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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

**For Quarter Ended June 30, 2006**

**Commission File Number 000-50368**

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**ABX AIR, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of incorporation  
or organization)

**91-1091619**  
(IRS Employer  
Identification No.)

**145 Hunter Drive**  
**Wilmington, Ohio 45177**  
(Address of Principal Executive Office)

**(937) 382-5591**  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of August 9, 2006, ABX Air, Inc. had outstanding 58,270,400 shares of common stock, par value \$.01.

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**ABX AIR, INC. AND SUBSIDIARIES**  
**Form 10-Q**  
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## **FORWARD LOOKING STATEMENTS**

Statements contained in this quarterly report on Form 10-Q that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as “projects,” “believes,” “anticipates,” “will,” “estimates,” “plans,” “expects,” “intends” and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in this report and in our 2005 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

### **Filings with the Securities and Exchange Commission**

Our filings with the Securities and Exchange Commission, including annual reports on Form 10-K, 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](http://www.ABXAir.com).

**PART 1. FINANCIAL INFORMATION**

*Item 1. Financial Statements*

**ABX AIR, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
REVENUES	\$303,578	\$351,237	\$672,743	\$697,831
OPERATING EXPENSES				
Salaries, wages and benefits	152,592	143,746	317,357	286,206
Fuel	69,714	63,549	131,052	122,266
Purchased line-haul	18,955	77,273	84,449	151,108
Maintenance, materials and repairs	23,211	26,243	55,849	54,016
Depreciation and amortization	11,350	10,252	22,353	19,884
Landing and ramp	4,516	4,490	12,122	14,256
Rent	2,280	1,865	4,710	3,964
Other operating expenses	12,910	14,748	27,019	27,885
	<u>295,528</u>	<u>342,166</u>	<u>654,911</u>	<u>679,585</u>
INTEREST EXPENSE	(2,733)	(2,844)	(5,566)	(5,263)
INTEREST INCOME	1,142	528	2,286	855
INCOME BEFORE INCOME TAXES	6,459	6,755	14,552	13,838
INCOME TAXES	—	—	—	—
NET EARNINGS	<u>\$ 6,459</u>	<u>\$ 6,755</u>	<u>\$ 14,552</u>	<u>\$ 13,838</u>
EARNINGS PER SHARE				
Basic	<u>\$ 0.11</u>	<u>\$ 0.12</u>	<u>\$ 0.25</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.12</u>	<u>\$ 0.25</u>	<u>\$ 0.24</u>
WEIGHTED AVERAGE SHARES				
Basic	<u>58,270</u>	<u>58,270</u>	<u>58,270</u>	<u>58,270</u>
Diluted	<u>58,567</u>	<u>58,454</u>	<u>58,481</u>	<u>58,454</u>

See notes to consolidated financial statements.

**ABX AIR, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 58,234	\$ 69,473
Accounts receivable, net of allowance of \$872 in 2006 and 2005	5,400	15,776
Inventory	13,831	14,014
Marketable securities	15,075	15,637
Prepaid supplies and other	6,553	5,546
<b>TOTAL CURRENT ASSETS</b>	<u>99,093</u>	<u>120,446</u>
Property and equipment, net	413,673	381,645
Other assets	14,736	13,952
<b>TOTAL ASSETS</b>	<u>\$ 527,502</u>	<u>\$ 516,043</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 59,649	\$ 78,068
Salaries, wages and benefits	44,780	47,249
Accrued expenses	9,632	9,240
Current portion of post-retirement liabilities	16,594	14,701
Current portion of long-term obligations	9,089	8,612
Unearned revenue	6,827	4,399
<b>TOTAL CURRENT LIABILITIES</b>	<u>146,571</u>	<u>162,269</u>
Long-term obligations	160,580	164,572
Post-retirement liabilities	87,526	74,618
Other liabilities	2,403	1,505
Commitments and contingencies (Note G)		
<b>STOCKHOLDERS' EQUITY:</b>		
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 in 2006 and 2005, respectively; 58,270,400 outstanding in 2006 and 2005	585	584
Additional paid-in capital	430,121	429,338
Deficit	(283,338)	(297,890)
Accumulated other comprehensive loss	(16,946)	(18,953)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>130,422</u>	<u>113,079</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 527,502</u>	<u>\$ 516,043</u>

See notes to consolidated financial statements.

**ABX AIR, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Six Months Ended June 30	
	2006	2005
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 14,552	\$ 13,838
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	22,353	19,884
Post-retirement liabilities	14,781	9,940
Other	853	—
Changes in assets and liabilities:		
Accounts receivable	10,376	30,022
Inventory and prepaid supplies	(89)	(2,130)
Accounts payable	(28,627)	(9,529)
Unearned revenue	2,428	3,922
Accrued expenses, salaries, wages and benefits and other liabilities	(1,179)	(2,116)
Other assets	556	209
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>36,004</u>	<u>64,040</u>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(43,371)	(16,690)
Purchases of marketable securities	(8,857)	—
Proceeds from sales of marketable securities	8,500	—
NET CASH USED IN INVESTING ACTIVITIES	<u>(43,728)</u>	<u>(16,690)</u>
<b>FINANCING ACTIVITIES:</b>		
Principal payments on long-term obligations	(4,222)	(3,897)
Proceeds from borrowings	707	—
Financing fees	—	(103)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,515)</u>	<u>(4,000)</u>
NET (DECREASE) INCREASE IN CASH	(11,239)	43,350
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	69,473	38,749
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 58,234</u>	<u>\$ 82,099</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Accrued aircraft modification expenditures	\$ 10,208	\$ —
Interest paid, net of amount capitalized	<u>\$ 5,334</u>	<u>\$ 5,144</u>

See notes to consolidated financial statements.

**ABX AIR, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2006**

**NOTE A—SUMMARY OF FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

The interim period consolidated financial statements of ABX Air, Inc. and its subsidiaries (“ABX” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information, footnotes and disclosures required by generally accepted accounting principles for complete financial statements and are unaudited. The results of operations and cash flows for any interim periods are not necessarily indicative of results that may be reported for the full year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2005 financial amounts are extracted from the annual audited financial statements. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions between the Company and its subsidiaries are eliminated upon consolidation.

*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.

*Revenue Recognition*

The Company derives approximately 97% of its revenues from an aircraft, crew, maintenance and insurance agreement (“ACMI agreement”) and a hub and line-haul agreement (“Hub Services agreement”) with DHL Network Operations (USA), Inc. (“DHL”). Revenues from DHL are determined based on the expenses incurred during a reporting period. 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 a promissory note due to DHL, certain ramp and facility rent and landing fees, incurred under the two commercial agreements are reimbursed and included in revenues without mark-up. For the month of April 2006, no mark-up was recorded on the over-the-road truck line-haul network while those operations were transitioned to DHL. Beginning May 1, 2006, the Company no longer operated the line-haul network for DHL.

