ABX AIR INC
Form 10-K/A
August 17, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

Commission file number 000-50368

ABX AIR, INC.

(Exact name of registrant as specified in its charter)

Delaware	**91-1091619**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

145 Hunter Drive, Wilmington, OH 45177

(Address of principal executive offices)

937-382-5591

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value $.01 per share

(Title of class)

Name of each exchange on which registered: NASDAQ Stock Market, Inc.

Securities registered pursuant to Section 12(g) of the Act:

Title of class: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Accelerated filer x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant s most recently completed second fiscal quarter: $349,358,619.

As of March 16, 2007, 58,683,500 shares of the registrant s common stock, par value $0.01, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 9, 2007 are

incorporated by reference into Part III.

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EXPLANATORY NOTE REGARDING THIS FORM 10-K/A

This Amendment No. 2 on Form 10-K/A (Amendment No. 2   ) amends ABX Air, Inc.   s Annual Report on Form 10-K for the year ended December 31, 2006, originally filed with the Securities and Exchange Commission (the   SEC   ) on March 16, 2007, as amended by Amendment No. 1 on Form 10-K/A filed by ABX Air on August 14, 2007 (Amendment No. 1   ). This Amendment No. 2 amends Items 8, 9A and 15 of its Form 10-K, as amended by Amendment No. 1.

The reports of the independent registered public accounting firm contained in Item 8 (on page 31) and Item 9A (on pages 57 and 58) of Amendment No. 1 did not contain the conformed signature of ABX Air   s independent registered public accounting firm, Deloitte & Touche LLP. In addition, Exhibit 23.1 (Consent of Independent Registered Public Accounting Firm) was inadvertently omitted from Amendment No. 1.

This Amendment No. 2 includes an amended Item 8 and Item 9A to include the conformed signature of Deloitte & Touche LLP on the reports of independent registered public accounting firm and an amended Item 15 to include Exhibit 23.1. No other changes have been made to these items and, in accordance with SEC rules, all items unaffected by this Amendment No. 2 have been omitted.

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FORWARD LOOKING STATEMENTS

Statements contained in this annual report on Form 10-K/A, including Management s Discussion and Analysis of Financial Condition and Results of Operations, in Item 7, that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as projects, believes, anticipates, will, estimates, plans, expects, intends and words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in Risk Factors starting on page 8 and Outlook starting on page 16.

Filings with the Securities and Exchange Commission

The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding ABX Air at www.sec.gov. Additionally, our filings with the Securities and Exchange Commission, including annual reports on Form 10-K/A, quarterly reports on Form 10-Q and current reports on Form 8-K, are available free of charge from our website at www.ABXAir.com as soon as reasonably practicable after filing with the SEC.

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ABX AIR, INC. AND SUBSIDIARIES

2006 FORM 10-K/A ANNUAL REPORT

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of ABX Air, Inc.

Wilmington, Ohio

We have audited the accompanying consolidated balance sheets of ABX Air, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of earnings, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the Index at Item 15a(2). These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, the Company s principal customer accounts for substantially all of the Company s revenue. The Company s financial security is dependent on its relationship with its customer.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ABX Air, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note J to the consolidated financial statements, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87,88, 106, and 132(R)),* effective December 31, 2006.

As discussed in Note P, the accompanying 2006 and 2004 financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2007, (August 13, 2007 as to the effects of the material weakness described in management s Report on Internal Control over Financial Reporting, as revised) expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Dayton, Ohio

March 15, 2007 (August 13, 2007 as to the effects of the restatement discussed in Note P)

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ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31 2006	December 31 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 63,219	$ 69,473
Marketable securities available-for-sale	15,374	15,637
Accounts receivable, net of allowance of $516 in 2006 and $872 in 2005	10,365	15,776
Inventory	13,907	14,014
Prepaid supplies and other	6,395	5,546
Deferred income taxes	14,691	
Aircraft and engines held for sale	2,219	
TOTAL CURRENT ASSETS	126,170	120,446
Other assets	7,966	13,952
Deferred income taxes	87,024	
Property and equipment, net	458,638	381,645
TOTAL ASSETS	**$ 679,798**	**$ 516,043**
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 65,313	$ 78,068
Salaries, wages and benefits	51,384	47,249
Accrued expenses	10,298	9,240
Current portion of post-retirement liabilities	1,789	14,701
Current portion of long-term obligations	11,413	8,612
Unearned revenue	4,081	4,399
TOTAL CURRENT LIABILITIES	144,278	162,269
Long-term obligations	189,118	164,572
Post-retirement liabilities	222,587	74,618
Other liabilities	3,605	1,505
Commitments and contingencies (Note I)		
STOCKHOLDERS EQUITY		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock		
Common stock, par value $0.01 per share; 75,000,000 shares authorized; 58,539,300 and 58,385,100 shares issued and outstanding in 2006 and 2005, respectively	585	584
Additional paid-in capital	431,071	430,026
Restricted stock compensation awards		(688)
Accumulated deficit	(207,836)	(297,890)
Accumulated other comprehensive loss	(103,610)	(18,953)
TOTAL STOCKHOLDERS EQUITY	120,210	113,079
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 679,798**	**$ 516,043**

See notes to consolidated financial statements.

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ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Year Ended December 31		
	2006	**2005**	**2004**
REVENUES	$ 1,260,361	$ 1,464,390	$ 1,202,509
OPERATING EXPENSES:			
Salaries, wages and benefits	635,015	610,251	501,419
Fuel	262,948	257,710	197,879
Maintenance, materials and repairs	97,108	108,343	108,425
Purchased line-haul and yard management	88,223	312,286	233,367
Depreciation and amortization	45,660	41,167	36,817
Landing and ramp	21,099	26,522	23,040
Rent	9,716	7,506	6,993
Other	57,807	61,842	49,571
	1,217,576	1,425,627	1,157,511
INTEREST EXPENSE	(11,547)	(10,805)	(8,956)
INTEREST INCOME	4,775	2,354	931
EARNINGS BEFORE INCOME TAXES	36,013	30,312	36,973
INCOME TAX BENEFIT	54,041		
NET EARNINGS	$ 90,054	$ 30,312	$ 36,973
EARNINGS PER SHARE:			
Basic	$ 1.55	$ 0.52	$ 0.63
Diluted	$ 1.54	$ 0.52	$ 0.63
WEIGHTED AVERAGE SHARES:			
Basic	58,270	58,270	58,270
Diluted	58,403	58,475	58,270

See notes to consolidated financial statements.

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ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31		
	(As restated, see Note P)		(As restated, see Note P)
	2006	2005	2004
OPERATING ACTIVITIES:			
Net earnings	$ 90,054	$ 30,312	$ 36,973
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Deferred income tax benefit	(54,041)		
Depreciation and amortization	45,660	41,167	36,817
Stock-based compensation	1,734	702	
Other	(1,491)	(55)	(26)
Changes in assets and liabilities:			
Accounts receivable	5,411	38,901	(49,195)
Inventory and prepaid supplies	(2,636)	(3,929)	(899)
Accounts payable	(35,722)	4,871	19,280
Unearned revenue	(318)	(3,166)	(4,736)
Accrued expenses, salaries, wages, benefits and other liabilities	7,293	4,799	10,378
Post-retirement liabilities	8,523	5,294	5,307
Other	513	215	635
NET CASH PROVIDED BY OPERATING ACTIVITIES	64,980	119,111	54,534
INVESTING ACTIVITIES:			
Capital expenditures	(99,565)	(60,685)	(73,668)
Proceeds from the sale of property and equipment	3,095	466	
Proceeds from redemptions of marketable securities	17,151	4,250	
Purchases of marketable securities	(17,909)	(24,362)	
Reduction in restricted cash			2,640
NET CASH USED IN INVESTING ACTIVITIES	(97,228)	(80,331)	(71,028)
FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(8,959)	(7,953)	(7,333)
Proceeds from borrowings on long-term obligations	35,000		
Financing fees	(47)	(103)	(525)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	25,994	(8,056)	(7,858)
NET INCREASE (DECREASE) IN CASH	(6,254)	30,724	(24,352)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	69,473	38,749	63,101
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 63,219	$ 69,473	$ 38,749
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid, net of amount capitalized	$ 10,904	$ 10,251	$ 9,440

Income taxes paid	$	$	$
SUPPLEMENTAL NON-CASH INFORMATION:			
Accrued aircraft modification expenditures	$ 33,529	$ 10,562	
Capital leases	$ 1,306	$	$

See notes to consolidated financial statements.

