the related Option is exercised. The deemed exercise of an Affiliated SAR will not reduce the number of shares of Stock subject to the related Option, except to the extent of the exercise of the related Option.

2.03 Annual Meeting. The annual meeting of the Company's shareholders.

2.04 Award. Any Incentive Stock Option, Nonstatutory Stock Option, Restricted Stock, Performance Share, Performance Unit or SAR granted under the Plan. During any single Plan Year, no Participant may be granted Options affecting more than 200,000 shares of Stock (adjusted as provided in Section 5.03), Restricted Stock affecting more than 200,000 shares of Stock (adjusted as provided in Section 5.03), Performance Shares affecting more than 200,000 shares of Stock (adjusted as provided in Section 5.03), Performance Units affecting more than 200,000 shares of Stock (adjusted as provided in Section 5.03) and SARs affecting more than 200,000 shares of Stock (adjusted as provided in Section 5.03), including Options, Restricted Stock, Performance Shares, Performance Units and SARs that are cancelled [or deemed to have been cancelled under Treas. Reg. §1.162-27(e)(2)(vi)(B)] during the Plan Year granted. Any Right to Purchase or any shares of Stock issued pursuant to Section 10.00 of this Plan will not constitute an "Award."

2.05 Award Agreement. The written agreement between the Company and each Participant that describes the terms and conditions of each Award.

2.06 Beneficiary. The person a Member designates to receive (or exercise) any Plan benefits (or rights) that are unpaid (or unexercised) when he or she dies. A Beneficiary may be designated only by following the procedures described in Section 14.02; neither the Company nor the Committee is required to infer a Beneficiary from any other source.

2.07 Board. The Company's Board of Directors.

2.08 Cash Account. An account established for each Participant who elects to participate in an Offering to which amounts withheld through payroll deductions will be credited to purchase shares of Stock under the provisions of Section 10.00.

2.09 Cause. Unless the Committee specifies otherwise in the Award Agreement, with respect to any Participant:

- [1] Willful failure to substantially perform his or her duties as an Employee (for reasons other than physical or mental illness) or a director after reasonable notice to the Participant of that failure;
- [2] Misconduct that materially injures the Company or any Subsidiary;
- [3] Conviction of, or entering into a plea of *nolo contendere* to, a felony; or
- [4] Breach of any written covenant or agreement with the Company or any Subsidiary, including the terms of this Plan.

2.10 Code. The Internal Revenue Code of 1986, as amended, and any regulations issued under the Code and any applicable rulings issued under the Code.

2.11 Committee.

- [1] In the case of Awards to Directors, the Board; or
- [2] In the case of all other Awards and for purposes of Section 10.00 of this Plan, the Board's Compensation Committee which also constitutes a "compensation committee" within the meaning of Treas. Reg. §1.162-27(c)(4). The Compensation Committee will be comprised of at least three individuals [a] each of whom is [i] an outside director, as defined in Treas. Reg. §1.162-27(e)(3)(i) and [ii] a "non-employee" director within the meaning of Rule 16b-3 under the Act and [iii] an "independent director" as that term is defined in the corporate governance rules of the national securities exchange or other recognized market or quotation system upon or through which the Stock is then listed or traded and [b] none of whom may receive remuneration from the Company or any Subsidiary in any capacity other than as a director, except as permitted under Treas. Reg. §1.162-27(e)(3)(ii).

2.12 Company. AirNet Systems, Inc., an Ohio corporation, and any and all successors to it.

2.13 Director Option. A Nonstatutory Stock Option granted to an Eligible Director under Section 6.05.

2.14 Disability. Unless the Committee specifies otherwise in any applicable Award Agreement:

- [1] With respect to any Award (other than an Incentive Stock Option) or any Right to Purchase, the Participant's inability to perform his or her normal duties for a period of at least six months due to a physical or mental infirmity; or
- [2] With respect to an Incentive Stock Option, as defined in Code §22(e)(3).

2.15 Effective Date. The date this Plan is approved by the Company's shareholders.

2.16 Eligible Director. An individual who, on an applicable Grant Date [1] is an elected member of the Board (or has been appointed to the Board to fill an unexpired term and will continue to serve at the expiration of that term only if elected by the Company's shareholders) and [2] is not an Employee. For purposes of applying this definition, an Eligible Director's status will be determined as of the Grant Date applicable to each affected Award.

2.17 Employee. Any individual who, on an applicable Grant Date, is a common law employee of the Company or any Subsidiary. A worker who is classified as other than a common law employee but who is subsequently reclassified as a common law employee of the Company or any Subsidiary for any reason

and on any basis will be treated as a common law employee only from the date of that determination and will not retroactively be reclassified as an Employee for any purpose of this Plan.

2.18 Exercise Price. The price at which a Member may exercise an Award.

2.19 Fair Market Value. The value of one share of Stock on any relevant date, determined under the following rules:

[1] If the Stock is traded on a national securities exchange or other recognized market or quotation system, the reported "closing price" on the relevant date, if it is a trading day; otherwise, on the next trading day;

[2] If the Stock is traded over-the-counter with no reported closing price, the mean between the lowest bid and the highest asked prices on that quotation system on the relevant date if it is a trading day; otherwise, on the next trading day; or

[3] If neither Section 2.19[1] nor Section 2.19[2] applies, the fair market value as determined by the Committee in good faith.

2.20 Freestanding SAR. An SAR that is not associated with an Option and is granted under Section 9.00.

2.21 Grant Date. The date an Award is granted to a Participant.

2.22 Key Employee. Any Employee who, on any applicable Grant Date, is performing services the Committee concludes are essential to the Company's business success and to whom the Committee has granted an Award.

2.23 Member. Each Participant and Terminated Participant to whom an Award has been granted, which Award has not expired under the terms of the Award Agreement or as provided in Section 11.00 and each Participant to whom Rights to Purchase have been granted, which Rights to Purchase have not been exercised or terminated as provided in Section 10.00.

2.24 Nonstatutory Stock Option. Any Option granted under Section 6.00 that is not an Incentive Stock Option.

2.25 Offering. An opportunity provided by the Committee to purchase shares of Stock under the provisions of Section 10.00. Offerings may be consecutive or concurrent, as determined by the Committee. The Committee will designate the maximum number of shares of Stock that may be purchased under each Offering. Shares of Stock not sold under one Offering may be offered again in any subsequent Offering.

2.26 Offering Effective Date. The first business day of the month designated by the Committee as the start of the Offering Period applicable to an Offering.