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 cost and service goals outlined in the two commercial agreements. The agreements stipulate the setting of quarterly and annual cost goals and annual service goals 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 the fourth quarter. In a similar way, the Company measures quarterly goals and records incremental revenues in the quarter in which earned.

The Company derives a portion of its revenues from customers other than DHL. ACMI/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 and technical 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.

### *Income Taxes*

Income taxes are 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 deferred tax assets is recorded when it is likely 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.

The Company's income tax provision was completely offset by the change in the valuation allowance for the three and six month periods ended June 30, 2006 and 2005. The deferred tax assets remain fully reserved at June 30, 2006.

### *Comprehensive Income*

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

### *Cash and Cash Equivalents*

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

### *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 income or loss within stockholders' equity. Interest on marketable securities is included in interest income. Realized gains and losses of any securities sold are based on the specific identification method.

### *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 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.

### *Property and Equipment*

Property and equipment are stated at cost, net of any impairment recorded, in accordance with 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.

The Company periodically evaluates, when events or circumstances require, the useful lives, salvage values and fair values of property and equipment. The 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.

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 are 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 based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets held for sale or disposition are carried at the lower of carrying value or fair value less the cost to sell.

The cost of modifying passenger aircraft to freighter aircraft configuration is capitalized as incurred. 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 \$0.4 million and \$0.6 million for the six months ended June 30, 2006 and 2005, respectively. The costs of major airframe and engine overhauls on the Company's in-service fleet, as well as routine maintenance and repairs, are charged to expense as incurred.

#### *Unearned Revenue*

As specified in the two commercial agreements with DHL, the Company is advanced funds on each Monday for the costs budgeted to be incurred for the upcoming week. Unearned revenue reflects those funds that the Company has received in advance of incurring the associated cost to perform under the commercial agreements. Unearned revenue also includes advance payments from customers other than DHL.

#### *Stock-Based Payments*

The Company measures the cost of services received in exchange for stock-based awards using the grant-date fair value of the award. The cost of the awards is recognized over the period during which service is required to be provided. Restricted stock awards granted to employees vest over a service period. 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.

#### *Recent Accounting Pronouncements*

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes" 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 on 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 in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements.

#### **NOTE B—TRANSACTIONS WITH DHL**

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 \$294.8 million and \$344.2 million for the three month periods ended June 30, 2006 and 2005, respectively, and \$655.7 million and \$684.4 million for the six month periods ended June 30, 2006 and 2005, respectively.

The Company's balance sheets include the following balances related to operations for DHL (in thousands):

<u>Assets (Liabilities):</u>	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Accounts receivable	\$ 2,345	\$ 10,574
Excess funding and interest payable	(20,384)	(395)
Unearned revenue	(6,343)	(4,151)
Net asset (liability)	<u>\$(24,382)</u>	<u>\$ 6,028</u>

In November 2004, DHL notified the Company of its plans to remove 26 aircraft from service. DHL further indicated that the number of affected aircraft, the air routes and the timing of planned reductions would be subject to change. Through July 18, 2006, seven aircraft had been removed from active service in the ACMI agreement since the Company received the November 2004 notification. In conjunction with its November 2004 plan, DHL notified the Company in July 2006 that 21 specific aircraft (11 DC-9s and 10 DC-8s) will be released from dedicated service for DHL effective August 1, 2006. Several of these aircraft had 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 planned August 2006

reduction of 21 aircraft will bring to 28 the total number of aircraft released from service under the ACMI agreement since November 2004. DHL will continue to fund depreciation for eight of the DC-9s that are being removed through their remaining depreciable life 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.

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 depends 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 now, any amount by which the fair market value is less than net book value would be recorded as an operating charge. 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. The removal of aircraft will result in impairment charges for aircraft in which their fair market value is less than their carrying value.

In March 2006, DHL notified the Company of its intent to reduce certain services provided under the Hub Services agreement. Specifically, since May 1, 2006, DHL is directly managing the over-the-road truck line-haul network previously managed by the Company. The Company did not realize any net earnings from the line-haul operations during the three months ended June 30, 2006 and had net earnings of approximately \$1.3 million from the line-haul operations during the first six months of 2006. Additionally, DHL plans to transition the operation of its regional hub in Allentown, Pennsylvania, from the Company's management during the first quarter of 2007. The Company's net earnings from the Allentown operations were approximately \$0.1 million and \$0.2 million during three and six month periods ended June 30, 2006.

#### NOTE C—EARNINGS PER SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income applicable to common stockholders	\$ 6,459	\$ 6,755	\$14,552	\$13,838
Weighted-average shares outstanding for basic earnings per share	58,270	58,270	58,270	58,270
Common equivalent shares:				
Effect of stock-based compensation awards	297	184	211	184
Weighted-average shares outstanding assuming dilution	58,567	58,454	58,481	58,454
Basic earnings per share	\$ 0.11	\$ 0.12	\$ 0.25	\$ 0.24
Diluted earnings per share	\$ 0.11	\$ 0.12	\$ 0.25	\$ 0.24

#### NOTE D—MARKETABLE SECURITIES

The marketable securities held by the Company consist of debt securities, which are classified as available-for-sale. Marketable securities of approximately \$5.3 million at June 30, 2006 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	
	June 30, 2006	December 31, 2005
Obligations of U.S. Government Agencies	\$ 14,304	\$ 12,977
Obligations of U.S. corporations	6,033	7,052
Total marketable securities	\$ 20,337	\$ 20,029

## NOTE E—PROPERTY AND EQUIPMENT

At June 30, 2006, the Company's operating fleet consisted of 113 aircraft, including 30 Boeing 767, 70 McDonnell Douglas DC-9 and 13 McDonnell Douglas DC-8 aircraft.

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

	June 30, 2006	December 31, 2005
Aircraft and flight equipment	\$ 652,651	\$ 601,982
Support equipment	48,843	47,136
Vehicles and other equipment	2,093	2,192
Leasehold improvements	532	147
	<u>704,119</u>	<u>651,457</u>
Accumulated depreciation	(290,446)	(269,812)
Property and equipment, net	<u>\$ 413,673</u>	<u>\$ 381,645</u>

Aircraft and flight equipment included \$35.4 million for aircraft held under capitalized leases as of June 30, 2006 and December 31, 2005. Accumulated depreciation included \$7.2 million as of June 30, 2006 and \$5.9 million as of December 31, 2005 for capital leases.

## NOTE F—LONG TERM DEBT AND CREDIT FACILITY

Long-term debt consisted of the following (in thousands):

	June 30, 2006	December 31, 2005
Promissory note due to DHL	\$ 92,276	\$ 92,276
Capital lease obligations	77,393	80,908
Total long-term obligations	169,669	173,184
Less: current portion	(9,089)	(8,612)
Total long-term obligations, net	<u>\$160,580</u>	<u>\$ 164,572</u>

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 include five Boeing 767 aircraft and consist of two different leases, both expiring in 2011 with options to renew for six additional years. The capital lease terms for three of the five aircraft include quarterly principal payments and variable interest of LIBOR plus 2.50% (7.75% at June 30, 2006). The capital lease for the other two Boeing 767 aircraft is at an imputed interest rate of 8.55%. The interest expense related to the capitalized aircraft lease obligations is reimbursable with mark-up under the ACMI agreement with DHL.