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ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Common Stock		Add l		Retained	Accumulated	
			Paid-in	Restricted	(Deficit)	Other Comp. Income	
	Number	Amount	Capital	Stock	Earnings	(Loss)	Total
BALANCE AT DECEMBER 31, 2003	58,270,400	$ 583	$ 428,637	$	$ (365,175)	$ (5,379)	$ 58,666
Comprehensive income							
Net earnings					36,973		36,973
Other comprehensive (loss) Minimum pension liabilities						(7,690)	(7,690)
Total comprehensive income							$ 29,283
BALANCE AT DECEMBER 31, 2004	58,270,400	$ 583	$ 428,637	$	$ (328,202)	$ (13,069)	$ 87,949
Stock-based compensation plans							
Amortization of stock awards			496				496
Issuance of restricted stock	114,700	1	893	(894)			
Amortization of restricted stock				206			206
Comprehensive income							
Net earnings					30,312		30,312
Other comprehensive (loss) Minimum pension liabilities						(5,829)	(5,829)
Unrealized loss on available-for-sale securities						(55)	(55)
Total comprehensive income							$ 24,428
BALANCE AT DECEMBER 31, 2005	58,385,100	$ 584	$ 430,026	$ (688)	$ (297,890)	$ (18,953)	$ 113,079
Stock-based compensation plans							
Issuance of restricted stock	154,200	1	(1)				
Amortization of stock awards and restricted stock			1,734				1,734
Adjustment for FASB Statement No. 123(R)			(688)	688			
Comprehensive income							
Net earnings					90,054		90,054
Other comprehensive income, net of tax Minimum pension liabilities						7,995	7,995
Unrealized gain on available-for-sale securities						24	24
Unrecognized net gain on derivatives						347	347
Total comprehensive income							$ 98,420
Adjustment to initially apply FASB Statement No. 158, net of tax (Note J)						(93,023)	(93,023)

BALANCE AT DECEMBER 31, 2006	58,539,300	$ 585	$ 431,071	$	$ (207,836)	$ (103,610)	$ 120,210

See notes to consolidated financial statements.

ABX AIR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three years ended December 31, 2006

NOTE A BACKGROUND

Nature of Operations

ABX Air, Inc. (ABX or the Company) is a U.S.-certificated air carrier that provides air cargo transportation services primarily within the U.S. The Company also provides package handling, warehousing, and other air cargo transportation related services. DHL Express (USA), Inc., (DHL) and its affiliates provided the Company with substantially all of its revenues in 2006, 2005 and 2004. The Company also offers ACMI (aircraft, crew, maintenance and insurance) and charter services to other customers, including freight forwarders, airlines and major shippers.

The Company provides air cargo transportation services through the operation of a fleet of 99 in-service aircraft. At December 31, 2006, the fleet consisted of 33 Boeing 767, 61 McDonnell Douglas DC-9 (DC-9) and five McDonnell Douglas DC-8 (DC-8) aircraft. The Company operates and maintains DHL s main air hub and package sorting center, located in Wilmington, Ohio. The Company provides staffing and management for seventeen DHL regional sort facilities and three United States Postal Service (USPS) facilities in the continental United States.

DHL Agreements

The Company has two commercial agreements with DHL including an aircraft, crew, maintenance and insurance agreement (ACMI agreement) and a hub services agreement (Hub Services agreement). Under these agreements, the Company provides DHL air cargo transportation, package handling, warehousing and maintenance services, and receives compensation generally as determined by cost plus a base mark-up percentage of 1.75%. Both agreements also allow the Company to earn incremental mark-up above the base 1.75% mark-up (up to 1.60% under the ACMI agreement and 2.10% under the Hub Services agreement) as determined from achievement of cost and service goals outlined in the two commercial agreements. Certain costs under the agreements are reimbursable only, without mark-up. These costs primarily include jet fuel expense, landing and ramp rental charges, certain facility rent, and interest expense on the note payable to DHL. Income tax expense incurred by the Company, as well as direct expenses incurred to secure revenue from customers other than DHL, are not reimbursed under the terms of the two commercial agreements. The ACMI agreement has an initial term of seven years, through August 15, 2010, with an automatic renewal for an additional three years, unless an advance notice of one year is given, or if the Company is not in compliance with applicable performance standards specified in the agreement. The Hub Services agreement expires August 15, 2007, with one-year automatic renewals, unless ninety days advance notice is given.

The Company s future operating results, cash flows and financial condition will continue to depend on the amount of services it provides to DHL. Renewal of the Hub Services agreement, if it occurs, could result in reductions to the scope of services the Company provides to DHL. DHL may seek to negotiate greater risk/reward opportunities related to the Company s performance and cost controls. The ACMI agreement allows DHL to reduce the air routes that the Company flies or remove aircraft from service. DHL can also change the scope of services under the Hub Services agreement by terminating specific services at one or more hub facilities after giving at least sixty days notice to the Company. Since November 2004, DHL has released 28 aircraft from service under the ACMI agreement and during 2006 assumed the management of the line-haul truck network from the Company. Effective January 1, 2007, DHL transitioned the operation of its regional hub in Allentown, Pennsylvania from the Company s management. (The Company s revenues and pre-tax earnings from the Allentown operations were approximately $16.7 million and $0.4 million, respectively, during the year ended December 31, 2006.) The Company was notified in February 2007 that DHL would take over the management of the Riverside, California operation effective June 2007. (During 2006, the Riverside Hub contributed $11.7 million in revenues and approximately $0.3 million in pre-tax earnings.)

Pursuant to the terms of the ACMI agreement, the Company has certain rights to put to DHL any aircraft that is removed from service. The Company can sell such aircraft to DHL at the lesser of fair market value or net book value. The decision to put aircraft to DHL will depend on a number of factors, including the anticipated number of aircraft to be removed, the type of aircraft removed, the demand for cargo airlift and the market value for aircraft. Management assesses the number and type of aircraft that it may want to put to DHL as the aircraft are removed from service. Provisions of the ACMI agreement stipulate that if the Company s equity is less than or equal to $100 million at the time of the put to DHL, any amount by which fair market value is less than net book value would be applied to the promissory note owed to DHL. However, if equity is greater than $100 million, as it is at this time, any amount by which the fair market value is less than net book value would be recorded as an impairment charge. At the Company s current level of stockholders equity, the removal of additional aircraft from the ACMI agreement could result in impairment charges for aircraft in which their fair market values are less than their carrying value. For purposes of applying the

$100 million stockholders equity threshold, stockholders equity will be calculated after including the effect of any charges caused by the removal of aircraft.

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NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Estimates and assumptions are used to record allowances for uncollectible amounts, self-insurance reserves, spare parts inventory, depreciation and impairments of property and equipment, labor contract settlements, post-retirement obligations, income taxes, contingencies and litigation. Changes in these estimates and assumptions may have a material impact on the consolidated financial statements.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated.

Cash and Cash Equivalents

The Company classifies short term, highly liquid investments with maturities of three months or less at the time of purchase as cash and cash equivalents. These investments are recorded at cost, which approximate fair value.

Inventory

The Company s inventory is comprised primarily of expendable spare parts and supplies used for internal consumption. These items are generally charged to expense when issued for use. The Company values aircraft spare parts inventory at weighted-average cost and maintains a related obsolescence reserve. The Company records an obsolescence reserve on a base stock of inventory for each fleet type. Inventory amortization for the obsolescence reserve corresponds to the expected life of each fleet type. Additionally, the Company monitors the usage rates of inventory parts and segregates parts that are technologically outdated or no longer used in its fleet types. Slow moving and segregated items are actively marketed and written down to their estimated net realizable values based on market conditions.

Management analyzes the inventory reserve for reasonableness at the end of each calendar quarter. That analysis includes consideration of the expected fleet life, amounts expected to be on hand at the end of a fleet life, and recent events and conditions that may impact the usability or value of inventory. Events or conditions that may impact the expected life, usability or net realizable value of inventory include additional aircraft maintenance directives from the Federal Aviation Administration, changes in Department of Transportation regulations, new environmental laws and technological advances.

Marketable Securities

Marketable securities classified as available-for-sale are recorded at their estimated fair market values and any unrealized gains and losses are included in accumulated other comprehensive gain or loss within stockholders equity, net of tax. Interest on marketable securities is included in interest income. Realized gains and losses of any securities sold are based on the specific identification method.

Property and Equipment

Property and equipment are stated at cost, net of any impairment recorded, in accordance with Statements of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The cost and accumulated depreciation of disposed property and equipment are removed from the accounts with any related gain or loss reflected in earnings from operations.

Depreciation of property and equipment is provided on a straight-line basis over the lesser of the asset s useful life or lease term. Depreciable lives are as follows:

Aircraft and flight equipment	5 to 15 years
Package handling and ground support equipment	5 to 10 years

Vehicles and other equipment	5 to 8 years

The Company periodically evaluates the useful lives, salvage values and fair values of property and equipment. Acceleration of depreciation expense or the recording of significant impairment losses could result from changes in the estimated useful lives of assets due to a number of reasons, such as an assessment done quarterly to determine if excess capacity exists in the air or ground networks, or changes in regulations governing the use of aircraft.

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Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined considering quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or fair value less the cost to sell and have been classified as aircraft and engines held for sale.

The costs of major airframe and engine overhauls, as well as routine maintenance and repairs, are charged to expense as incurred.

