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ITEM 3. LEGAL PROCEEDINGS

The Company is currently involved in certain legal proceedings as discussed below. We plan to vigorously defend against these lawsuits, however, because of uncertainties related to both the potential amount and range of loss from pending litigation, management is unable to make a reasonable estimate of the liability that could result if there were an unfavorable outcome in any of these legal proceedings. As additional information becomes available, we will re-assess the potential liability related to pending litigation and revise our estimates accordingly. Revisions of our estimates of such potential liability could materially impact its results of operations, financial condition or cash flows. While we are party to other claims and actions arising in the ordinary course of business, we do not believe that these claims and actions to be materially adverse to our financial condition or operations.

Banc of America

We are a defendant in Banc of America Securities LLC v. Evergreen International Aviation, Inc. et al., which was filed on May 22, 2003 in the Superior Court of the County of Meeklenburg in the State of North Carolina. Banc of America has alleged claims for breach of contract and quantum meruit, arising out of agreements in which Banc of America agreed to act as our financial agent in exchange for the payment of certain fees. The plaintiff has not yet specified an amount for damages.

We filed a motion to dismiss for lack of jurisdiction, but the motion has been denied by both the trial court and the North Carolina Court of Appeals. We are currently evaluating further appellate and trial options.

Asiana Airlines

On January 28, 2000, we entered into a contract with Asiana Airlines ("Asiana") whereby we agreed to provide air freight services to Asiana in exchange for minimum payments to be made by Asiana throughout the term of the contract. The minimum payments were based on guaranteed block hour utilization and the contract was to continue through February 28, 2003. On August 28, 2001, Asiana notified us that Asiana would not make any further payments under the contract.

On September 19, 2001, we filed proceedings in the United States District Court for the District of Oregon against Asiana to recover amounts owed by

Asiana to us pursuant to the contract. On February 28, 2003, a jury returned a verdict in our favor and on April 28, 2003, the court entered a judgment for damages in the amount of $16.6 million in our favor. Asiana subsequently filed an appeal of the judgment with the Ninth Circuit Court of Appeals, and oral appellate arguments were held on May 2, 2005. As of the date of this Annual Report, we have not yet received notice of a ruling on the appeal.

Tridair Repair and Manufacturing

On February 11, 2003, Tridair Repair and Manufacturing, Inc. ("Tridair") filed a complaint against us in the United States District Court for the Central District of California (the "California Court") alleging fraud and breach of contract. The allegations relate to an aircraft salvage contract under which we agreed to perform aircraft salvage services for Tridair in return for payments to be made by Tridair to us. Tridair subsequently transferred its litigation rights to Diversified Aero Asset Management, Inc. ("Diversified"), which had previously filed a complaint against the Air Center for similar claims. Diversified amended its complaint in order to seek $10.6 million in damages for fraud and breach of contract. Upon motion, the matter was transferred to the federal district court in Arizona and a jury trial was scheduled to begin on October 18, 2005.

Subsequently, on May 6, 2005, the parties entered into a Settlement Agreement and Release whereby each party agreed to dismiss all claims, with prejudice, in exchange for the release of such party's equipment and property held by the other party, with each party bearing its own fees and costs. The Settlement Agreement and Release was executed by all parties on May 15, 2005.

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Ducor Express Airlines

On February 25, 2005, Ducor Express Airlines, Inc. ("Ducor") filed a claim against Airlines for breach of contract (the "Action") in the Supreme Court of New York, County of Queens. Ducor seeks damages of $41.7 million against Airlines in regard to certain agreements between the parties for Airlines to provide charter cargo flights from Hong Kong, China to Los Angeles, California during September 2004 through November 2004 (collectively, the "Charter Agreements"). On March 21, 2005, Airlines filed a counterclaim against Ducor in regard to the Charter Agreements. Subsequently, the parties have entered into negotiations for a Settlement Agreement whereby Ducor and Airlines i) will agree to file a stipulation of discontinuance of the Action with prejudice and ii) will agree to release and discharge the other from any and all claims and liabilities with respect to the Action.

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