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 June 30, 2006, the unused credit facility totaled \$37.4 million, net of outstanding letters of credit of \$7.6 million. There were no borrowings outstanding under the Credit Agreement as of June 30, 2006.

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 Company is in compliance with the terms of the credit agreement.

## NOTE G—COMMITMENTS AND CONTINGENCIES

### Leases

The Company leases aircraft, airport facilities, and certain operating equipment under various long-term operating lease agreements. The Company subleases portions of the DHL Air Park in Wilmington, Ohio from a DHL affiliate. The term of the sublease 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 reimbursable by DHL without mark-up.

### Commitments

In 2005, the Company reached an agreement with Delta Air Lines, Inc. (“Delta”) committing the Company to purchase twelve additional Boeing 767 aircraft from Delta through 2008. The Company contracted with an aircraft maintenance and modification provider to convert these aircraft from passenger to standard freighter configuration. Of these twelve aircraft, one was deployed in the Company’s operations during the second quarter of 2006 and another was deployed in July 2006. Based on the most current projections, the Company is planning to deploy two more former Delta aircraft in the second half of 2006, and eight additional aircraft during the next two years. The estimated costs of the remaining aircraft purchase commitments and the anticipated modification costs approximate \$160.6 million as of June 30, 2006. Payments by period are estimated below (in thousands):

	Remainder of			
	2006	2007	2008	Total
Aircraft and modification commitments	\$ 50,331	\$85,729	\$24,513	\$160,573

### Guarantees and Indemnifications

Certain operating leases and agreements of the Company contain indemnification obligations to the lessor, service provider or vendor that are considered ordinary and customary (e.g. use, tax, environmental and employee 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.

### Legal Proceedings

#### (a) 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 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.

#### (b) 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, Inc., 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 have filed briefs in the matter, and the Company is currently waiting for the court to set a date for oral argument. Management believes that the NLRB's decision will be sustained on appeal and that ALPA's grievance and counterclaim will be denied.

(c) 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'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 2006, a non-senior management employee of the Company entered a plea to a misdemeanor related to this matter. On July 25, 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. 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.

**NOTE H—COMPONENTS OF NET PERIODIC BENEFIT COST**

The Company sponsors a qualified defined benefit pension plan for its flight crewmembers and a qualified defined benefit pension 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 sponsors a post-retirement healthcare plan which is unfunded.

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 on our post-retirement costs.

The Company's net periodic benefit cost for its qualified defined benefit pensions and post-retirement healthcare plans are as follows (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	Pension Plans		Post-retirement Healthcare Plan		Pension Plans		Post-retirement Healthcare Plan	
	2006	2005	2006	2005	2006	2005	2006	2005
Service cost	\$ 9,540	\$ 7,455	\$ 602	\$ 498	\$ 19,080	\$ 14,910	\$1,204	\$ 996
Interest cost	7,505	5,851	480	395	15,010	11,702	960	790
Expected return on plan assets	(6,305)	(5,120)	—	—	(12,610)	(10,240)	—	—
Amortization of prior service cost	1,052	928	—	4	2,104	1,856	—	8
Amortization of net loss	2,638	1,626	268	251	5,276	3,252	536	502
Net periodic benefit cost	<u>\$14,430</u>	<u>\$10,740</u>	<u>\$1,350</u>	<u>\$1,148</u>	<u>\$ 28,860</u>	<u>\$ 21,480</u>	<u>\$2,700</u>	<u>\$2,296</u>

During the three and six month periods ended June 30, 2006, the Company paid \$9.1 million and \$16.3 million of contributions to its defined benefit pension plans, respectively. The Company presently anticipates contributing an additional \$37.3 million to fund its pension plans during the remainder of 2006 for a total of \$53.6 million.

## NOTE I—SEGMENT INFORMATION

The Company operates in two reportable segments. The air cargo transportation, line-haul logistics 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 “Charter” 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” with interest income below (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Revenues:</b>				
DHL	\$294,849	\$344,217	\$655,661	\$684,391
Charter	5,401	3,191	9,251	5,354
All other	3,328	3,829	7,831	8,086
Total	<u>\$303,578</u>	<u>\$351,237</u>	<u>\$672,743</u>	<u>\$697,831</u>
<b>Depreciation Expense:</b>				
DHL	\$ 9,979	\$ 8,748	\$ 19,366	\$ 17,538
Charter	803	890	1,844	1,129
All other	38	32	75	55
Total	<u>\$ 10,820</u>	<u>\$ 9,670</u>	<u>\$ 21,285</u>	<u>\$ 18,722</u>
<b>Earnings:</b>				
DHL	\$ 3,641	\$ 5,049	\$ 8,892	\$ 10,154
Charter	704	5	946	143
All other	2,114	1,701	4,714	3,541
Total	<u>\$ 6,459</u>	<u>\$ 6,755</u>	<u>\$ 14,552</u>	<u>\$ 13,838</u>
			<u>June 30,</u>	<u>December 31,</u>
			<u>2006</u>	<u>2005</u>
<b>Assets:</b>				
DHL			\$370,161	\$ 368,733
Charter			80,126	62,392
All other			77,215	84,918
Total			<u>\$527,502</u>	<u>\$ 516,043</u>

For the purposes of internal reporting, 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 reimbursed overhead until such time as ABX derives more than 10% of its total revenue from non-DHL business activities. Beginning in the second quarter of 2005, certain administration costs are not reimbursed by DHL and are allocated to the DHL segment based on segment earnings.

## NOTE J—STOCK-BASED PAYMENTS

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. Board members were granted time-based awards. Restricted stock and time-based awards vest over a specified service period. The non-vested stock units will be converted at the end of a specified service period into a number of shares of Company stock depending on performance and market conditions. The Company expects to settle all of the stock unit awards by issuing new shares of stock. The table below summarizes award activity.

	Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
	Number of Shares	Weighted average grant-date fair value	Number of Shares	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	<u>597,000</u>	<u>\$ 7.37</u>	<u>264,600</u>	<u>\$ 8.33</u>
Vested	<u>25,600</u>	<u>\$ 8.20</u>	<u>—</u>	<u>\$ —</u>

The grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company in 2006 was \$6.63, the value of the Company's stock on the date of grant. The grant-date fair value of each market condition award granted in 2006 was \$6.55. The market condition awards were valued using a Monte Carlo simulation technique, a risk-free interest rate of 4.71%, a term of 33 months, and a volatility of 33.6% based on historical volatility over one year using daily stock prices.