Capitalized Interest

Interest costs incurred while aircraft are being modified are capitalized as an additional cost of the aircraft until the date the asset is placed in service. Capitalized interest was $1.1 million for 2006 and 2005 and $2.5 million for 2004.

Income Taxes

Income taxes have been computed using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. Deferred taxes are measured using provisions of currently enacted tax laws. A valuation allowance against net deferred tax assets is recorded when it is more likely than not that such assets will not be fully realized. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

Comprehensive Income (Loss)

Comprehensive income includes net income and other comprehensive income or loss. Other comprehensive income or loss results from changes in the Company s pension liability, unrealized gains and losses on available-for-sale marketable securities and gains and losses associated with interest rate hedging instruments.

Fair Value Information

The carrying amounts for accounts receivable and current liabilities approximate fair value. The fair value of the Company s fixed rate debt obligations was approximately $1.1 million less than the carrying value, which was $156.5 million at December 31, 2006

Revenue Recognition

Revenues from DHL are determined based on expenses incurred during a period and recognized when the related services are performed. Revenues from DHL are determined based on the expenses incurred during a reporting period under the two commercial agreements (see Note A). Expenses incurred under these agreements are generally subject to a base mark-up of 1.75%, which is recognized in the period the expenses are incurred. Certain costs, the most significant of which include fuel, interest on the promissory note due to DHL, rent and ramp and landing fees incurred under the two commercial agreements are reimbursed and included in revenues without mark-up.

Both agreements also allow the Company to earn incremental mark-up above the base 1.75% mark-up (up to 1.60% under the ACMI agreement, and 2.10% under the Hub Services agreement) as determined from the achievement of certain cost-related and service goals outlined in the two commercial agreements. The agreements stipulate the setting of quarterly and annual cost-related goals and annual service goals expressly specified in each of the two agreements. At the end of each fiscal year, the Company measures the achievement of annual goals and records any incremental revenues earned by achieving the annual goals. In a similar way, the Company measures quarterly goals and records incremental revenues in the quarter in which earned.

In August 2005, DHL and the Company agreed to amend the Hub Services agreement to extend the initial term of the Hub Services agreement in exchange for temporarily placing more of the Company s revenue potential under a cost-related incentive. The amendment temporarily reduced the base mark-up under the Hub Services agreement from 1.75% to 1.25% during the last six months of 2005. The maximum incremental mark-up that the Company could earn during the third and fourth quarters of 2005 from its quarterly cost-related incentives under the Hub Services agreement was temporarily increased from approximately 0.54% to 1.04%. Additionally, the initial term of the Hub Services agreement was extended for

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an additional year, expiring August 15, 2007. In 2006, the base mark-up reverted to the previous level of 1.75% and the maximum incremental mark-up from the quarterly cost-related incentive will revert to the previous level of approximately 0.54%. The amendment did not change the annual cost and service-related incremental mark-up opportunities under the Hub Services agreement. The Hub Services agreement, as amended, continues to allow DHL to terminate specific services upon providing at least sixty-days notice. The amendment did not affect the mark-up or the term of the ACMI agreement, incepted on August 15, 2003, which is for seven years and automatically renews for an additional three years unless a one-year notice of non-renewal is given.

The Company derives a portion of its revenues from customers other than DHL. ACMI and charter service revenues are recognized on scheduled and non-scheduled flights when the specific flight has been completed. Aircraft parts and fuel sales are recognized when the parts and fuel are delivered. Revenues earned and expenses incurred in providing aircraft-related maintenance repair services or technical maintenance services are recognized in the period in which the services are completed and delivered to the customer. Revenues derived from transporting freight and sorting parcels are recognized upon delivery of shipments and completion of service.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. This Interpretation requires financial statement recognition of the impact of a tax position, if that position is more likely than not of being sustained under audit, based on the technical merits of the position. Additionally, FIN 48 provides guidance on accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning January 1, 2007. The Company is currently evaluating the impact of FIN 48; at this time, management believes that its effect on the Company s consolidated financial position or results of operations will be less than $1.0 million. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings in the first quarter of 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Accounting, (SFAS 157) which defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 will be effective for the Company s fiscal year beginning January 1, 2008.

NOTE C DHL TRANSACTIONS

The Company s revenues, cash flows and liquidity resources are highly dependent on DHL. Substantially all of the Company s revenues are derived through contracted services provided to DHL. Revenues from contracted services performed for DHL were $1.2 billion, $1.4 billion and $1.2 billion for 2006, 2005 and 2004, respectively.

The Company s balance sheet included the following balances related to revenue transactions with DHL (in thousands):

	December 31	
Asset (Liabilities)	**2006**	**2005**
Accounts receivable	$ 2,680	$ 10,574
Accounts payable	(392)	(395)
Unearned revenue	(2,607)	(4,151)
Net asset (liability)	$ (319)	$ 6,028

As specified in the two commercial agreements with DHL, the Company is advanced funds on the first business day of each week for the costs budgeted to be incurred for the upcoming week. Unearned revenue reflects the portion of a scheduled payment from DHL that relates to revenues earned in the next year. Accounts receivable is primarily from the revenues earned under the commercial agreements. Accounts payable is interest payable on the promissory note. The Company s expenses during 2006 and 2005 included approximately $2.0 million of lease expense for facilities at the DHL Air Park.

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NOTE D COMPUTATION OF EARNINGS PER SHARE

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

	December 31		
	2006	2005	2004
Net income applicable to common stockholders	$ 90,054	$ 30,312	$ 36,973
Weighted-average shares outstanding for basic earnings per share	58,270	58,270	58,270
Common equivalent shares:			
Effect of stock-based compensation awards	133	205	
Weighted-average shares outstanding assuming dilution	58,403	58,475	58,270
Basic earnings per share	$ 1.55	$ 0.52	$ 0.63
Diluted earnings per share	$ 1.54	$ 0.52	$ 0.63

Basic weighted average shares outstanding for purposes of basic earnings per share are less than the shares outstanding due to 268,900 shares and 114,700 shares of restricted stock for 2006 and 2005, respectively, which are accounted for as part of diluted weighted average shares outstanding in diluted earnings per share.

NOTE E MARKETABLE SECURITIES

The marketable securities held by the Company consist of debt securities, which are classified as available-for-sale. Marketable securities of approximately $5.4 million and $4.4 million at December 31, 2006 and 2005, respectively, contractually mature after one year and are included in other assets within the Company s consolidated balance sheets. Expected maturities may differ from contractual maturities because the issuers of certain securities may have the right to prepay the obligations without prepayment penalties.

The following is a summary of the Company s marketable securities (in thousands):

	Estimated Fair Market Value December 31,	
	2006	2005
Obligations of U.S. Government Agencies	$ 9,480	$ 12,977
Obligations of U.S. Corporations	11,336	7,052
Total marketable securities	$ 20,816	$ 20,029

NOTE F PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2006	2005
Aircraft and flight equipment	$ 685,652	$ 601,982

Maintenance and support equipment	48,602	47,136
Vehicles and other equipment	1,725	2,192
Leasehold improvements	849	147
	736,828	651,457
Accumulated depreciation and amortization	(278,190)	(269,812)
Property and equipment, net	$ 458,638	$ 381,645

Property and equipment includes $36.9 million and $35.4 million of property held under capital leases at December 31, 2006 and 2005, respectively, and accumulated depreciation and amortization includes $8.6 million and $5.9 million for property held under capital leases as of December 31, 2006 and 2005, respectively.

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In November 2004, DHL notified the Company of its plans to remove aircraft from service. In 2005, DHL removed seven aircraft and in August 2006, DHL removed 21 more from service to complete its November 2004 plan. Several of these aircraft had previously been placed in back-up status since September of 2005, when DHL consolidated its air hub operations from Cincinnati into its main, ABX-managed hub in Wilmington, Ohio, eliminating redundant air routes. The August 2006 reduction of 21 aircraft brought to 28 (fourteen DC-8s and fourteen DC-9s) the total number of aircraft released from service under the ACMI agreement since November 2004. DHL is continuing to fund depreciation for eight of the DC-9s that were removed through their remaining depreciable lives in August 2010. The Company will use the engines on these eight DC-9 aircraft to support the remaining 59 DC-9 aircraft that the Company has in service to DHL.

Under the ACMI agreement with DHL, the Company had the option to put each of the other aircraft to DHL at the lower of their fair value or net book value. After having the aircraft appraised, management decided to exercise the put provision on only one aircraft. Instead, the Company is marketing the remaining aircraft to part dealers and private operators, using aircraft for spare parts or, in some cases, operating aircraft as service back-ups or for other customers.

The removal of aircraft from service to DHL constituted an event requiring the Company to evaluate the recoverability of the carrying value of those aircraft removed from the ACMI agreement. In accordance with SFAS 144, ABX recorded an impairment charge of $0.3 million during the quarter ended September 30, 2006 for the excess of the carrying value of the aircraft over their fair value less cost to sell. The charge is reflected in other operating expenses on the statement of operations and is reflected in the DHL reportable segment.