2.27 Offering Period. The duration of an Offering, as designated by the Committee. The Offering Period for any Offering will not exceed 12 months.

2.28 Option. The right granted under the Plan to purchase a share of Stock at a stated price for a specified period of time. An Option may be either [1] an Incentive Stock Option or [2] a Nonstatutory Stock Option.

2.29 Participant. Any Key Employee or Eligible Director who has not Terminated. In addition, for purposes of Section 10.00, the term "Participant" will include any Employee who has satisfied the requirements of Section 10.00 to acquire shares of Stock under this Plan.

2.30 Performance Goal. The conditions that must be met before a Key Employee will earn a Performance Share or a Performance Unit or, if the Committee so determines, the conditions that must be met before a Key Employee or an Eligible Director will earn shares of Restricted Stock.

2.31 Performance Period. The period over which the Committee will determine if applicable Performance Goals have been met; provided such period in any event will be at least one year.

2.32 Performance Share. An Award granted under Section 8.00, which is paid in Stock.

2.33 Performance Unit. An Award granted under Section 8.00, which is paid in cash.

2.34 Plan. The AirNet Systems, Inc. 2004 Stock Incentive Plan.

2.35 Plan Year. The Company's fiscal year.

2.36 Restricted Stock. An Award granted under Section 7.00.

2.37 Restriction Period. The period over which the Committee will determine if a Key Employee or an Eligible Director has met the conditions, including, without limitation, Performance Goals, placed on Restricted Stock; provided such period will in any event be at least one year and provided, further, that if the conditions are time-based, such conditions will provide for vesting no sooner than ratably over a period of at least five years.

2.38 Retirement. Unless the Committee specifies otherwise in any applicable Award Agreement, the date:

[1] A Key Employee Terminates on or after the earliest of [a] reaching age 62 and completing at least five years of service as an Employee or [b] reaching age 55 and completing at least 10 years of service as an Employee or [c] satisfying such other requirements as to age and years of service as an Employee as the Committee specifies in any applicable Award Agreement; or

[2] An Eligible Director Terminates as a Board member after having been a Board member for at least one full one-year term.

For purposes of applying this definition, a Participant's status as a Key Employee or an Eligible Director will be determined as of the Grant Date applicable to the affected Award.

2.39 Right to Purchase. An option to purchase shares of Stock granted to a Participant who elects to participate in an Offering under the provisions of Section 10.00. A Right to Purchase granted for an Offering will terminate following the close of business on the Right to Purchase Date for that Offering to the extent that such Right to Purchase is not exercised on such Right to Purchase Date.

2.40 Right to Purchase Date. The last business day of an Offering Period to purchase shares of Stock under the provisions of Section 10.00.

2.41 SEC. The Securities and Exchange Commission or any successor thereto, including the staff thereof.

2.42 Share Account. An account established for each Participant in an Offering who exercises a Right to Purchase under Section 10.00. A Participant's Share Account will be credited with the number of shares of Stock purchased on each Right to Purchase Date and debited for the number of shares of Stock withdrawn by the Participant after such date.

2.43 Stock. The common shares, \$0.01 par value, of the Company.

2.44 Stock Appreciation Right (or "SAR"). An Award granted under Section 9.00 that is a Tandem SAR, an Affiliated SAR or a Freestanding SAR.

2.45 Subsidiary. Any corporation, partnership or other form of unincorporated entity of which the Company owns, directly or indirectly, 50 percent or more of the total combined voting power of all classes of stock, if the entity is a corporation; or of the capital or profits interest, if the entity is a partnership or another form of unincorporated entity.

2.46 Tandem SAR. An SAR that is associated with an Option and which expires when that Option expires or is exercised, as described in Section 9.00.

2.47 Termination or Terminated. Unless the Committee specifies otherwise in any applicable Award Agreement, [1] cessation of the employee-employer relationship between an Employee and the Company and all Subsidiaries for any reason or [2] cessation of an Eligible Director's service on the Board (and the boards of directors of all Subsidiaries) for any reason.

3.00 PARTICIPATION

3.01 Terms of Participation.

[1] Consistent with the terms of the Plan, and subject to Section 6.05, the Committee will:

- [a] Decide which Employees and Eligible Directors may become Participants;
- [b] Decide which Participants will be granted Awards;
- [c] Identify the type of Award to be granted to each Participant;
- [d] Identify the terms and conditions imposed on any Awards granted;
- [e] Identify the procedures through which an Award may be exercised;
- [f] Identify the circumstances under which the Company may cancel an Award or reacquire any Award or shares of Stock acquired through an Award;
- [g] Determine whether, to what extent and under what circumstances cash, shares of Stock, other securities, other Awards, other property and other amounts payable with respect to an Award will be deferred either automatically or at the election of the holder thereof or of the Committee; and
- [h] Impose any other terms and conditions the Committee believes are appropriate and necessary to implement the purpose of this Plan.

[2] The Committee may establish different terms and conditions:

- [a] For each type of Award;
- [b] For Participants receiving the same type of Award; and
- [c] For the same Participant for each Award the Participant receives, whether or not those Awards are granted at different times.

3.02 Conditions of Participation.

Each Participant receiving an Award agrees:

- [1] To sign an Award Agreement;
- [2] To be bound by the terms of the Award Agreement and the Plan; and
- [3] To comply with other conditions imposed by the Committee.

4.00 ADMINISTRATION

4.01 Committee Duties. The Committee is responsible for administering the Plan and is granted all powers appropriate and necessary to administer the Plan. Consistent with the Plan's objectives, the Committee may adopt, amend and rescind rules and regulations relating to the Plan, to the extent appropriate to protect the Company's interests and has complete discretion to make all other decisions

(including whether a Participant has incurred a Disability or been Terminated for Cause) necessary or advisable for the administration and interpretation of the Plan. Any action by the Committee will be final, binding and conclusive for all purposes and upon all persons.

4.02 Delegation of Ministerial Duties. In its sole discretion, the Committee may delegate any ministerial duties associated with the Plan to any individual or entity (including Employees) that it deems appropriate.

4.03 Award Agreement. At the time any Award is made, the Committee will prepare and deliver an Award Agreement to each affected Participant. The Award Agreement:

[1] Will describe:

[a] The type of Award and when and how it may be exercised;

[b] The effect of exercising the Award; and

[c] Any Exercise Price associated with each Award.