For the six month periods ended June 30, 2006 and 2005, the Company recorded expense of \$0.7 million and \$0.1 million for stock incentive awards, respectively. At June 30, 2006, there was \$3.4 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.9 years. As of June 30, 2006, awards totaling 597,000 had been granted and were outstanding. None of the awards were convertible, and none of the restricted stock had vested as of June 30, 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 K—DERIVATIVE INSTRUMENTS

The Company anticipates that it will execute sale-leaseback or other financing transactions for eight of twelve aircraft it is committed to purchase and modify through 2008. Under the anticipated financing transactions, the Company would finance approximately \$17.0 million of each modified aircraft's value under a fixed interest rate lease based on interest rates of ten-year U.S. Treasury Notes. To reduce its exposure to rising interest rates before the financing transactions are executed, the Company entered into five forward treasury lock agreements ("treasury locks") during the first quarter of 2006. 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 lease transactions. The treasury locks are with major U.S. financial institutions and will settle in cash at the time each expires. The treasury locks are timed to expire between June 2006 and June 2007, near the forecasted execution dates of the anticipated financing transactions.

In accordance with Statement of Financial Accounting Standards ("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 June 30, 2006. The Company records unrealized gain 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 will be recognized into earnings over the terms of the forecasted lease transactions. During the three and six month periods ended June 30, 2006, any amounts of hedge ineffectiveness were not material.

The table below provides information about ABX's treasury lock instruments at June 30, 2006 (in thousands):

<u>Expire</u>	<u>Notional amount</u>	<u>Stated interest rate</u>	<u>Market value</u>
2006	\$12,000	4.645%	\$ 459
	12,000	4.655%	453
	12,000	4.670%	421
2007	12,000	4.750%	347
	12,000	4.750%	347
	<u>\$60,000</u>		<u>\$2,027</u>

**NOTE L—COMPREHENSIVE INCOME**

Comprehensive income includes the following transactions for the periods ended June 30, 2006 and 2005 (in thousands):

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income	\$ 6,459	\$ 6,755	\$ 14,522	\$ 13,838
Other comprehensive income				
Unrealized loss on marketable securities	(17)	—	(20)	—
Unrealized gain on hedge derivatives	1,214	—	2,027	—
Other comprehensive income	1,197	—	2,007	—
Comprehensive income	<u>\$ 7,656</u>	<u>\$ 6,755</u>	<u>\$ 16,529</u>	<u>\$ 13,838</u>

## ***Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following Management's Discussion and Analysis has been prepared with reference to the historical financial condition and results of operations of ABX Air, Inc. and its subsidiaries ("ABX"). The following discussion and analysis describes the principal factors affecting the results of operations, financial condition, cash flows, liquidity and capital resources. It should be read in conjunction with the accompanying unaudited financial statements and the related notes contained in this report and our Annual Report on Form 10-K for the year ended December 31, 2005.

### **BACKGROUND**

ABX is an independent airline that provides cargo transportation and, through a network of 19 hubs, package sorting, handling and line-haul services primarily within the United States for DHL Network Operations (USA), Inc. ("DHL"). We operated an in-service fleet of 113 aircraft as of June 30, 2006. DHL is our largest customer, constituting approximately 97% of our total revenues.

ABX operates in two reportable segments:

DHL: ABX provides services to DHL under two commercial agreements: an aircraft, crew, maintenance and insurance agreement ("ACMI agreement") and a hub and line-haul services agreement ("Hub Services agreement"). Under the ACMI agreement, ABX provides air cargo transportation to DHL on a cost-plus pricing structure. Under the Hub Services agreement, ABX provides staff to conduct package handling, package sorting, warehousing, and line-haul logistics services, as well as airport facilities and equipment maintenance services for DHL, also on a cost-plus pricing structure. Costs incurred under these agreements are generally marked up by 1.75% and included in revenues. Both agreements also allow ABX to earn incremental mark-up above the base 1.75% mark-up from the achievement of certain cost-related and service goals specified in the two agreements. Fuel, rent, interest on the promissory note to DHL, and ramp and landing fees incurred under the ACMI agreement are the most significant cost items reimbursed without mark-up. The ACMI agreement and the Hub Services agreement have initial terms of seven and four years, expiring in August 2010 and August 2007, respectively. However, DHL can terminate specific ACMI aircraft, add to, delete or modify the air routes we operate under the ACMI agreement and increase or reduce the scope of services we provide under the Hub Services agreement. Additionally, DHL can terminate the agreements if ABX does not comply with certain performance standards specified in the agreements.

Charter/ACMI: We also offer ACMI (aircraft, crew, maintenance and insurance) and on-demand charter services to freight forwarders and other shippers. We usually charge customers based on the number of block hours flown, and typical agreements specify a minimum number of block hours to be charged monthly.

Our other activities, which include contracts with the U.S. Postal Service ("USPS") and aircraft parts sales and maintenance services, do not constitute reportable segments.

### *Outlook*

#### *DHL*

We reported in November 2004 that DHL intended to remove 26 aircraft that ABX operated on its behalf under the ACMI agreement. Through July 18, 2006, seven aircraft had been removed by DHL from active service under the ACMI agreement. In July 2006, DHL gave ABX notice to remove 21 specific aircraft from the ACMI agreement effective August 1, 2006. Several of these aircraft had 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. DHL will continue to fund depreciation for eight of the DC-9s that are being removed through their remaining depreciable life in August 2010. We will use the engines on these eight DC-9 aircraft to support the remaining 59 DC-9 aircraft that we have in service to DHL. Under the ACMI agreement, ABX has the option to retain the other 13 aircraft or sell individual aircraft to DHL for the lower of net book value or their appraised fair market value. We are assessing the fair value of each of the 13 aircraft being removed and whether ABX will exercise its put option to sell the aircraft to DHL. The net book value of these aircraft is approximately \$4.8 million. There may be an impairment charge recorded in the third quarter of 2006 for removed aircraft if their appraised fair market value is less than their carrying value.

As previously reported in May 2006, DHL took over responsibility for the over-the-road truck line-haul network we previously managed for DHL. Effective April 1, 2006, ABX did not earn any mark-up on line-haul expenses during the second quarter 2006 transitional period, and effective May 1, 2006, ABX no longer recorded revenues or expenses associated with over-the-road trucks. As a result, line-haul services revenue declined approximately \$54.7 million and \$57.7 million during the second quarter and first half of 2006 compared to 2005. ABX did not have any earnings from line-haul services in the second quarter of 2006 and earned \$1.3 million during the first half of 2006. During 2005, earnings from line-haul services were \$1.2 million and \$2.3 million for the second quarter and first half, respectively.

As previously reported, we will not operate or manage DHL's new Allentown hub facility. The new facility is expected to open in the first quarter of 2007 and will replace the existing facility we currently operate. The Allentown hub is the largest of DHL's eighteen regional hubs in the United States. The Allentown hub comprised approximately \$3.9 million of ABX's revenues and less than \$0.1 million of net earnings during the second quarter of 2006, and \$8.2 million of ABX's revenues and \$0.2 million of net earnings during the first half of 2006.