NOTE G INCOME TAXES

As of December 31, 2005, the Company had a valuation allowance against its net deferred tax assets of $67.1 million. In the fourth quarter of 2006, the Company reached certain milestones and determined that it was more likely than not that all the net deferred tax assets would be realized prior to their expiration. This determination was based upon the Company s projection of taxable income, as well as the Company s earnings history since 2003. Accordingly, the full valuation allowance was reversed during 2006, resulting in a net income tax benefit for the year ended December 31, 2006.

At December 31, 2006, the Company had cumulative net operating loss carryforwards for federal income tax purposes of approximately $143.9 million, which begin to expire in 2022. The deferred tax asset balance includes $2.9 million related to state net operating loss carryforwards (NOL CFs), which have remaining lives ranging from 4 to 20 years. These net operating loss carryforwards are attributable to excess tax deductions related to the accelerated tax depreciation of fixed assets.

In June 2005, the State of Ohio enacted comprehensive tax reform. The Ohio Corporate Franchise tax will be phased out over the next five years and replaced by a gross receipts tax. As a result, the Company reduced the deferred tax assets, including the Ohio state franchise tax NOL CFs, of approximately $6.5 million in 2005, since the Company concluded these assets would not be realized within the applicable phase-out period. These deferred tax assets were already reserved by the valuation allowance. Therefore the reduction did not impact 2005 income from continuing operations.

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The components of the deferred income tax assets and liabilities as of December 31, 2006 and 2005 are as follows (in thousands):

	December 31, 2006	December 31, 2005
Deferred income tax assets:		
Net operating loss carryforward	$ 52,774	$ 51,478
Capital and operating leases	25,304	28,318
Post-retirement employee benefits	73,908	20,118
Employee benefits other than postretirement	8,472	7,695
State taxes		323
Other	3,612	2,577
Deferred income tax assets	164,070	110,509
Valuation allowance		(67,062)
Net deferred income tax assets	164,070	43,447
Deferred income tax liabilities:		
Accelerated depreciation and impairment charges	(61,874)	(43,447)
State taxes	(481)	
Net deferred income tax asset	$ 101,715	$

The following summarizes the components of the income tax provision (benefit) (in thousands):

	Year Ended December 31, 2006	2005	2004
Current taxes:			
Federal	$	$	$
State			
Deferred taxes:			
Federal	(52,022)		
State	(2,019)		
	(54,041)		
Total income tax benefit	$ (54,041)	$	$

The total tax provision is different from the amount that would have been recorded by applying the U.S. statutory federal income tax rate to income from continuing operations before taxes. Reconciliation of these differences is as follows:

	Year Ended December 31, 2006	2005	2004
Statutory federal tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal tax benefit	(1.4)%	(1.6)%	(3.9)%
Tax effect of non-deductible expenses	(2.1)%	(4.2)%	(1.6)%
Increase/(decrease) in federal NOL CF	0.8%	(0.6)%	24.9%

Elimination of Ohio state NOL CF and deferred tax assets	0.0%	(13.9)%	0.0%
Increase in state NOL CF and state deferred tax assets	1.1%	0.0%	17.9%
Other	0.7%	0.0%	0.0%
Change in valuation allowance	186.0%	55.3%	(2.3)%
Effective income tax benefit rate	150.1%	0.0%	0.0%

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NOTE H LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

	December 31, 2006	December 31, 2005
Promissory note due to DHL	$ 92,276	$ 92,276
Capital lease obligations	73,551	80,908
Aircraft loans	34,704	
Total long-term obligations	200,531	173,184
Less: current portion	(11,413)	(8,612)
Total long-term obligations, net	$ 189,118	$ 164,572

The unsecured promissory note is due in 2028 and bears interest at 5.00% per annum payable semi-annually. Interest on the promissory note is reimbursable under the ACMI agreement without mark-up. The capital lease obligations are for five Boeing 767 aircraft, and consist of two different leases, both expiring in 2011 with an option to extend into 2017. The capital lease payments for three of the five aircraft include quarterly principal and variable interest of LIBOR plus 2.50% (7.86% at December 31, 2006). The capital lease for the other two Boeing 767 aircraft carries a fixed implicit interest rate of 8.55%. At the termination of the leases, the Company is subject to normal aircraft return provisions for maintenance of the aircraft. The aircraft loans are collateralized by the financed aircraft, are due in 2016 and bear interest at rates from 6.88% to 7.07% per annum payable monthly.

The scheduled annual principal payments on long-term debt as of December 31, 2006 for the next five years are as follows (in thousands):

	Principal Payments
2007	$ 11,413
2008	12,343
2009	13,343
2010	14,435
2011	12,450
	$ 63,984

The Company has a $45.0 million credit facility through a syndicated credit agreement that expires in December 2008. Borrowings under the agreement are collateralized by substantially all of the Company s assets, and bear interest equal to the prime rate or a short term LIBOR (a one, two or three-month LIBOR, at the Company s discretion) plus 2.25%. The agreement contains an accordion feature to increase the borrowings to a total of $50.0 million if the Company needs additional borrowing capacity. The agreement provides for the issuance of letters of credit on the Company s behalf. As of December 31, 2006, the unused credit facility totaled $35.1 million, net of outstanding letters of credit of $9.9 million. There were no borrowings outstanding under the credit agreement.

Under the credit agreement, the Company is subject to other expenses, covenants and warranties that are usual and customary. The agreement stipulates events of default and contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, level of cash dividends, and certain other transactions as defined in the agreement. The credit agreement contains covenants restricting the level of annual capital expenditures. The agreement was amended to exclude from the covenants capital expenditures for the twelve aircraft modifications described below, beginning in 2005. The unsecured promissory note and the credit facility agreement restrict the Company from paying dividends on its common stock in excess of $1.0 million annually.

NOTE I COMMITMENTS AND CONTINGENCIES

Leases

The Company leases airport facilities and certain operating equipment under various long-term operating lease agreements. The Company subleases portions of the DHL Air Park from DHL. The term of the lease expires at the end of the transition period that follows termination of the ACMI agreement. The annual rent payable by the Company under the lease is approximately $2.0 million and is reimbursed by DHL without mark-up. Payments on operating leases, including rents payable to DHL, were $5.6 million, $4.4 million and $3.6 million for the years ended 2006, 2005 and 2004, respectively.

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Lease commitments under long-term capital and operating leases at December 31, 2006, are as follows (in thousands):

	Capital Leases	Operating Leases
2007	$ 15,698	$ 5,699
2008	15,606	5,423
2009	15,503	3,969
2010	15,381	2,234
2011	12,124	535
2012 and beyond	25,503	1,548
Total minimum lease payments	$ 99,815	$ 19,408
Less: interest	26,264	
Principal obligations	$ 73,551	

Commitments

In 2005, the Company reached an agreement with Delta Airlines, Inc. (Delta) committing the Company to purchase twelve Boeing 767 aircraft from Delta through 2008. The Company has contracted with an aircraft maintenance and modification provider to convert these aircraft from passenger to freighter configuration. As of December 31, 2006, the Company has purchased nine of the twelve aircraft and has placed four into service. The estimated costs of the remaining aircraft purchase commitments and the anticipated modification costs approximate $136.2 million for the aircraft. All of these costs are expected to be incurred through the first quarter of 2008.

During the modification process, financing for the aircraft and the modification costs will be provided through the aircraft maintenance vendor and the Company s existing cash. After the modification is complete, the Company anticipates that it may execute aircraft loans for up to six of the aircraft. These aircraft loans are expected to occur through a syndication process being arranged by the Company s lead bank. One loan for approximately $17.0 million was executed in February 2007. Under the anticipated financing transactions, the Company would finance two more of the aircraft for approximately $17.0 million and three of the aircraft for approximately $12.0 million.

Guarantees and Indemnifications

Certain operating leases and agreements of the Company contain indemnification obligations to the lessor, or one or more other parties that are considered ordinary and customary (e.g. use, tax and environmental indemnifications), the terms of which range in duration and are often limited. Such indemnification obligations may continue after expiration of the respective lease or agreement.

Department of Transportation (DOT) Continuing Fitness Review

The Company filed a notice of substantial change with the DOT arising from its separation from Airborne, Inc., in August 2003. In connection with the filing, which was initially made in mid-July of 2003 and updated in April of 2005, the DOT will determine whether the Company continues to be fit, willing and able to engage in air transportation of cargo and a U.S. citizen.

Under U.S. laws and DOT precedents, non-U.S. citizens may not own more than 25% of, or have actual control of, a U.S. certificated air carrier. The DOT may determine that DHL actually controls the Company as a result of its commercial arrangements (in particular, the ACMI agreement and Hub Services agreement) with DHL. If the DOT determines that the Company is controlled by DHL, the DOT could require amendments or modifications of the ACMI and/or other agreements between the Company and DHL. If the Company were unable to modify such agreements to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke the Company s air carrier certificates and/or authorities, and this would materially and adversely affect the business.