[2] To the extent different from the terms of the Plan, will describe:

[a] Any conditions that must be met before the Award may be exercised;

[b] Any objective restrictions placed on Restricted Stock, Performance Shares and Performance Units and any performance-related conditions and Performance Goals that must be met before those restrictions will be released;

[c] When and how an Award may be exercised; and

[d] Any other applicable terms and conditions affecting the Award.

4.04 Restriction on Repricing. Regardless of any other provision of this Plan, neither the Company nor the Committee may “reprice” (as defined under rules adopted by the national securities exchange or other recognized market or quotation system upon or through which the Stock then is listed or traded) any Option without the prior approval of the shareholders of the Company.

5.00 STOCK SUBJECT TO PLAN

5.01 Number of Shares of Stock. Subject to Section 5.03, the number of shares of Stock available for delivery under the Plan may not be greater than 1,000,000. The shares of Stock to be delivered under the Plan may consist, in whole or in part, of treasury Stock or authorized but unissued Stock not reserved for any other purpose.

5.02 Cancelled, Terminated or Forfeited Awards. Any Stock subject to an Award or Right to Purchase that, for any reason, is cancelled, terminated or otherwise settled without the issuance of any Stock or cash may again be granted under the Plan. Any Performance Share or share of Restricted Stock that has been issued to a Participant under the Plan and is subsequently forfeited pursuant to the terms of the Plan or the applicable Award Agreement will be forfeited to and acquired by the Company as treasury Stock and may again be granted under the terms of the Plan.

5.03 Adjustment in Capitalization. If, after the Effective Date, there is a Stock dividend or Stock split, recapitalization (including, without limitation, the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares, or other similar corporate change affecting Stock, the Committee will appropriately adjust [1] the number of shares of Stock which may be delivered under the Plan, [2] the number of Awards that may or will be issued to Participants during a Plan Year, [3] the number of shares of Stock subject to outstanding Awards (as well as any share-based limits imposed under this Plan), [4] the respective Exercise Price, number of shares and other limitations applicable to outstanding or subsequently issued Awards, [5] the number of shares of

Stock and the purchase price per share subject to purchase under Section 10.00 of the Plan and [6] any other factors, limits or terms affecting any outstanding or subsequently issued Awards.

6.00 OPTIONS

6.01 Grant of Options. The Committee may grant Options to Key Employees at any time during the term of this Plan. Options granted to Key Employees may be either [1] Incentive Stock Options or [2] Nonstatutory Stock Options.

6.02 Option Price. Subject to Section 6.05, each Option will bear the Exercise Price the Committee specifies in the Award Agreement. However:

[1] In the case of an Incentive Stock Option, the Exercise Price [a] will not be less than the Fair Market Value of a share of Stock on the Grant Date and [b] will be at least 110 percent of the Fair Market Value of a share of Stock on the Grant Date with respect to any Incentive Stock Options issued to a Key Employee who, on the Grant Date, owns [as defined in Code §424(d)] Stock possessing more than 10 percent of the total combined voting power of all classes of Stock.

[2] In the case of a Nonstatutory Stock Option, the Exercise Price will not be less than the Fair Market Value of a share of Stock on the Grant Date.

6.03 Exercise of Options. Subject to Section 11.00, Options granted to a Key Employee under Section 6.01 may be exercised at the times and subject to the restrictions and conditions (including a vesting schedule) that the Committee specifies in the Award Agreement. However:

[1] Any Option to purchase a fraction of a share of Stock will be liquidated as of the date it arises and the Participant will be given cash equal to Fair Market Value multiplied by the fractional share.

[2] Unless the Committee specifies otherwise in the Award Agreement, no Key Employee may exercise Options for fewer than the smaller of:

[a] 100 shares of Stock; or

[b] The full number of shares of Stock for which Options are then exercisable.

[3] No Option may be exercised more than 10 years after it is granted (five years in respect of an Incentive Stock Option, if the Key Employee owns [as defined in Code §424(d)] Stock possessing more than 10 percent of total combined voting power of all classes of Stock on the Grant Date).

6.04 Incentive Stock Options. Notwithstanding anything in the Plan to the contrary:

[1] No provision of this Plan relating to Incentive Stock Options will be interpreted, amended or altered, nor will any discretion or authority granted under the Plan be exercised, in a manner that is inconsistent with Code §422 or, without the consent of any affected Member, to cause any Incentive Stock Option to fail to qualify for the federal income tax treatment afforded under Code §421;

[2] The aggregate Fair Market Value of the Stock (determined as of the Grant Date) with respect to which Incentive Stock Options are exercisable for the first time by any Member during any calendar year (under all option plans of the Company and all Subsidiaries) will not exceed \$100,000 [or other amount specified in Code §422(d)]; and

[3] No Incentive Stock Option may be granted to any individual who is not an Employee on the Grant Date.

6.05 Director Options.

[1] Any individual who is a newly-elected or appointed Eligible Director after the Effective Date will be granted a Director Option to purchase 20,000 shares of Stock on the date of such Eligible Director's appointment or election to the Board. Each Director Option granted in accordance with this Section 6.05[1] will be granted with an Exercise Price equal to the Fair Market Value of a share of Stock on the Grant Date. Each such Director Option will vest and become exercisable with respect to 20% of the shares of Stock covered thereby on each of the Grant Date and the first, second, third and fourth anniversaries of the Grant Date.

[2] On the first business day of each Plan Year, each individual who [a] is then serving as an Eligible Director and [b] has served for at least one full one-year term as an Eligible Director, will be automatically granted a Director Option to purchase 4,000 shares of Stock with an Exercise Price equal to the Fair Market Value of a share of Stock on the Grant Date. Each such Director Option will vest and become exercisable with respect to 20% of the shares of Stock covered thereby on each of the Grant Date, and the first, second, third and fourth anniversaries of the Grant Date.

[3] The Director Options granted under Sections 6.05[1] and 6.05[2] will be reduced (but not below zero) by any options granted for the same purpose under any other Company equity plan or program.

[4] The Board will have the sole and complete authority to grant Director Options to the Eligible Directors in addition to those nondiscretionary Director Options granted in accordance with Sections 6.05[1] and 6.05[2]. The Board will have the authority to determine the Grant Date of each such Director Option, the number of shares of Stock covered by each such Director Option, and the date or dates when each such Director Option becomes exercisable. Any Director Option granted by the Board in accordance with this Section 6.05[4] will be granted with an Exercise Price equal to the Fair Market Value of a share of Stock on the Grant Date.

[5] If an Eligible Director Terminates because of death, Disability or Retirement, the Eligible Director's Director Options will become fully vested and exercisable.