In March 2006, we agreed to discuss with DHL modifications to our Hub Services agreement and our ACMI agreement to create greater risk/reward metrics for our performance under these agreements. The modifications would focus on service quality, process and performance improvements, and cost reductions. Those discussions have not yet yielded any modifications to either agreement. Additionally, DHL and ABX agreed to cost budgets for 2006 under the Hub Services agreement and the ACMI agreement. DHL agreed to additional performance incentives for 2006 beyond the existing contractual incentives in the event we achieve very significant cost reductions under our commercial agreements. Achievement of these additional incentives will be very difficult.

#### *Non-DHL*

In 2005, we reached an agreement with Delta committing ABX to purchase twelve additional Boeing 767 aircraft from Delta through December 2008. We contracted with an aircraft maintenance provider to modify these aircraft from passenger to freighter configurations. We believe the fuel efficiency, cubic capacity, payload and operating cost of the Boeing 767 make it a desirable freighter aircraft in the domestic, Atlantic and other medium-range international air cargo markets (less than 3,000 nautical miles). While some of these former Delta aircraft may be contracted to DHL after the modifications are complete, interest from non-DHL customers is currently strong.

Of these twelve aircraft, two were deployed in our non-DHL charter operations through July of 2006, replacing two freighter aircraft that were subsequently redeployed into the DHL network. Based on the most current projections, we are planning to deploy two more former Delta aircraft in the second half of 2006 and eight additional aircraft during the next two years.

## **RESULTS OF OPERATIONS**

For the second quarter of 2006, net earnings were \$6.5 million compared to net earnings of \$6.8 million for the second quarter of 2005. Earnings in the second quarter of 2006 declined \$1.1 million compared to the second quarter of 2005 due to transitioning line-haul operations to DHL. The decline was partially offset by improved results from our non-DHL charter operations and increased interest income. Total revenues decreased \$47.7 million, or 13.6%, to \$303.6 million for the second quarter of 2006 compared to the second quarter of 2005. The decline was primarily due to the loss of revenues beginning in May 2006 associated with the DHL over-the-road truck line-haul network which declined \$54.7 million compared to the second quarter of 2005. Revenues associated with the DHL ACMI agreement declined in the second quarter of 2006 compared to 2005, reflecting the reduction in contracted air charters that were transitioned to DHL's management during the third quarter of 2005 and a lower level of hours flown for DHL in the second quarter of 2006 compared to 2005. Hours flown have declined since the implementation of an integrated flight schedule in conjunction with the DHL hub consolidation in September 2005. Revenue during the second quarter of 2006 was positively impacted compared to 2005 by increased non-DHL charter flight hours, additional hub service revenues since DHL consolidated its hub network under ABX in September 2005 and higher fuel prices.

For the first half of 2006, we had net earnings of \$14.6 million compared to net earnings of \$13.8 million for the first half of 2005. Total revenues decreased 3.6% to \$672.7 million compared to the first half of 2005. Lower revenues from DHL, which declined 4.2%, were partially offset by increased non-DHL charter revenues which grew 72.8% compared to the first half of 2005. Earnings from the first half of 2006 improved \$0.7 million compared to 2005 primarily due to non-DHL charter operations and increased interest income.

Under the two agreements with DHL, we have the potential to earn additional revenues from an incremental mark-up each quarter based on achieving certain cost-related goals. We earned \$0.7 million and \$0.5 million of incremental mark-up under the ACMI and Hub Services agreements during the second quarter of 2006 and 2005, respectively. For the first half of 2006, we earned \$1.4 million and \$0.8 million of incremental mark-up under the ACMI and Hub Services agreements, respectively. The incremental mark-up for ACMI increased \$0.2 million and \$0.4 million during the second quarter and first half of 2006, respectively, compared to the corresponding 2005 periods. The incremental mark-up for the first half of 2006 under the ACMI agreement resulted from flying greater than budgeted aircraft hours during the periods, while incurring lower than budgeted aircraft maintenance expenses. The incremental mark-up under the Hub Services agreement decreased \$0.1 million during the second quarter of 2006 and increased \$0.6 million in the first half of 2006 compared to the same 2005 periods. Although our costs levels were at budgeted levels, ABX did not earn an incremental mark-up under the Hub Services agreement in the second quarter of 2006, because shipment volumes handled during the quarter were below anticipated levels.

No incremental mark-up contribution from the annual cost and service goals specified in the two agreements was included in our revenue for the second quarter or first half of 2006 and 2005. Any revenue earned through the achievement of annual goals is recorded in the fourth quarter.

During the second quarter and first half of 2006, our expenses for the DHL segment included approximately \$0.5 million and \$1.5 million for costs, allocations and administrative expenses that are not reimbursable under the two DHL agreements. Our expenses for DHL that are reimbursed without mark-up increased \$18.2 million and \$20.9 million for the second quarter and first half of 2006, respectively, compared to the same 2005 periods. This increase in expenses and corresponding increase in reimbursable only revenues was primarily a result of having no mark-up on line-haul expenses in the second quarter of 2006 and increased aviation fuel prices in 2006 compared to 2005.

Non-DHL charter revenues grew 69.3% over the second quarter of 2005 to \$5.4 million for the second quarter of 2006. For the first half of 2006, charter revenues grew 72.8% to \$9.3 million compared to the first half of 2005. The growth of our non-DHL charter revenues reflects a larger customer base and improved utilization of our Boeing 767 freighter aircraft since the aircraft were placed in charter service during the second quarter of 2005. Our earnings included \$0.7 million from non-DHL charter operations for the second quarter of 2006 compared to less than \$0.1 million for the first quarter of 2005. For the first half of 2006 and 2005, earnings from non-DHL charter operations were \$0.9 million and \$0.1 million, respectively. Our non-DHL charter earnings in the first half of 2005 were hampered by low utilization while we transitioned the 767 freighters into non-DHL service.

Other, non-DHL revenues decreased to \$3.3 million in the second quarter of 2006 compared to \$3.8 million in the second quarter of 2005. For the first half of 2006 and 2005, other, non-DHL revenues decreased to \$7.8 million compared to \$8.1 million. Declines in other, non-DHL revenues reflect the volatility associated with aircraft modification and heavy maintenance orders. Our ability to secure heavy maintenance and modification orders is effected by the availability of hanger space, personnel and equipment that is ordinarily used to maintain our own fleet.

Earnings from all other, non-DHL activities declined \$0.2 million and \$0.3 million during the second quarter and first half of 2006 compared to the corresponding periods in 2005. During 2006, increased earnings from operating the U.S. Postal Service facilities were offset by reduced earnings from lower non-DHL aircraft maintenance orders and additional administrative expenses to support and generate non-DHL business opportunities.

A summary of our earnings is shown below (in thousands).