The DOT has yet to specify the procedures it intends to use in processing the Company s filing. Management believes the DOT should find that the Company is controlled by U.S. citizens and continues to be fit, willing and able to engage in air transportation of cargo.

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ALPA Lawsuit

On August 25, 2003, the Company intervened in a lawsuit filed in the U.S. District Court for the Southern District of New York by DHL Holdings and DHL Worldwide Express, Inc. (DHL Worldwide) against the Air Line Pilots Association (ALPA), seeking a declaratory judgment that neither DHL entity is required to arbitrate a grievance filed by ALPA. ALPA represents the pilot group at Astar. The grievance seeks to require DHL Holdings to direct its subsidiary, Airborne, now DHL Network Operations (USA), Inc., to cease implementing its ACMI agreement with ABX on the grounds that DHL Worldwide is a legal successor to Astar. ALPA similarly filed a counterclaim requesting injunctive relief that includes having DHL s freight currently being flown by ABX transferred to Astar.

The proceedings were stayed on September 5, 2003, pending the National Labor Relations Board s (NLRB) processing of several unfair labor practice charges the Company filed against ALPA on the grounds that ALPA s grievance and counterclaim to compel arbitration violates the National Labor Relations Act. In March 2004, the NLRB prosecuted ALPA on the unfair labor practice charges. On July 2, 2004, an Administrative Law Judge (ALJ) for the NLRB issued a decision finding that ALPA s grievance and counterclaim violated the secondary boycott provisions of the National Labor Relations Act, and recommended that the NLRB order ALPA to withdraw both actions. ALPA appealed the ALJ s finding to the full NLRB, which subsequently affirmed the ALJ s decision in its own decision and order dated August 27, 2005.

On September 14, 2005, ALPA filed a petition for review with the U.S. Court of Appeals for the Ninth Circuit and that Court subsequently granted the Company s motion to intervene in the case. The parties are currently in the process of preparing and filing briefs in the matter. Management believes that the NLRB s decision will be sustained on appeal and that ALPA s grievance and counterclaim will be denied.

Alleged Violations of Immigration Laws

The Company reported in January of 2005 that it was cooperating fully with an investigation by the U.S. Department of Justice (DOJ) with respect to Garcia Labor Co., Inc. (Garcia), a temporary employment agency based in Morristown, Tennessee, and ABX Air s use of contract employees that were being supplied to it by Garcia. The investigation concerns the immigration status of the Garcia employees assigned to the Company.

The Company terminated its contract with Garcia in February of 2005 and replaced the Garcia employees.

In October of 2005, the DOJ notified the Company that the Company and a few Company employees in its human resources department, in addition to Garcia, were targets of a criminal investigation. The Company cooperated fully with the investigation. In June of 2006, a non-senior management employee of the Company entered a plea to a misdemeanor related to this matter. In July of 2006, a federal grand jury indictment was unsealed, charging two Garcia companies, the president of Garcia and two of their corporate officers with numerous counts involving the violation of federal immigration laws. The Garcia defendants subsequently entered guilty pleas in U.S. district court in October of 2006 and were sentenced in February and March of 2007. No proceedings have been initiated against the Company. The Company believes it has adequately reserved for potential losses stemming from this matter. In the event proceedings were initiated against the Company that resulted in an adverse finding, the Company could be subjected to a financial penalty that is materially greater than the amount we have accrued and restrictions on our ability to engage in business with agencies of the U.S. Government.

Other

In addition to the foregoing matters, the Company is also currently a party to legal proceedings in various federal and state jurisdictions arising out of the operation of our business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, we believe that our ultimate liability, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to our financial condition or results of operations.

Employees Under Collective Bargaining Agreements

As of December 31, 2006, all of the Company s flight crewmembers were covered under a collective bargaining agreement that became amendable on July 31, 2006. The Company and representatives of the flight crewmembers have been negotiating new terms for the collective bargaining agreement. Flight crewmembers were 6.7% of the Company s total full-time and part-time employees as of December 31, 2006.

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NOTE J PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Defined Benefit and Post-retirement Healthcare Plans

The Company sponsors a qualified defined benefit plan for its pilots and a qualified defined benefit plan for its other employees that meet minimum eligibility requirements. The Company also sponsors non-qualified defined benefit pension plans for certain employees. These non-qualified plans are unfunded. The Company also sponsors a post-retirement healthcare plan which is unfunded. On September 1, 2005, the Company closed its qualified defined benefit plan to newly hired, non-flight crewmember employees. Instead, new non-flight crewmember employees will receive an annual contribution based on a fixed percentage of eligible compensation to a defined contribution plan.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates of our post-retirement costs. The assumptions considered most sensitive in actuarially valuing the Company s pension obligations and determining related expense amounts are discount rates, expected long-term investment returns on plan assets and future salary increases. Additionally, other assumptions concerning retirement ages, mortality and employee turnover also affect the valuations. Consideration of future medical cost trend rates is a critical assumption in valuing the Company s post-retirement healthcare obligations. Actual results and future changes in these assumptions could result in future costs significantly higher than those recorded in our results of operations.

In 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 required the Company to:

- recognize on its balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of pension and other post-retirement benefit plans; and

- recognize, through comprehensive income, certain changes in the funded status of a defined benefit and post-retirement plan in the year in which the changes occur.

SFAS 158 requires that the balance sheet liabilities for defined benefit plans reflect projected pension benefit obligations, which include estimates of benefits from projected salary increases in future years. The Company adopted SFAS 158 effective December 31, 2006 and the effects are shown below (in thousands). Retrospective application was not permitted.

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Incremental Effect of FASB 158 on Statement of Financial Position			
Intangible pension asset	$ 1,951	$ (1,951)	$
Liability for pension and post-retirement health care benefits	80,294	144,082	224,376
Deferred income taxes	48,705	53,010	101,715
Total liabilities	415,506	144,082	559,588
Accumulated other comprehensive loss	(10,587)	(93,023)	(103,610)
Total stockholders equity	213,233	(93,023)	120,210

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The Company measures plan assets and benefit obligations as of December 31 of each year. Information regarding the Company s sponsored defined benefit pension plan, and post-retirement healthcare follow below (in thousands). The accumulated benefit obligation reflects pension benefit obligations based on the actual earnings and service to-date of current employees. The effect of the pension plan amendment below is a result of the Pension Protection Act of 2006, which removed the sunset provisions for the Economic Growth and Tax Relief Reconciliation Act, permanently extending benefit limits.

	Pension Plans		Post-retirement Healthcare Plans	
	2006	**2005**	**2006**	**2005**
Accumulated benefit obligation	$ 414,944	$ 367,076	$ 34,121	$ 34,171
Change in benefit obligation				
Obligation as of January 1	$ 533,694	$ 403,234	$ 34,171	$ 27,418
Service cost	38,160	29,820	2,407	1,993
Interest cost	30,023	23,405	1,920	1,581
Plan amendment	6,416			
Plan transfers	1,278	588		
Benefits paid	(7,626)	(5,845)	(543)	(419)
Actuarial (gain) loss	(30,605)	82,492	(3,834)	3,598
Obligation as of December 31	$ 571,340	$ 533,694	$ 34,121	$ 34,171
Change in plan assets				
Fair value as of January 1	$ 297,653	$ 241,538	$	$
Actual gain on plan assets	35,573	19,067		
Plan transfers	1,278	588		
Employer contributions	54,207	42,306	543	419
Benefits paid	(7,626)	(5,846)	(543)	(419)
Fair value as of December 31	$ 381,085	$ 297,653	$	$
Funded status				
Intangible asset	$	$ 6,377	$	$
Pension liabilities	(190,255)	(70,151)	(34,121)	(19,267)
Accumulated other comprehensive loss, before income tax effect		21,073		
Net underfunded amount recognized on the balance sheet	(190,255)	(42,701)	(34,121)	(19,267)
Unrecognized net actuarial loss		(171,820)		(14,904)
Unrecognized prior service cost		(21,520)		
Funded status of the plans net underfunded	$ (190,255)	$ (236,041)	$ (34,121)	$ (34,171)

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit expense at December 31, 2006, are as follows (in thousands):

	Pension Plans	**Post-Retirement Healthcare Plans**
Unrecognized prior service cost	$ 23,678	$
Unrecognized net actuarial gain	120,310	9,997

	$ 143,988	$ 9,997

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Components of Net Periodic Benefit Cost

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

	Pension Plans			Postretirement Healthcare Plans		
	2006	2005	2004	2006	2005	2004
Service cost	$ 38,160	$ 29,820	$ 26,225	$ 2,407	$ 1,993	$ 1,526
Interest cost	30,023	23,405	19,755	1,920	1,581	1,247
Expected return on plan assets	(25,221)	(20,482)	(16,200)			
Net amortization and deferral	14,811	10,217	7,302	1,074	1,019	547
Net periodic benefit cost	$ 57,773	$ 42,960	$ 37,082	$ 5,401	$ 4,593	$ 3,320