[6] Subject to Sections 6.05[7] and 11.00, once vested and exercisable, each Director Option will remain exercisable until the earlier to occur of [a] ten years after the Grant Date, or [b] three months after the Eligible Director Terminates (24 months if Termination is because of death, Disability or Retirement).

[7] However:

[a] Any Director Option to purchase a fraction of a share of Stock will be liquidated as of the date it arises and the Eligible Director will be given cash equal to Fair Market Value multiplied by the fractional share;

[b] Unless the Committee specifies otherwise in the Award Agreement, no Eligible Director may exercise Director Options for fewer than the smaller of:

[i] 100 shares of Stock; or

[ii] The full number of shares of Stock for which Director Options are then exercisable.

6.06 Payment for Options. Unless the Committee specifies otherwise in the Award Agreement, the Exercise Price associated with each Option must be paid in cash. However, the Committee may, in its discretion, develop, and extend to some or all Members, procedures through which Members may pay an Option's Exercise Price, including allowing a Member to tender Stock he or she already has owned for at least six months before the exercise date, either by actual delivery of the previously owned Stock or by attestation, valued at its Fair Market Value on the exercise date, as partial or full payment of the Exercise Price.

6.07 Transferability of Stock. Unless the Committee specifies otherwise in the Award Agreement, Stock acquired through an Option will be transferable, subject to applicable federal securities laws, the requirements of any national securities exchange or other recognized market or quotation system upon or through which the Stock is then listed or traded, or any applicable blue sky or state securities laws.

7.00 RESTRICTED STOCK

7.01 Restricted Stock Grants. The Committee may grant Restricted Stock to Key Employees or Eligible Directors at any time during the term of this Plan. The Committee also will include in the Restricted Stock Award Agreement applicable restrictions, which may vary between Key Employees and Eligible Directors, may be different each time a Restricted Stock Award is made and may be either time-based or subject to the Performance Goals described in Section 8.02[2] or both.

7.02 Transferability. Shares of Restricted Stock may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the end of the applicable Restriction Period. Restricted Stock normally will be held by the Company as escrow agent during the Restriction Period and will be distributed as described in Section 7.03. However, at any time during the Restriction Period, the Committee may, in its sole discretion, issue Restricted Stock (provided such Restricted Stock is not subject to Performance Goals) to a Key Employee or an Eligible Director in the form of certificates containing a legend describing restrictions imposed on such Restricted Stock.

7.03 Removal of Restrictions. As of the end of each Restriction Period:

[1] the Committee will certify to the Board the extent to which restrictions, including any applicable Performance Goals, in respect of Restricted Stock granted to Key Employees have been met; and

[2] the Board will determine the extent to which restrictions, including any applicable Performance Goals, in respect of Restricted Stock granted to Eligible Directors have been met.

Shares of Restricted Stock will be:

[a] Forfeited, if all restrictions, including any applicable Performance Goals, have not been met at the end of the Restriction Period, and again become available to be granted under the Plan; or

[b] Released from escrow and distributed to the affected Key Employee or Eligible Director (or any restrictions imposed on the distributed certificate removed) as soon as practicable after the last day of the Restriction Period, if all restrictions, including any applicable Performance Goals, have then been met.

7.04 Rights Associated with Restricted Stock. During the Restriction Period:

[1] Key Employees and Eligible Directors may exercise full voting rights associated with their Restricted Stock; and

[2] Any dividends and other distributions paid with respect to any Restricted Stock will be held by the Company as escrow agent during the Restriction Period. At the end of the Restriction Period, these dividends will be distributed to the affected Key Employee or Eligible Director or forfeited as provided in Section 7.03 with respect to the Restricted Stock as to which they were paid. No interest or other accretion will be credited with respect to any dividends held in this escrow account. If any dividends or other distributions are paid in shares of Stock, those shares will be subject to the same restrictions on transferability and forfeitability as the shares of Restricted Stock with respect to which they were issued.

8.00. PERFORMANCE SHARES AND PERFORMANCE UNITS

8.01 Performance Shares and Performance Unit Grants. The Committee may grant Performance Shares or Performance Units to Key Employees at any time during the term of this Plan.

8.02 Performance Criteria.

[1] For each Performance Period, the Committee will establish the Performance Goal(s) that will be applied to determine the Performance Shares or Performance Units that will be distributed at the end of the Performance Period.

[2] In establishing each Participant's Performance Goal(s), the Committee will consider the relevance of each Participant's assigned duties and responsibilities to factors that preserve and increase the Company's value. These factors will include:

- [a] Increasing revenues;
- [b] Developing new services and lines of revenue;
- [c] Reducing operating expenses;
- [d] Increasing customer satisfaction;
- [e] Developing new markets and increasing the Company's share of existing markets;
- [f] Developing and managing relationships with regulatory and other governmental agencies;
- [g] Managing cash, accounts receivable, accounts payable and other current assets and current liabilities;
- [h] Managing claims against the Company, including litigation;
- [i] Identifying and completing strategic acquisitions;
- [j] Increasing the Company's book value;
- [k] Increasing the Company's return on shareholders' equity;
- [l] Increasing the Company's return on capital;
- [m] Increasing the Company's return on assets;
- [n] Increasing the Company's cash flows from operating activities;
- [o] Increasing the Company's net income; and
- [p] Increasing the Company's net income per share.

[3] The Committee will make appropriate adjustments to Performance Goals to reflect:

[a] The effect on any Performance Goal of any Stock dividend or Stock split, recapitalization (including, without limitation, the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to shareholders, exchange of shares or similar corporate change. This adjustment to the Performance Goal will be made [i] to the extent the Performance Goal is based on Stock, [ii] as of the effective date of the event and [iii] for the Performance Period in which the event occurs. Also, the Committee will make a similar adjustment to any portion of a Performance Goal that is not based on Stock but which is affected by an event having an effect similar to those just described.

[b] A substantive change in a Participant's job description or assigned duties and responsibilities.

[4] Performance Goals will be established and communicated to each affected Participant in an Award Agreement no later than 90 days after the beginning of the applicable Performance Period.

8.03 Earning Performance Shares and Performance Units. As of the end of each Performance Period, the Committee will certify to the Board the extent to which each Participant has or has not met his or her Performance Goal. Performance Shares or Performance Units will be:

[1] Forfeited, to the extent that Performance Goals have not been met at the end of the Performance Period, and any shares of Stock subject thereto will again become available to be granted under the Plan; or

[2] Valued and distributed, in a single lump sum, to the Key Employees, in the form of cash, in respect of Performance Units, or Stock, in respect of Performance Shares, as soon as practicable after the last day of the Performance Period, to the extent that related Performance Goals have been met.