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Revenues:</b>				
<b>DHL Contracts</b>				
ACMI				
Base mark-up	\$114,938	\$121,495	\$243,083	\$244,193
Incremental mark-up	683	435	1,431	996
Total ACMI	115,621	121,930	244,514	245,189
Hub Services				
Base mark-up	81,081	142,238	229,564	279,118
Incremental mark-up	—	116	792	196
Total Hub Services	81,081	142,354	230,356	279,314
Other Reimbursable	98,147	79,933	180,791	159,888
<b>Total DHL</b>	<b>294,849</b>	<b>344,217</b>	<b>655,661</b>	<b>684,391</b>
<b>Charter</b>	<b>5,401</b>	<b>3,191</b>	<b>9,251</b>	<b>5,354</b>
<b>All Other</b>	<b>3,328</b>	<b>3,829</b>	<b>7,831</b>	<b>8,086</b>
<b>Total Revenues</b>	<b>\$303,578</b>	<b>\$351,237</b>	<b>\$672,743</b>	<b>\$697,831</b>
<b>Expenses</b>				
<b>DHL Contracts</b>				
ACMI				
Hub Services	\$113,163	\$119,428	\$239,217	\$240,016
Other Reimbursable	79,898	139,807	226,761	274,333
Total DHL	98,147	79,933	180,791	159,888
<b>Total DHL</b>	<b>291,208</b>	<b>339,168</b>	<b>646,769</b>	<b>674,237</b>
<b>Charter</b>	<b>4,697</b>	<b>3,186</b>	<b>8,305</b>	<b>5,211</b>
<b>All Other</b>	<b>2,356</b>	<b>2,656</b>	<b>5,403</b>	<b>5,400</b>
<b>Total Expenses</b>	<b>\$298,261</b>	<b>\$345,010</b>	<b>\$660,477</b>	<b>\$684,848</b>
<b>Earnings</b>				
<b>DHL Contracts</b>				
ACMI				
Hub Services	\$ 2,458	\$ 2,502	\$ 5,297	\$ 5,173
Other Reimbursable	1,183	2,547	3,595	4,981
Total DHL	—	—	—	—
<b>Total DHL</b>	<b>3,641</b>	<b>5,049</b>	<b>8,892</b>	<b>10,154</b>
<b>Charter</b>	<b>704</b>	<b>5</b>	<b>946</b>	<b>143</b>
<b>All Other</b>	<b>972</b>	<b>1,173</b>	<b>2,428</b>	<b>2,686</b>
<b>Interest Income</b>	<b>1,142</b>	<b>528</b>	<b>2,286</b>	<b>855</b>
<b>Total Earnings</b>	<b>\$ 6,459</b>	<b>\$ 6,755</b>	<b>\$ 14,552</b>	<b>\$ 13,838</b>

Our earnings from customers other than DHL do not include an allocation of overhead expenses that are reimbursed by DHL. Our agreements with DHL require that after our non-DHL earnings reach 10% of our revenues, we must allocate a portion of our overhead expenses to the non-DHL business. At that time, the allocated expenses would not be subject to reimbursement under the DHL commercial agreements.

Our expenses are driven by operational variables including the volume and size of packages handled for DHL, the services that DHL requests (such as electronic package scanning) and the number of instances in which a package is handled during the sort and transportation process. Generally, we do not influence or control these factors.

Salaries, wages and benefits expense increased 6.0% and 10.9% during the second quarter and first half of 2006 as compared to the corresponding periods of 2005. The increase reflects the higher levels of benefit costs and staffing necessary to operate DHL's expanded ground network and consolidated central hub in Wilmington, Ohio since September 2005.

Purchased line-haul expense decreased 75.5% and 44.1%, during the three and six month periods ended June 30, 2006, respectively, compared to the corresponding periods in 2005. The decline is a result of transferring the over-the-road truck line-haul network to DHL in May 2006. Additionally, for the second quarter and first half of 2005, this expense category included \$5.6 million and \$11.1 million for charter aircraft contracted by ABX for DHL. The administration of these flights and their related costs were transitioned to DHL during the third quarter of 2005.

Fuel expense increased 9.7% and 7.2% during the three and six month periods ended June 30, 2006, respectively, compared to the corresponding periods in 2005. The increase was driven by higher market prices for aviation fuel. The average aviation fuel price was \$2.25 and \$1.77 per gallon in the second quarter of 2006 and 2005, respectively. Our consumption of aviation fuel during the second quarter and first half of 2006 declined compared to 2005 in conjunction with the removal of aircraft and flight reductions implemented by DHL since the implementation of an integrated flight schedule in September 2005.

Maintenance, materials and repairs decreased 11.6% during the three month period ended June 30, 2006 but increased 3.4% for the first six months of 2006, compared to the corresponding periods in 2005. Our aircraft engine maintenance expenses have declined in conjunction with the lower level of flight hours for DHL since the September 2005 hub consolidation. Our aircraft maintenance expenses fluctuate due to the timing of scheduled heavy maintenance work for aircraft. Our policy is to expense these costs as we incur them. During the first six months of 2006, 38 heavy maintenance checks were in process, compared to 35 in the first six months of 2005.

Depreciation and amortization expense increased 10.7% and 12.4% during the three and six month periods ended June 30, 2006, respectively, compared to the corresponding periods in 2005. The increase is primarily a result of two additional Boeing 767 aircraft that we placed in service since June of 2005.

Landing and ramp expense increased 0.6% during the three month period ended June 30, 2006, but decreased 15.0% for the first six months of the year, compared to the corresponding periods in 2005. The reduction reflects lower runway and deicing costs due to a milder winter in 2006 and a lower level of landing fees as a result of scheduled flight reductions in conjunction with the DHL hub consolidation in September 2005.

Rent expense increased \$0.4 million and \$0.7 million during the three and six month periods ended June 30, 2006, respectively, compared to the corresponding periods in 2005, primarily due to equipment rentals in support of the consolidated Wilmington hub and expanded regional hubs since September 2005.

Other operating expenses include travel, professional fees, insurance, utilities and cost of parts sold to non-DHL customers. Other operating expenses decreased by \$1.8 million and \$0.9 million in the second quarter and first half of 2006 compared to the corresponding periods in 2005. The decrease reflects the reduction in non-DHL aircraft maintenance orders during the second quarter of 2006 compared to 2005.

Our interest expense for the second quarter of 2006 decreased \$0.1 million to \$2.7 million compared to second quarter of 2005. The decrease was due to capitalizing \$0.1 million more of interest cost in the second quarter of 2006 as a result of additional aircraft modification activities compared to the second quarter of 2005. Our interest expense for the first half of 2006 increased \$0.3 million to \$5.6 million compared to the first half of 2005. The increase in interest expense in 2006 is a result of higher capitalized interest cost during the first half of 2005 compared to first half of 2006.