The following table sets forth the amounts of unrecognized prior service cost and net actuarial loss recorded in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit expense during 2007 (in thousands):

	Pension Plans	Post-Retirement Healthcare Plans
Amortization of actuarial loss	$ 5,963	$ 633
Amortization of prior service cost	$ 4,818	

Assumptions

Assumptions used in determining the Company s pension obligations at December 31 were as follows:

	Pension Plans		
	2006	2005	2004
Discount rate (for qualified and non-qualified plans)	5.90%	5.70%	5.85%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase (pilots)	4.50%	4.50%	4.50%
Rate of compensation increase (non-pilots)	4.00%	4.00%	4.00%

The discount rate used to determine post-retirement healthcare obligations was 5.90%, 5.70% and 5.85% at December 31, 2006, 2005 and 2004, respectively. Post-retirement healthcare plan obligations have not been funded. The healthcare cost trend rate used in measuring post-retirement healthcare benefit costs was 11% for 2006, decreasing each year by 1% until it reaches a 5% annual growth rate in 2012. The effects of a 1% increase and decrease in the healthcare cost trend rate on 2006 cost and the accumulated post-retirement benefit obligation at December 31, 2006, are shown below (in thousands):

	1% Increase	1% Decrease
Effect on service and interest cost	$ 507	$ (407)
Effect on accumulated post-retirement benefit obligation	$ 3,724	$ (3,028)

Plan Assets

The weighted-average asset allocations by asset category:

Asset category	Composition of Plan Assets on December 31, 2006	2005
Equity securities	53%	61%
Fixed income securities	42%	39%
Real estate	5%	0%
	100%	100%

The Company uses an investment management firm to advise it in developing and executing an investment policy. The portfolio is managed with consideration for diversification, quality and marketability. The targeted asset allocation is 50%

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equity securities, 45% fixed income securities and 5% real estate. The investment policy permits the following ranges of asset allocation: equities 30.5% to 69.3%; fixed income securities 38.0% to 52.0%; real estate 3% to 7%. Except for U.S. Treasuries, no more than 10% of the fixed income portfolio and no more than 5% of the equity portfolio can be invested in securities of any single issuer.

An actuarial firm advised the Company in developing the overall expected long-term rate of return on plan assets. The overall expected long-term rate of return was developed using various market assumptions in conjunction with the plans targeted asset allocation. The assumptions were based on historical market returns.

Cash Flows

In 2006, the Company made contributions to its defined benefit pension plans of $54.2 million and contributions to its post-retirement healthcare plans of $0.5 million. The Company estimates that its contributions in 2007 will be approximately $45.0 million for its defined benefit pension plans and $1.1 million for its post-retirement healthcare plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the respective plans as follows (in thousands):

	Pension Benefits	Post-retirement Healthcare Benefits
2007	$ 10,303	$ 1,135
2008	13,215	1,422
2009	15,824	1,659
2010	18,965	1,898
2011	22,391	2,036
Years 2012 to 2016	160,294	11,884

Defined Contribution Plans

The Company sponsors defined contribution capital accumulation plans (401k) that are funded by both voluntary employee salary deferrals of up to 75% of annual compensation and by employer matching contributions on employee salary deferrals of up to 6% of annual compensation. The Company also sponsors a defined contribution profit sharing plan, which is coordinated and used to offset obligations accrued under the qualified defined benefit plans. Contributions to this plan, except contributions for the Company s pilots, were discontinued in 2000. Expenses for these plans are as follows (in thousands):

	Year Ended December 31		
	2006	2005	2004
Capital accumulation plans	$ 8,145	$ 6,998	$ 6,563
Profit sharing plans	1,062	1,069	1,038
Total expense	$ 9,207	$ 8,067	$ 7,601

NOTE K STOCK-BASED COMPENSATION

The Company s Board of Directors has granted stock incentive awards to certain employees and board members pursuant to a long-term incentive plan which was approved by the Company s stockholders in May 2005. Employees have been awarded non-vested stock units with performance conditions, non-vested stock units with market conditions and non-vested restricted stock. The restrictions on the non-vested restricted stock awards lapse at the end of a specified service period, which is approximately three years from the date of grant. Restrictions could lapse sooner upon a business combination, death, disability or after an employee qualifies for retirement. The non-vested stock units will be converted into a number of shares of Company stock depending on performance and market conditions at the end of a specified service period, lasting approximately three years. The performance condition awards will be converted into a number of shares of Company stock depending on the Company s average return on equity during the service period. Similarly, the market condition awards will be converted into a number of shares depending on the appreciation of the Company s stock compared to the NASDAQ Transportation Index. Board members were granted time-based awards with approximately a one-year vesting period, which will settle when the board member ceases to be a director of the Company. The Company expects to settle all of the stock unit awards by issuing new shares of stock. The table below summarizes award activity.

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	Twelve Months Ended December 31, 2006		Twelve Months Ended December 31, 2005	
	Number of Awards	Weighted average grant-date fair value	Number of Awards	Weighted average grant-date fair value
Outstanding at beginning of period	264,600	$ 8.33		$
Granted	332,400	6.61	264,600	8.33
Exercised				
Cancelled				
Outstanding at end of period	597,000	$ 7.37	264,600	$ 8.33
Vested	49,600	$ 7.44		

The grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company was $6.63 and $7.79 for 2006 and 2005, respectively, the value of the Company s stock on the date of grant. The grant-date fair value of each market condition award granted was $6.55 and $9.91 for 2006 and 2005, respectively. The market condition awards were valued using a Monte Carlo simulation technique based on volatility over one year using daily stock prices and using the following variables:

	2006	2005
Risk-free interest rate	4.71%	3.68%
Volatility	33.6%	45.2%

The Company accounts for the awards in accordance with SFAS No. 123 (revised 2004), Share-Based Payment. The standard requires the Company to measure the cost of services received in exchange for stock-based awards using the grant-date fair value of the award. For the years ended December 31, 2006 and 2005, the Company recorded expense of $1.7 million and $0.7 million for stock incentive awards, respectively. The Company has assumed no forfeitures. At December 31, 2006, there was $2.5 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.4 years. As of December 31, 2006, 597,000 awards had been granted and were outstanding. None of the awards were convertible, and none of the restricted stock had vested as of December 31, 2006. These awards could result in a maximum number of 736,250 additional outstanding shares of the Company s common stock depending on service, performance and market results through December 31, 2008.

NOTE L DERIVATIVE INSTRUMENTS

The Company anticipates that it may execute financing transactions for up to six of the eight aircraft it is committed to purchase and modify through 2008. To reduce its exposure to rising interest rates before anticipated aircraft financing transactions are executed, the Company entered into forward treasury lock agreements (treasury locks) during the first quarter of 2006. Under the anticipated financing transactions, the Company would finance aircraft under fixed interest rate loans based on the interest rates of the ten-year U.S. Treasury Notes. The value of the treasury locks are also based on the ten-year U.S. Treasury interest rates, effectively offsetting the effect of changing interest rates on the anticipated loan transactions. The treasury locks are with major U.S. financial institutions and will settle in cash upon expiration. The treasury locks are timed to expire in mid-2007, near the forecasted execution dates of the anticipated financing transactions.

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the Company accounts for the treasury locks as cash flow hedges. The treasury locks were evaluated and deemed to be highly effective as hedges at their inception and at December 31, 2006. The Company records unrealized gains or losses resulting from the changes in fair value in the consolidated balance sheets under accumulated other comprehensive income in stockholders equity. These gains and losses are recognized into earnings over the terms of the forecasted loan transactions. At December 31, 2006, any amounts of hedge ineffectiveness were not material.

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The table below provides information about outstanding treasury lock instruments at December 31, 2006 (in thousands):

Expire	Notional Amount	Stated interest rate	Market value (liability)
2007	$ 12,000	4.750%	$ (48)
2007	12,000	4.750%	(49)
	$ 24,000		$ (97)

NOTE M OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes the following transactions and tax effects for the years ended December 31, 2006, 2005 and 2004, respectively (in thousands):

	Before Tax	Income Tax (Expense) or Benefit	Net of Tax
2006			
Minimum pension liabilities	$ 13,122	$ (5,127)	$ 7,995
Unrealized gain (loss) on marketable securities	37	(13)	24
Unrealized gain (loss) on derivative instruments	575	(207)	368
Less: Reclassification of hedging gain realized in net income	(33)	12	(21)
Other comprehensive income (loss)	$ 13,701	$ (5,335)	$ 8,366
2005			
Minimum pension liabilities	$ (5,829)	$	$ (5,829)
Unrealized loss on marketable securities	(55)		(55)
Other comprehensive loss	$ (5,884)	$	$ (5,884)
2004			
Other comprehensive loss minimum pension liabilities	$ (7,690)	$	$ (7,690)

During the next twelve months, the Company estimates that net gains of $0.1 million from settled hedging instruments will be reclassified to net income.