8.04 Rights Associated with Performance Shares. During the Performance Period, and unless the Award Agreement provides otherwise:

[1] Key Employees may exercise full voting rights associated with their Performance Shares; and

[2] All dividends and other distributions paid with respect to any Performance Shares will be held by the Company as escrow agent during the Performance Period. At the end of the Performance Period, these dividends will be distributed to the Key Employees or forfeited as provided in Section 8.03 with respect to the Performance Shares to which they relate. No interest or other accretion will be credited with respect to any dividends held in this escrow account. If any dividends or other distributions are paid in shares of Stock, those shares will be subject to the same restrictions on transferability and forfeitability as the Performance Shares with respect to which they were issued.

9.00 STOCK APPRECIATION RIGHTS

9.01 SAR Grants. Subject to the terms of the Plan, the Committee may grant Affiliated SARs, Freestanding SARs and Tandem SARs (or a combination of each) to Key Employees at any time during the term of this Plan.

9.02 Exercise Price. Unless the Committee specifies otherwise in the Award Agreement, the Exercise Price specified in the Award Agreement will:

[1] In the case of an Affiliated SAR, not be less than 100 percent of the Fair Market Value of a share of Stock on the Grant Date;

[2] In the case of a Freestanding SAR, not be less than 100 percent of the Fair Market Value of a share of Stock on the Grant Date; and

[3] In the case of a Tandem SAR, not be less than the Exercise Price of the related Option.

9.03 Exercise of Affiliated SARs. Affiliated SARs will be deemed to be exercised on the date the related Option is exercised. However:

[1] An Affiliated SAR will expire no later than the date the related Option expires or is exercised;

[2] The value of the payout with respect to the Affiliated SAR will not be more than the Exercise Price of the related Option; and

[3] An Affiliated SAR may be exercised only if the Fair Market Value of the shares of Stock subject to the related Option is greater than the Exercise Price of the related Option.

9.04 Exercise of Freestanding SARs. Freestanding SARs will be exercisable subject to the terms specified in the Award Agreement.

9.05 Exercise of Tandem SARs. Tandem SARs may be exercised with respect to all or part of the shares of Stock subject to the related Option by surrendering the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable. However:

[1] A Tandem SAR will expire no later than the date the related Option expires;

[2] The value of the payout with respect to the Tandem SAR will not be more than 100 percent of the difference between the Exercise Price of the related Option and the Fair Market Value of a share of Stock subject to the related Option at the time the Tandem SAR is exercised; and

[3] A Tandem SAR may be exercised only if the Fair Market Value of a share of Stock subject to the Option is greater than the Exercise Price of the related Option.

9.06 Settling SARs.

[1] A Member exercising a Tandem SAR or a Freestanding SAR will receive an amount equal to:

[a] The difference between the Fair Market Value of a share of Stock on the exercise date and the Exercise Price, multiplied by

[b] The number of shares of Stock with respect to which the Tandem SAR or Freestanding SAR is exercised.

[2] A Member will not receive any cash or other amount when exercising an Affiliated SAR. Instead, the value of the Affiliated SAR being exercised will be applied to reduce (but not below zero) the Exercise Price of the related Option.

At the discretion of the Committee, the value of any Tandem SAR or Freestanding SAR being exercised will be settled in cash, shares of Stock or any combination of both.

10.00 STOCK PURCHASE PROGRAM

10.01 Eligibility. Each Employee whose employment with the Company or a Subsidiary commenced prior to an Offering Effective Date will be eligible to participate in the Offering which is applicable to such Offering Effective Date. Nothing contained herein and no rules and regulations prescribed by the Committee may permit or deny participation in any Offering contrary to the requirements of the Code (including, without limitation, Code §§ 423(b)(3), 423(b)(4) and 423(b)(8)). Nothing contained herein and no rules and regulations prescribed by the Committee may permit any Participant to be granted a Right to Purchase:

[1] if, immediately after such Right to Purchase is granted, such Participant would own, and/or hold outstanding options or rights to purchase, shares of the Company or of any Subsidiary, possessing five percent or more of the total combined voting power or value of all classes of shares of the Company or such Subsidiary; or

[2] which permits a Participant's rights to purchase shares of Stock under all employee stock purchase plans of the Company and of its Subsidiaries to accrue at a rate which exceeds Twenty-

Five Thousand Dollars (\$25,000) of Fair Market Value of shares of Stock (determined as of the date such Right to Purchase is granted) for each calendar year in which such Right to Purchase is outstanding at any time.

For purposes of Section 10.01[1] above, the provisions of Code § 424(d) will apply in determining the stock ownership of each Participant. For purposes of Section 10.01[2] above, the provisions of Code § 423(b)(8) will apply in determining whether a Participant's Rights to Purchase and other rights are permitted to accrue at a rate in excess of the permitted rate.

10.02 Purchase Price. The purchase price for a share of Stock under each Offering will be determined by the Committee prior to the Offering Effective Date and will be stated as a percentage of the Fair Market Value of a share of Stock on either the Right to Purchase Date or the Offering Effective Date, whichever is the lesser, but the purchase price may not be less than the lesser of 85 percent of the Fair Market Value of a share of Stock as of the Offering Effective Date or 85 percent of the Fair Market Value of a share of Stock as of the Right to Purchase Date for the Offering.

10.03 Participation in Offerings. Except as may be otherwise provided for herein, each Employee who is eligible for and elects to participate in an Offering will be granted Rights to Purchase for as many shares of Stock as the Participant may elect to purchase during that Offering, to be paid by payroll deductions during such period. The Committee will establish administrative rules and regulations regarding the payroll deduction process for this Section 10.00, including, without limitation, minimum and maximum permissible deductions; the timing for initial elections, changes in elections and suspensions of elections during an Offering Period; and the complete withdrawal by a Participant from an Offering. Amounts withheld through payroll deductions under this Section 10.03 will be credited to each Participant's Cash Account. Such amounts will be delivered to a custodian for the Plan and held pending the purchase of shares of Stock as described in Section 10.05. Amounts held in a Participant's Cash Account will not bear interest. If a Participant withdraws entirely from an Offering (pursuant to rules established by the Committee), the Participant's Cash Account balance will not be used to purchase shares of Stock on the Right to Purchase Date. Instead, the portion of the Cash Account equal to the Participant's payroll deductions under the Plan during the Offering Period will be refunded to the Participant without interest. Such a Participant will not be eligible to re-enroll in that Offering, but may resume participation on the Offering Effective Date for the next Offering. In addition, the Committee may impose such other restrictions on the right to withdraw from Offerings as it may deem appropriate.