Interest income increased by \$0.6 million and \$1.4 million during the second quarter and first half of 2006, respectively, compared to the corresponding periods of 2005, due to holding a higher level of cash and cash equivalent balances compared to 2005 and by achieving higher yields.

ABX did not record an income tax expense in 2006 or 2005 because the tax provision was offset by the tax benefit from the reduction in the deferred tax asset valuation allowance.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### *Cash requirements*

In 2005, we reached an agreement with Delta Air Lines, Inc. (“Delta”) committing ABX to purchase twelve additional Boeing 767 aircraft from Delta through December 2008. We contracted with an aircraft maintenance provider to modify these aircraft from passenger to standard freighter configurations. Of these twelve aircraft, two were deployed in our non-DHL charter operations through July of 2006. Based on the most current projections, we are planning to deploy two more former Delta aircraft in the second half of 2006, and eight additional aircraft during the next two years. The estimated costs of the remaining aircraft purchase commitments and the anticipated modification costs approximate \$160.6 million as of June 30, 2006. Payments by period are estimated below (in thousands):

	<u>Remainder of 2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Aircraft and anticipated modification commitments	\$ 50,331	\$85,729	\$24,513	\$160,573

We plan to finance the cost of modifying the aircraft with existing cash and contractor-provided financing during the modification period. Upon completion of the modification, we anticipate eight aircraft will be financed through a syndication process being arranged by our lead bank. The estimates above do not reflect anticipated cash flows from financing transactions. Our future operating results will be affected by the interest rates and other terms and conditions of the new borrowings or leases.

We estimate that contributions to our qualified defined benefit pension plans will be \$37.3 million for the remainder of 2006 and total \$53.6 million for the year. We estimate our total pension expense, which is reimbursable under the two DHL agreements, will be \$28.8 million for the remainder of 2006 for all pension plans, totaling \$57.7 million for the year. Recently the U.S. Congress passed pension reform legislation. If the legislation does not become law, our cash contributions for the year could be significantly higher than estimated.

### *Cash flows*

Operating cash flows were \$36.0 million and \$64.0 million in the first six months of 2006 and 2005, respectively. Net operating cash flows declined primarily to pay vendors for accrued charges from 2005. The decline in operating cash flows reflects the lower level of line-haul and contracted labor expenses during the first half of 2006 compared to 2005. Additionally, during the first half of 2005, ABX collected a large receivable from DHL associated with 2004 revenues.

Capital spending levels are primarily a result of aircraft acquisitions and related freighter modification costs. Cash payments for capital expenditures were \$43.4 million in the first six months of 2006 compared to \$16.7 million in the first six months of 2005. Our capital expenditures in the first six months of 2006 included the acquisitions of five Boeing 767 aircraft from Delta and cargo modification costs for a sixth aircraft purchased in 2005. In the first six months of 2005, our capital expenditures were primarily for two Boeing 767 aircraft that were undergoing freighter modification at that time. The level of capital spending for all of 2006 is anticipated to be approximately \$115.0 million compared to \$60.7 million in 2005. We plan to finance approximately \$34.0 million for two of the four former Delta aircraft that we will deploy in 2006.

### *Liquidity and Capital Resources*

As of June 30, 2006, we had approximately \$58.2 million of cash balances and \$20.3 million of marketable securities. DHL guarantees our financing obligations for three in-service Boeing 767 aircraft. 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. 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 June 30, 2006, the unused credit facility totaled \$37.4 million, net of outstanding letters of credit of \$7.6 million.

We believe that our current cash balances and forecasted cash flows provided by commercial agreements with DHL, combined with our credit facility and anticipated financing for aircraft acquisitions, will be sufficient to fund our planned operations and capital expenditures for 2006.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

“Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as certain disclosures included elsewhere in this report, are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to select appropriate accounting policies and make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingencies. In certain cases, there are alternative policies or estimation techniques which could be selected. On an on-going basis, we evaluate our selection of policies and the estimation techniques we use, including those related to revenue recognition, post-retirement liabilities, bad debts, self-insurance reserves, accruals for labor contract settlements, valuation of spare parts inventory, useful lives, salvage values and impairment of property and equipment, income taxes, contingencies and litigation. We base our estimates on historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources, as well as for identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions. We believe the following significant and critical accounting policies involve the more significant judgments and estimates used in the preparation of the condensed consolidated financial statements.

### ***Revenue Recognition***

Revenues from DHL are recognized when the related services are performed. Expenses incurred under the commercial agreements with DHL are generally subject to a base mark-up of 1.75%, which is recognized in the period during which the expenses are incurred. Certain costs, the most significant of which include fuel costs, interest on the promissory note to DHL, airport rent, ramp and landing fees incurred for performance under the ACMI agreement, are reimbursed and included in revenues without mark-up.

In addition to a base mark-up of 1.75%, both the ACMI and Hub Services agreements provide for an incremental mark-up potential above the base 1.75%, based on our achievement of specified cost and service goals. The ACMI agreement provides for a maximum potential incremental mark-up of 1.60%, with 1.35% based on cost performance and 0.25% based on service performance. The Hub Services agreement provides for a maximum potential incremental mark-up of 2.10%, with 1.35% based on cost performance and 0.75% on service performance. Both contracts call for 40% of any incremental mark-up earned from cost performance to be recognized based on quarterly results, with 60% measured against annual results. Accordingly, a maximum mark-up of approximately 0.54% may be achieved based on quarterly results and recognized in our quarterly revenues. Up to a maximum mark-up of approximately 0.81% based on annual cost performance could be recognized during the fourth quarter, when full year results are known. Incremental mark-up potential associated with the service goals (0.25% in the ACMI agreement and 0.75% in the Hub Services agreement) is measured annually and any revenues earned from their attainment would be recognized during the fourth quarter, when full year results are known. Management cannot predict to what degree the Company will be successful in achieving incremental mark-up.

The Company derives a portion of its revenues from customers other than DHL. Non-DHL ACMI/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.

### ***Depreciation***

Depreciation of property and equipment is provided on a straight-line basis over the lesser of the asset’s useful life or lease term. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. The acceleration of depreciation expense or the recording of significant impairment losses could result from changes in the estimated useful lives of our assets. We may change the estimated useful lives due to a number of reasons, such as the existence of excess capacity in our air system or ground networks or changes in regulations grounding or limiting the use of aircraft.

### ***Self-Insurance***

We self-insure certain claims relating to workers compensation, aircraft, automobile, general liability and employee healthcare. We record a liability for reported claims and an estimate for incurred claims that have not yet been reported. Accruals for these claims are estimated utilizing historical paid claims data, recent claims trends and, in the case of employee healthcare, an independent actuarial report. Changes in claim severity and frequency could result in actual claims being materially different than the amounts provided for in our results of operations.

### ***Contingencies***

We are involved in legal matters that have a degree of uncertainty associated with them. We continually assess the likely outcomes of these matters and the adequacy of amounts, if any, provided for these matters. There can be no assurance that the ultimate outcome of these matters will not differ materially from our assessment of them. There also can be no assurance that we know all matters that may be brought against us at any point in time.