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NOTE N SEGMENT INFORMATION

The Company operates in two reportable segments. The air cargo transportation, and package handling services provided to DHL under the ACMI and Hub Services agreements are aggregated below as DHL (see Note A)**.** The ACMI and charter services that the Company provides to customers other than DHL are referred to as Charters below**.** The Company s other activities, which include contracts with the U.S. Postal Service and aircraft parts sales and maintenance services, do not constitute a reportable segment and are combined in All other below. The Company s segment information for 2006, 2005 and 2004 is presented below (in thousands):

	Year Ended December 31		
	2006	**2005**	**2004**
Revenues:			
DHL	$ 1,211,870	$ 1,430,347	$ 1,175,804
Charters	24,440	13,864	16,673
All other	24,051	20,179	10,032
Total	$ 1,260,361	$ 1,464,390	$ 1,202,509
Depreciation and amortization expense:			
DHL	$ 41,655	$ 37,776	$ 36,797
Charters	3,596	3,243	13
All other	409	148	7
Total	$ 45,660	$ 41,167	$ 36,817
Pre-tax earnings:			
DHL	$ 22,452	$ 21,322	$ 30,203
Charters	3,704	1,138	2,525
All other	9,857	7,852	4,245
Total	$ 36,013	$ 30,312	$ 36,973

	December 31	
	2006	**2005**
Assets:		
DHL	$ 358,211	$ 368,733
Charters	126,682	62,392
All other	194,905	84,918
Total	$ 679,798	$ 516,043

During 2006, the Company had capital purchases of $12.1 million and $111.1 million for the DHL and Charter segments, respectively. Interest income of $4.8 million and $2.4 million is included in All other pre-tax earnings for 2006 and 2005, respectively. In 2004, interest earned on cash and cash equivalents reduced interest expense when calculating revenue under the DHL agreements. Beginning in 2005, interest earned on cash and cash equivalents is not included in the DHL revenue calculation. Interest expense of $7.3 million for 2006 and 2005 and $6.8 million for 2004 is reimbursed through the commercial agreements with DHL and included in the DHL earnings above. All other interest is included in the All other category. Cash, cash equivalents, marketable securities and deferred tax assets are reflected in Assets All other.

The Company does not allocate overhead costs that are reimbursed by DHL to its non-DHL activities. The provisions of the commercial agreements with DHL do not require an allocation of overhead until such time as ABX derives more than 10% of its total revenue from non-DHL business activities. Beginning with the Company s issuance of stock awards in the second quarter of 2005, certain administration costs that are not reimbursed by DHL are allocated to the DHL segment based on segment earnings.

The Company s international revenues were approximately $17.2 million, $12.0 million and $9.9 million for 2006, 2005 and 2004, respectively, derived primarily from international flights. All revenues for the DHL segment are attributed to U.S. operations.

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NOTE O QUARTERLY RESULTS (Unaudited)

The following is a summary of quarterly results of operations (in thousands except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2006				
Revenues	$ 369,165	$ 303,578	$ 281,348	$ 306,270
Net earnings	8,093	6,459	6,574	68,928
Weighted average shares:				
Basic	58,270	58,270	58,270	58,270
Diluted	58,413	58,567	58,585	58,487
Earnings per share				
Basic	$ 0.14	$ 0.11	$ 0.11	$ 1.18
Diluted	$ 0.14	$ 0.11	$ 0.11	$ 1.18
2005				
Revenues	$ 346,594	$ 351,237	$ 369,921	$ 396,638
Net earnings	7,083	6,755	7,391	9,083
Weighted average shares:				
Basic	58,270	58,270	58,270	58,270
Diluted	58,270	58,454	58,322	58,449
Earnings per share				
Basic	$ 0.12	$ 0.12	$ 0.13	$ 0.16
Diluted	$ 0.12	$ 0.12	$ 0.13	$ 0.16

In December 2006, the Company recorded an income tax benefit of $54.0 million to reverse the remaining valuation allowance on deferred tax assets. During the fourth quarters of 2006 and 2005, the Company recognized revenues of $7.3 million and $4.7 million, respectively, for achieving annual cost-related and service goals under the ACMI and Hub Services commercial agreements with DHL. In addition, in the fourth quarter of 2005, the Company agreed to reduce revenues by $1.9 million for credits granted to DHL stemming from higher than anticipated costs since the hub consolidation in September 2005.

NOTE P RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issuance of the Company s original Form 10-K, the Company s management determined that the consolidated statement of cash flows for the year ended December 31, 2006 did not properly classify certain payments made for capital expenditures as investing activities. Rather, such payments were reflected as operating activities. This misclassification resulted in an understatement of cash flows provided by operating activities and an equal understatement of cash flows used by investing activities. As a result, the consolidated statement of cash flows for the year ended December 31, 2006 has been restated to correct this error. In addition, the consolidated statement of cash flows for the year ended December 31, 2004 has been restated to reflect the reduction in restricted cash as a source of cash from investing activities rather than a source of cash from operating activities. This restatement does not impact the Company s previously reported consolidated balance sheets, statements of earnings, comprehensive income, or changes in stockholders equity.

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The following table shows the previously reported, adjustments and restated amounts for those line items in the Company s previously reported consolidated statements of cash flows (in thousands):

	Year ended December 31, 2006		
	Previously reported	Adjustments	Restated
Changes in accounts payable	$ (46,284)	$ 10,562	$ (35,722)
Net cash provided by operating activities	54,418	10,562	64,980
Capital expenditures	(89,003)	(10,562)	(99,565)
Net cash used in investing activities	(86,666)	(10,562)	(97,228)

	Year ended December 31, 2004		
	Previously reported	Adjustments	Restated
Restricted cash	$ 2,640	$ (2,640)	
Net cash provided by operating activities	57,174	(2,640)	54,534
Reduction in restricted cash		2,640	2,640
Net cash used in investing activities	(73,668)	2,640	(71,028)

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ITEM 9A. CONTROLS AND PROCEDURES

Restatement of Previously Issued Financial Statements

As disclosed in the Company s original 10-K filing for the period ended December 31, 2006, the Company had previously carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures and had previously concluded that such disclosure controls and procedures were effective. Subsequent to the Company s original 10-K filing, the Company has restated its consolidated statements of cash flows as discussed in Note P to the consolidated financial statements included with Part II, Item 8 of this report.

Evaluation of Disclosure Controls and Procedures

As a result of the restatement described above, the Company has reassessed its evaluation, under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon its reassessed evaluation, management, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of the end of the period covered by this Report (the year ended December 31, 2006).

Management has concluded that as of December 31, 2006, the Company did not maintain effective controls over the preparation and review of its consolidated statement of cash flows. Specifically, the Company did not maintain effective controls to appropriately report cash spent for capital expenditures. This error resulted in a misstatement of cash flows from investing and operating activities. This control deficiency resulted in the restatement of the Company s consolidated statements of cash flows for 2006. Further, this control deficiency resulted in a misstatement of the consolidated statement of cash flows that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

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Management s Annual Report on Internal Controls over Financial Reporting (as Revised)

The management of ABX Air, Inc. and subsidiaries are responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company s management assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework.

Management has concluded that as of December 31, 2006, the Company did not maintain effective controls over the preparation and review of its consolidated statement of cash flows. Specifically, the Company did not maintain effective controls to appropriately report cash payments for capital expenditures. This error resulted in a misstatement of cash flows from investing and operating activities. This control deficiency resulted in the restatement of the Company s consolidated statements of cash flows for 2006. Further, if not remediated, this control deficiency could result in a misstatement of the consolidated statement of cash flows that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

The Company s registered public accounting firm has issued an attestation report on our assessment of the Company s internal control over financial reporting. That report is included below.

Changes in Internal Control over Financial Reporting

During the preparation of the consolidated statement of cash flows for the six month period ended June 30, 2007, management detected the material weakness as described above. In an effort to remediate this material weakness in the Company s internal control over financial reporting, management has subsequently implemented a revised process to ensure that capital expenditures are properly reflected in the statement of cash flows in accordance with SFAS No. 95, Statement of Cash Flows. For the second quarter of 2007, the Company added additional oversight review, accounts payable roll-forward and tie-out processes to appropriately report cash paid for capital expenditures. Accordingly, management believes this process has remediated the material weakness as of the end of the six month period ended June 30, 2007.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including cost limitations, judgments used in decision making, assumptions regarding the likelihood of future events, soundness of internal controls, fraud, the possibility of human error and the circumvention or overriding of the controls and procedures. As further described above, management detect a material weakness in the Company s controls to appropriately report cash paid for capital expenditures that materially affected, or was reasonably likely to materially affect, ABX s internal control over financial reporting for the fiscal year December 31, 2006. There was no other change in internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, ABX s internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ABX Air, Inc.