10.04 Grant of Rights to Purchase. Rights to Purchase with respect to shares of Stock will be granted to Participants who elect to participate in an Offering. Such Rights to Purchase may be exercised on the Right to Purchase Date applicable to the Offering. The number of shares of Stock subject to Rights to Purchase on each Right to Purchase Date may not exceed the number of shares of Stock authorized for issuance during the applicable Offering.

10.05 Exercise of Rights to Purchase. Each Right to Purchase will be exercised on the applicable Right to Purchase Date. Each Participant automatically and without any act on the Participant's part will be deemed to have exercised a Right to Purchase on each Right to Purchase Date to purchase the number of whole and fractional shares of Stock which the amount in his or her Cash Account at that time is sufficient to purchase at the applicable purchase price. Any remaining amount credited to a Participant's Cash Account after such application will remain in such Participant's Cash Account for use in the next Offering unless withdrawn by the Participant. The Company will deliver to the custodian of the Plan as soon as practicable after each Right to Purchase Date a certificate for the total number of shares of Stock purchased by all Participants on such Right to Purchase Date. The custodian will allocate the proper number of shares of Stock to the Share Account of each Participant. If the aggregate Cash Account balances of all Participants on any Right to Purchase Date exceed the amount required to purchase all of the shares of Stock subject to Rights to Purchase on that Right to Purchase Date, then the shares of Stock subject to Rights to Purchase will be allocated pro rata among the Participants in the proportion that the number of shares of Stock subject to Rights to Purchase bears to the number of shares of Stock that could have been purchased with such aggregate amount available, if an unlimited number of shares of Stock were available for purchase. Any balances remaining in Participants' Cash Accounts due to over subscription will remain in the Participants' Cash Accounts for use in the next Offering unless withdrawn by the respective Participants.

10.06 Withdrawals from Share Accounts and Dividend Reinvestment. A Participant may withdraw the shares of Stock credited to the Participant's Share Account on a first-in-first-out basis. The Committee will establish rules and regulations governing such withdrawals. All cash dividends paid, if any, with respect

to the shares of Stock credited to a Participant's Share Account will be added to the Participant's Cash Account and thereby will be applied to exercise Rights to Purchase for shares of Stock on the Right to Purchase Date next succeeding the date such cash dividends are paid by the Company. An election to leave shares of Stock with the custodian will constitute an election to apply the cash dividends with respect to such shares of Stock to the exercise of Rights to Purchase under this Section 10.00. Shares of Stock so purchased will be applied to the shares of Stock credited to each Participant's Share Account.

10.07 Termination. If a Participant Terminates for any reason, including death, Disability, Retirement or other cause, his or her participation in this Section 10.00 of the Plan will automatically and without any act on his or her part terminate as of the date of Termination. As soon as practicable following the Participant's Termination, the Company will refund to such Participant (or Beneficiary, in the case of the Participant's death) any amount in the Participant's Cash Account which constitutes payroll deductions, without interest, and the custodian will deliver to such Participant (or Beneficiary) a share certificate issued in the Participant's (or Beneficiary's) name for the number of whole shares of Stock credited to the Participant's Share Account through prior Offerings.

10.08 Effect of Merger or Liquidation Involving the Company. If the Company undergoes a merger or consolidation of the Company or reclassification of Stock or the exchange of Stock for the securities of another entity (other than a Subsidiary) that has acquired the Company's assets or which is in control [as defined in Code § 368(c)] of an entity that has acquired the Company's assets and the terms of the plan or agreement are binding on all holders of Stock (except to the extent that dissenting shareholders are entitled to relief under applicable law), then the Committee may, in connection with any such transaction, cancel each outstanding Right to Purchase and refund sums previously collected from Participants under the canceled Rights to Purchase, or, in its discretion, cause each Participant with outstanding Rights to Purchase to have his or her Rights to Purchase exercised immediately prior to such transaction and thereby the balance of his or her Cash Account applied to the purchase of shares of Stock at the purchase price in effect for that Offering, which would be treated as ending with the effective date of such transaction. The balances of the Cash Accounts not so applied will be refunded to the Participants, without interest.

11.00 TERMINATION/BUY OUT

11.01 Retirement. Unless otherwise specified in the Award Agreement, all Awards, that are outstanding (whether or not then fully vested and exercisable) when a Participant Retires, will become fully vested and exercisable and may be exercised at any time before the earlier of [1] the expiration date specified in the Award Agreement or [2] 24 months (three months in the case of Incentive Stock Options) beginning on the Retirement date (or any shorter period specified in the Award Agreement).

11.02 Death or Disability. Unless otherwise specified in the Award Agreement, all Awards, that are outstanding (whether or not then fully vested and exercisable) when a Participant Terminates because of death or Disability, will become fully vested and exercisable and may be exercised by the Participant or the Participant's Beneficiary at any time before the earlier of [1] the expiration date specified in the Award Agreement or [2] 24 months (12 months in the case of an Incentive Stock Option) beginning on the date of death or Termination because of Disability (or any shorter period specified in the Award Agreement).

11.03 Termination for Cause. Unless otherwise specified in the Award Agreement, all Awards that are outstanding (whether or not then exercisable) if a Participant Terminates for Cause will be forfeited.

11.04 Termination for any Other Reason. Unless otherwise specified in the Award Agreement or subsequently, any Awards that are outstanding when a Participant Terminates for any reason not described in Sections 11.01 through 11.03 and which are then exercisable, or which the Committee has, in its sole discretion, decided to make exercisable, may be exercised at any time before the earlier of [1] the expiration date specified in the Award Agreement or [2] three months beginning on the date the Participant Terminates.

11.05 Limits on Exercisability/Forfeiture of Exercised Awards. Regardless of any other provision of this Section 11.00 or the Plan and unless the Committee specifies otherwise in the Award Agreement, a Member who fails to comply with Sections 11.05[3] through [9] will:

- [1] Forfeit all outstanding Awards; and

[2] Forfeit all shares of Stock or cash (including dividends held in escrow under Sections 7.04[2] and 8.04[2] acquired or received by the exercise of any Award, lapse of any restrictions or attainment of any Performance Goals on the date of Termination or within six months before and 24 months after Terminating, including any amounts received under a “buy out” as described in Section 11.06.

The forfeiture described in Sections 11.05[1] and [2] will apply if the Member:

[3] Without the Committee’s written consent, which may be withheld for any reason or for no reason, serves (or agrees to serve) as an officer, director, consultant or employee of any proprietorship, partnership, corporation, limited liability company, association or other entity or becomes the owner of a business or a member of a partnership, limited liability company, association or other entity that competes with any portion of the Company’s (or a Subsidiary’s) business with which the Member has been involved anytime within five years before Termination or renders any service (including, without limitation, business consulting) to entities that compete with any portion of the Company’s (or a Subsidiary’s) business with which the Member has been involved anytime within five years before Termination;

[4] Refuses or fails to consult with, supply information to or otherwise cooperate with the Company or any Subsidiary after having been requested to do so;

[5] Deliberately engages in any action that the Committee concludes has caused substantial harm to the interests of the Company or any Subsidiary;

[6] Without the Committee’s written consent, which may be withheld for any reason or for no reason, on his or her own behalf or on behalf of any other person, partnership, limited liability company, association, corporation or other entity, solicits or in any manner attempts to influence or induce any employee of the Company or a Subsidiary to leave the Company’s or Subsidiary’s employment or uses or discloses to any person, partnership, limited liability company, association, corporation or other entity any information obtained while an employee or director of the Company or any Subsidiary concerning the names and addresses of the Company’s and any Subsidiary’s employees;

[7] Without the Committee’s written consent, which may be withheld for any reason or for no reason, discloses confidential and proprietary information relating to the Company’s and its Subsidiaries’ business affairs (“Trade Secrets”), including technical information, information about services provided and business and marketing plans, strategies, customer information and other information concerning the Company’s and Subsidiaries’ services, promotions, development, financing, expansion plans, business policies and practices, salaries and benefits and other forms of information considered by the Company to be proprietary and confidential and in the nature of Trade Secrets;

[8] Fails to return all property (other than personal property), including keys, notes, memoranda, writings, lists, files, reports, customer lists, correspondence, tapes, disks, cards, surveys, maps, logs, machines, technical data, or any other tangible property or document and any and all copies, duplicates or reproductions that have been produced by, received by or otherwise been submitted to the Member in the course of his or her service with the Company or a Subsidiary; or

[9] Engaged in conduct that the Committee reasonably concludes would have given rise to a Termination for Cause had it been discovered before the Participant Terminated.

11.06 Buy Out of Awards. At any time, the Committee, in its sole discretion and without the consent of the affected Member, may cancel any or all outstanding Awards held by that Member, whether or not exercisable, by providing to that Member written notice (“Buy Out Notice”) of its intention to exercise the rights reserved in this Section 11.06. If a Buy Out Notice is given, in the case of an Option, the Company also will pay to each affected Participant the difference between [1] the Fair Market Value of the Stock underlying each exercisable Option (or portion of an Option) to be cancelled and [2] the Exercise Price associated with each exercisable Option to be cancelled. With respect to any Award other than an Option, the Company will pay to each affected Participant the Fair Market Value of the Stock subject to the Award.

However, unless otherwise specified in the Award Agreement, no payment will be made with respect to any Awards that are not exercisable when cancelled under this Section 11.06. The Company will complete any buy out made under this Section 11.06 as soon as administratively possible after the date of the Buy Out Notice. At the Committee's option, payment of the buy out amount may be made in cash, in whole shares of Stock or partly in cash and partly in shares of Stock. The number of whole shares of Stock, if any, included in the buy out amount will be determined by dividing the amount of the payment to be made in shares of Stock by the Fair Market Value as of the date of the Buy Out Notice.

12.00 MERGER, CONSOLIDATION OR SIMILAR EVENT

If the Company undergoes a merger or consolidation of the Company or reclassification of Stock or the exchange of Stock for the securities of another entity (other than a Subsidiary) that has acquired the Company's assets or which is in control [as defined in Code §368(c)] of an entity that has acquired the Company's assets and the terms of that plan or agreement are binding on all holders of Stock (except to the extent that dissenting shareholders are entitled to relief under applicable law), then: **[a]** all Options will become fully exercisable and each affected Participant will receive, upon payment of the Exercise Price, if applicable, securities or cash, or both, equal to those the Participant would have been entitled to receive under the Plan or Award Agreement if the Participant had already exercised the Options, **[b]** all SARs will become fully exercisable, **[c]** all restrictions on Restricted Stock will lapse; and **[d]** all Performance Goals associated with Restricted Stock, Performance Shares or Performance Units will be deemed to have been met and all Performance Periods accelerated.

13.00 AMENDMENT, MODIFICATION AND TERMINATION OF PLAN

The Board or the Committee may terminate, suspend or amend the Plan at any time without shareholder approval except to the extent that shareholder approval is required to satisfy applicable requirements imposed by **[1]** Rule 16b-3 under the Act, or any successor rule or regulation, **[2]** applicable provisions of the Code or **[3]** any national securities exchange or other recognized market or quotation system upon or through which the Company's securities are listed or traded. Also, no Plan amendment may **[4]** result in the loss of a Committee member's status as a "non-employee director" as defined in Rule 16b-3 under the Act, or any successor rule or regulation, with respect to any employee benefit plan of the Company, **[5]** cause the Plan to fail to meet requirements imposed by Rule 16b-3 or **[6]** without the consent of the affected Member, adversely affect any Award issued before the amendment, modification or termination. However, nothing in this Section 13.00 will restrict the Committee's right to exercise the discretion retained in Section 11.06.

14.00 MISCELLANEOUS

14.01 Assignability. Except as described in this Section 14.01, an Award or Right to Purchase may not be transferred except by will or the laws of descent and distribution and, during the Member's lifetime, may be exercised only by the Member, the Member's guardian or legal representative. However, with the Committee's written consent (which may be withheld for any reason or for no reason), a Member or a specified group of Members may transfer Awards (other than Incentive Stock Options) to a revocable inter vivos trust, of which the Member is the settlor, or may transfer Awards (other than an Incentive Stock Option) to any member of the Member's immediate family, any trust, whether revocable or irrevocable, established solely for the benefit of the Member's immediate family, or any partnership or limited liability company whose only partners or members are members of the Member's immediate family ("Permissible Transferees"). Any Award transferred to a Permissible Transferee will continue to be subject to all of the terms and conditions that applied to the Award before the transfer and to any other rules prescribed by the Committee. A Permissible Transferee may not retransfer an Award except by will or the laws of descent and distribution and then only to another Permissible Transferee.