Wilmington, Ohio

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Controls Over Financial Reporting (as revised), that ABX Air, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weakness identified in management s assessment based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 15, 2007, we expressed an unqualified opinion on management s assessment that the Company maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2006. As described in the following paragraph, the Company subsequently identified material misstatements in its annual financial statements, which caused such annual financial statements to be restated. Management subsequently revised its assessment due to the identification of a material weakness, described in the following paragraph, in connection with the financial statement restatement. Accordingly, our opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, expressed herein is different from that expressed in our previous report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s assessment: the Company did not maintain effective controls to appropriately report cash spent for capital expenditures in its consolidated statement of cash flows. This material weakness resulted in the restatement of the Company s previously issued financial statements as described in Note P to the consolidated financial statements. This deficiency was determined to be a material weakness, based upon the actual misstatements identified, the potential for additional material misstatements to have occurred as a result of the deficiency and the lack of other mitigating controls. This material weakness was considered in determining the nature,

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timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2006 (as restated), of the Company and this report does not affect our report on such financial statements and financial statement schedules.

In our opinion, management s revised assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2006 of the Company and our report dated March 15, 2007 (August 13, 2007 as to the effects of the restatement discussed in Note P) expressed an unqualified opinion on those financial statements and financial statement schedules.

DELOITTE & TOUCHE LLP

Dayton, Ohio

March 15, 2007 (August 13, 2007 as to the effect of the material weakness described in Management s Report on Internal Controls Over Financial Reporting (as revised))

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of Documents filed as part of this report:

(1) Consolidated Financial Statements
The following are filed in Part II, item 8 of this Form 10-K/A Annual Report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Earnings
Consolidated Statements of Cash Flows
Consolidated Statements of Stockholders Equity
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules
The following consolidated financial statement schedules of the Company are included as follows:

Schedule II Valuation and Qualifying Account

All other schedules are omitted because they are not applicable or are not required, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits
The following exhibits are filed with or incorporated by reference into this report.

Exhibit No.	Description of Exhibit
	Plan of acquisition, reorganization, arrangement, liquidation or succession.
2.1	Agreement and Plan of Merger, dated as of March 25, 2003, by and among Airborne, Inc., DHL Worldwide Express B.V. and Atlantis Acquisition Corporation (included as Appendix A to the proxy statement/prospectus which is a part of this registration statement). (1)
	Articles of Incorporation
3.1	Amended and Restated Certificate of Incorporation of ABX Air, Inc. (14)
3.2	Amended and Restated Bylaws of ABX Air, Inc. (1)
	Instruments defining the rights of security holders
4.1	Specimen of common stock of ABX Air, Inc. (3)
4.2	Form of Preferred Stock Rights Agreement dated the effective date of the merger, by and between ABX Air, Inc. and a rights agent. (1)

	Material Contracts
10.1	Form of Master Separation Agreement dated as of the effective date of the merger, by and among Airborne, Inc., ABX Air, Inc. and Wilmington Air Park LLC. (included as Appendix B to the proxy statement/prospectus which is a part of this registration statement) (1)
10.2	Form of ACMI Service Agreement, dated as of the effective date of the merger, by and between ABX Air, Inc. and Airborne, Inc. (Certain portions have been omitted based upon a request for confidential treatment. The nonpublic information has been filed with the Securities and Exchange Commission.) (2)
10.3	Form of Hub and Line-Haul Services Agreement dated as of the effective date of the merger, by and between ABX Air, Inc. and Airborne, Inc. (1)
10.4	Form of Performance Guaranty dated as of the effective date of the merger, by and between DHL Holdings USA, Inc. and Airborne, Inc. with respect to the Hub and Line-Haul Services Agreement. (1)
10.5	Form of Performance Guaranty dated as of the effective date of the merger, by and between DHL Holdings USA, Inc. and Airborne, Inc. with respect to the ACMI Service Agreement. (1)
10.6	First Non-Negotiable Promissory Note issued by ABX Air, Inc. in favor of Airborne Inc., (5)
10.7	Form of Second Non-Negotiable Promissory Note issued by ABX Air, Inc. in favor of DHL Holdings (USA), Inc. (1)

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10.8	Form of Transition Services Agreement, dated as of the effective date of the merger, by and between ABX Air, Inc. and Airborne, Inc. (1)
10.9	Form of Wilmington Airpark Sublease, dated as of the effective date of the merger, by and between ABX Air, Inc. and Airborne, Inc. (1)
10.10	Form of Employee Matters Agreement dated as of the effective date of the merger, by and between Airborne, Inc. and ABX Air, Inc. (1)
10.11	Form of Tax Sharing Agreement dated as of the effective date of the merger, by and between Airborne, Inc. and ABX Air, Inc. (1)
10.12	Participation Agreement dated as of August 16, 2001, among ABX Air, Inc., as lessee, Mitsui & Co. Ltd., as finance lessor, Tomair LLC, as Owner Participant, and Wells Fargo Bank Northwest, National Association, as Owner Trustee. (1)
10.13	Lease Agreement dated as of August 21, 2001, between Owner Trustee, as lessor, and ABX Air, Inc., as lessee. (1)
10.14	Form of change in control agreement with CEO and each of the next four highest paid officers. (4)
10.15	Form of Retention Bonus Agreement with CEO and each of the next four highest paid officers. (4)
10.15a	Form of Amendment to Retention Bonus Agreement, filed herewith.
10.16	Director compensation fee summary. (6)
10.17	Form of Executive Incentive Compensation Plan for CEO and the next four highest paid officers. (9)
10.18	Credit Agreement, dated as of March 31, 2004. (7)
10.19	Amendment No.1-dated June 18, 2004 to the Credit Agreement dated as of March 31, 2004. (8)
10.20	Form of Long-Term Incentive Compensation plan for officers, dated July 12, 2005. (10)
10.21	Amendment to the Hub and Line-Haul Services Agreement, dated August 9, 2005. (11)
10.22	Form of Long-Term Incentive Compensation Plan for directors, dated October 4, 2005. (12)
10.23	Aircraft modification agreement with Israel Aircraft Industries, Ltd. (13)
10.24	Consent to Assignment of ACMI Service Agreement and Hub & Line-Haul Services Agreement. (13)
10.25	Agreement with DHL, dated March 15, 2006. (13)
10.26	Letter from DHL dated July 19, 2006, notifying ABX Air, Inc. of a change to the scope of services under the ACMI agreement. (14)
10.27	Aircraft Loan and Security Agreement and related promissory note, dated August 24, 2006, by and among ABX Air, Inc. and Chase Equipment Leasing, Inc. (14)
10.28	Aircraft Loan and Security Agreement and related promissory note, dated October 10, 2006, by and among ABX Air, Inc. and Chase Equipment Leasing, Inc. (15)
	Code of Ethics
14.1	Code of Ethics CEO and CFO. (6)
	List of Subsidiaries
21.1	List of Subsidiaries of ABX Air, Inc. (15)
	Consent of experts and counsel
23.1	Consent of independent registered public accounting firm, filed herewith.
	Certifications
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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(1) Incorporated by reference to the Company s Registration Statement Form S-4 filed on May 9, 2003 with the Securities and Exchange Commission.

(2) Incorporated by reference to the Company s Registration Statement Form S-4/A filed on June 18, 2003 with the Securities and Exchange Commission, as amended.

(3) Incorporated by reference to the Company s Registration Statement Form S-4/A filed on July 9, 2003 with the Securities and Exchange Commission, 2003, as amended.

(4) Incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on November 14, 2003 with the Securities and Exchange Commission.

(5) Incorporated by reference to the Company s Annual Report of Form 10-K filed on March 25, 2004 with the Securities and Exchange Commission.

(6) Incorporated by reference to the Company s Proxy Statement for the 2007 Annual Meeting of Stockholders.

(7) Incorporated by reference to the Company s 8-K filed on April 7, 2004.

(8) Incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on August 11, 2004 with the Securities and Exchange Commission.

(9) Incorporated by reference to the Company s Quarterly Report on Form 10-Q filed on May 14, 2004 with the Securities and Exchange Commission.

(10) Incorporated by reference to the Company s 8-K filed on July 12, 2005.

(11) Incorporated by reference to the Company s 8-K filed on August 9, 2005.

(12) Incorporated by reference to the Company s 8-K filed on October 4, 2005.

(13) Incorporated by reference to the Company s Annual Report of Form 10-K filed on March 16, 2006 with the Securities and Exchange Commission.

(14) Incorporated by reference to the Company s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2006.

(15)

Incorporated by reference to the Company s Annual Report on Form 10-K/A (Amendment No. 1), filed with the Securities and Exchange Commission on August 14, 2007.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ABX Air, Inc.

Signature	Title	Date
/s/ Joseph C. Hete	President and Chief Executive Officer	August 17, 2007
Joseph C. Hete		

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