14.02 Beneficiary Designation. Each Member may name a Beneficiary or Beneficiaries (who may be named contingently or successively) to receive or to exercise any vested Award that is unpaid or unexercised at the Member's death. Each designation made will revoke all prior designations made by the same Member, must be made on a form prescribed by the Committee and will be effective only when filed in writing with the Committee. If a Member has not made an effective Beneficiary designation, the deceased Member's Beneficiary will be his or her surviving spouse or, if none, the deceased Member's estate. The identity of a Member's designated Beneficiary will be based only on the information included in the latest beneficiary designation form completed by the Member and will not be inferred from any other evidence.

14.03 No Guarantee of Employment or Participation. Nothing in the Plan may be construed as:

- [1] Interfering with or limiting the right of the Company or any Subsidiary to Terminate any Employee's employment at any time;
- [2] Conferring on any Participant any right to continue as an Employee or director of the Company or any Subsidiary;
- [3] Guaranteeing that any Employee will be selected to be a Key Employee; or
- [4] Guaranteeing that any Member will receive any future Awards.

14.04 Tax Withholding.

[1] The Company will withhold from other amounts owed to the Member, or require a Member to remit to the Company, an amount sufficient to satisfy federal, state and local withholding tax requirements on any Award, exercise or cancellation of an Award or purchase of Stock. If these amounts are not to be withheld from other payments due to the Member (or if there are no other payments due to the Member), the Company will defer payment of cash or issuance of shares of Stock until the earlier of:

- [a] 30 days after the settlement date; or
- [b] The date the Member remits the required amount.

[2] If the Member has not remitted the required amount within 30 days after the settlement date, the Company will permanently withhold from the value of the Awards to be distributed the minimum amount required to be withheld to comply with applicable federal, state and local income, wage and employment taxes and distribute the balance to the Member.

[3] In its sole discretion, which may be withheld for any reason or for no reason, the Committee may permit a Member to elect, subject to conditions the Committee establishes, to reimburse the Company for this tax withholding obligation through one or more of the following methods:

- [a] By having shares of Stock otherwise issuable under the Plan withheld by the Company (but only to the extent of the minimum amount that must be withheld to comply with applicable state, federal and local income, employment and wage tax laws);
- [b] By delivering to the Company previously acquired shares of Stock that the Member has owned for at least six months;
- [c] By remitting cash to the Company; or
- [d] By remitting a personal check immediately payable to the Company.

14.05 Indemnification. Each individual who is or was a member of the Committee or of the Board will be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be made a party or in which he or she may be involved by reason of any action taken or failure to take action under the Plan as a Committee member and against and from any and all amounts paid, with the Company's approval, by him or her in settlement of any matter related to or arising from the Plan as a Committee member or paid by him or her in satisfaction of any judgment in any action, suit or proceeding relating to or arising from the Plan against him or her as a Committee member, but only if he or she gives the Company an opportunity, at its own expense, to handle and defend the matter before he or she undertakes to handle and defend it in his or her own behalf. The right of indemnification described in this Section 14.05 is not exclusive and is independent of any other rights of indemnification to which the individual may be entitled under the Company's organizational documents, by contract, as a matter of law or otherwise.

14.06 No Limitation on Compensation. Nothing in the Plan is to be construed to limit the right of the Company to establish other plans or to pay compensation to its employees or directors, in cash or property, in a manner not expressly authorized under the Plan.

14.07 Requirements of Law. The grant of Awards and Rights to Purchase and the issuance of shares of Stock will be subject to all applicable laws, rules and regulations and to all required approvals of any governmental agencies or national securities exchange, market or other quotation system. Also, no shares of Stock will be issued under the Plan unless the Company is satisfied that the issuance of those shares of Stock will comply with applicable federal and state securities laws. Certificates for shares of Stock delivered under the Plan may be subject to any stock transfer orders and other restrictions that the Committee believes to be advisable under the rules, regulations and other requirements of the SEC, any national securities exchange or other recognized market or quotation system upon or through which the Stock is then listed or traded, or any other applicable federal or state securities law. The Committee may cause a legend or legends to be placed on any certificates issued under the Plan to make appropriate reference to restrictions within the scope of this Section 14.07.

14.08 Term of Plan. The Plan will be effective upon its adoption by the Board and approval by the affirmative vote of the holders of a majority of the shares of voting stock present in person or represented by proxy at the first Annual Meeting occurring after the Board approves the Plan. Subject to Section 13.00, the Plan will continue until the tenth anniversary of the date it is adopted by the Board or approved by the Company's shareholders, whichever is earliest.

14.09 Governing Law. The Plan, and all agreements hereunder, will be construed in accordance with and governed by the laws (other than laws governing conflicts of laws) of the United States and the State of Ohio.

14.10 No Impact on Benefits. Plan Awards are incentives designed to promote the objectives described in Section 1.00. Also, Awards are not compensation for purposes of calculating a Member's rights under any employee benefit plan.

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Joel E. Biggerstaff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AirNet Systems, Inc. for the quarterly period ended June 30, 2004;
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) 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
 - (c) 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:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ Joel E. Biggerstaff

Printed Name: Joel E. Biggerstaff
Title: Chairman of the Board, Chief
Executive Officer and President
(Principal Executive Officer)

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Gary W. Qualmann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AirNet Systems, Inc. for the quarterly period ended June 30, 2004;
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) 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
 - (c) 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:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ Gary W. Qualmann

Printed Name: Gary W. Qualmann
Title: Chief Financial Officer, Treasurer
and Secretary
(Principal Financial Officer)

SECTION 1350 CERTIFICATION *

In connection with the Quarterly Report of AirNet Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel E. Biggerstaff, Chairman of the Board, President and Chief Executive Officer of the Company, 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 my knowledge:

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

/s/ Joel E. Biggerstaff

Joel E. Biggerstaff

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

Date: August 13, 2004

*This certification is being furnished as required by Rule 13a -14(b) under Securities Exchange Act of 1934 (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 as otherwise stated in such filing.

SECTION 1350 CERTIFICATION *

In connection with the Quarterly Report of AirNet Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary W. Qualmann, Chief Financial Officer, Treasurer and Secretary, certify, pursuant 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 my knowledge:

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

/s/ Gary W. Qualmann

Gary W. Qualmann

Title: Chief Financial Officer, Treasurer, and
Secretary
(Principal Financial Officer)

Date: August 13, 2004

*This certification is being furnished as required by Rule 13a-14(b) under Securities Exchange Act of 1934 (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 as otherwise stated in such filing.