### ***Income Tax***

We continue to fully reserve the net deferred tax assets as of June 30, 2006. The realization of deferred tax assets, including net operating loss carryforwards ("NOL CFs"), depends on the existence of sufficient taxable income within the applicable carryback or carryforward periods. After considering both positive and negative evidence of sources of future taxable income, ABX continues to maintain a full valuation allowance against its deferred tax assets, including NOL CFs, due to the likelihood that the deferred tax assets will not be realized. While ABX has had positive pre-tax income since its separation from Airborne, Inc., excluding the 2003 impairment charge, it also has accumulated significant taxable losses during the post-separation period, primarily due to temporary differences in depreciating its aircraft fleet. These historical taxable losses and near-term projected taxable losses weighed significantly in the overall assessment. Also, in considering possible sources of taxable income in assessing the realization of the deferred tax assets, ABX has not relied upon future taxable income from DHL contracts beyond the contract termination dates. The results of operations might be favorably impacted in the future by reversals of the valuation allowances if ABX is able to demonstrate positive evidence, such as contract renewals or extensions, that indicate the deferred tax assets will be realized.

### ***Post-retirement Obligations***

We sponsor qualified defined benefit plans for our pilots and other eligible employees. We also sponsor unfunded post-retirement healthcare plans for our flight crewmembers and non-flight crewmember employees. We also sponsor unfunded excess plans for certain employees in a non-qualified plan which includes our executive management that provide benefits in addition to amounts permitted to be paid under provisions of the tax law to participants in our qualified plans.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates on our post-retirement costs. In actuarially valuing our pension obligations and determining related expense amounts, assumptions we consider most sensitive 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. For our post-retirement healthcare plans, consideration of future medical cost trend rates is a critical assumption in valuing these obligations. Actual results and future changes in these assumptions could result in future costs significantly higher than those recorded in our results of operations.

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

We face financial exposure to changes in interest rates. ABX's variable interest rate debt exposes us to differences in future cash flows resulting from changes in market interest rates. This risk is largely mitigated, however, because our interest expense for the debt with variable rate risk is marked up and charged to DHL under the ACMI agreement. The debt issued at fixed interest rates is exposed to fluctuations in fair value resulting from changes in market interest rates. ABX has a portfolio of marketable securities consisting primarily of U.S. Government agency obligations. These securities are classified as available-for-sale and are consequently recorded at fair market value with unrealized gains or losses reported as a separate component of stockholders' equity. These financial instruments are denominated in U.S. dollars and are not held for the purpose of trading. Our market risk related to debt and marketable securities did not materially change since December 31, 2005.

We anticipate that ABX will execute sale-leaseback or other financing transactions for eight of the twelve aircraft it is committed to purchase and modify through 2008. Under sale-leaseback transactions, ABX would sell the modified aircraft to lenders and subsequently lease the aircraft back under a fixed interest rate lease based on ten-year U.S. Treasury Notes. To reduce ABX's exposure to rising interest rates before the financing transactions are executed, we entered into five forward treasury lock agreements ("treasury locks") during the first quarter of 2006. The value of the treasury locks are also based on the ten-year U.S. Treasury rates, effectively countering the effect of changing interest rates on the anticipated financing transactions. The treasury locks are with major U.S. financial institutions and will settle in cash at the time each expires. The treasury locks are timed to expire between June 2006 and June 2007, near the forecasted execution dates of the anticipated financing transactions. See note K for a table of treasury lock values and discussion of our accounting treatment for these hedging transactions.

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

#### **(a) Evaluation of Disclosure Controls and Procedures**

As of June 30, 2006, ABX carried out an evaluation, under the supervision and with the participation of the Company's management, of the effectiveness of the design and operation of ABX's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon the evaluation, ABX's Chief Executive Officer and Chief Financial Officer concluded that ABX's disclosure controls and procedures were effective to ensure that information required to be disclosed by ABX in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms.

#### **(b) Changes in Internal Controls**

There were no significant changes in ABX's internal controls over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, ABX's internal control over financial reporting.

## PART II. OTHER INFORMATION

### *Item 1. Legal Proceedings*

#### i. Department of Transportation (“DOT”) Continuing Fitness Review

ABX filed a notice of substantial change with the DOT arising from its separation from Airborne, Inc. 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 ABX 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 ABX as a result of its commercial arrangements (in particular, the ACMI agreement and Hub Services agreement) with DHL. If the DOT determines that ABX is controlled by DHL, the DOT could require amendments or modifications of the ACMI and/or other agreements between ABX and DHL. If ABX were unable to modify such agreements to the satisfaction of the DOT, the DOT could seek to suspend, modify or revoke ABX’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 ABX’s filing. We believe the DOT should find that ABX is controlled by U.S. citizens and continues to be fit, willing and able to engage in air transportation of cargo.

#### ii. ALPA Lawsuit

On August 25, 2003, ABX 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, Inc., 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 ABX 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 ABX’s motion to intervene in the case. The parties have filed briefs in the matter, and we are currently waiting for the court to set a date for oral argument. We believe that the NLRB’s decision will be sustained on appeal and that ALPA’s grievance and counterclaim will be denied.

#### iii. Alleged Violations of Immigration Laws

ABX 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’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 ABX.

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

In October of 2005, the DOJ notified ABX that ABX and a few Company employees in its human resources department, in addition to Garcia, were targets of a criminal investigation. ABX cooperated fully with the investigation. In June 2006, a non senior management employee of the Company entered a plea to a misdemeanor related to this matter. On July 25, 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. No proceedings have been initiated against ABX. Please see Note G to the consolidated financial statements of this report for additional information.

iv. Other

In addition to the foregoing matters, we are 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.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in Item 1A of ABX's 2005 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 16, 2006, except for changes associated with the treasury locks disclosed in Part I, Item 3 of this report.

**Item 4. Submission of Matters to a Vote of Security Holders.**

On May 9, 2006, the Company held an annual meeting of its shareholders. At the meeting, shareholders voted to elect Joseph C. Hete and Jeffrey J. Vorholt to serve as Directors of the Company for a term of three years, agreed to amend the Amended and Restated Certificate of Incorporation to increase from five to nine the limitation on the maximum number of directors that can serve on the Board, and ratified the appointment of Deloitte and Touche LLP as independent auditors for 2006.

<u>Director</u>	<u>Votes</u>	
	<u>Received</u>	<u>Withheld</u>
Joseph C. Hete	55,865,415	194,339
Jeffrey J. Vorholt	55,870,227	189,527

<u>Proposal</u>	<u>Votes Cast</u>		
	<u>For</u>	<u>Against</u>	<u>Abstain</u>
To increase from five to nine the limitation on the maximum number of directors that can serve on the Board	55,743,102	265,327	51,325
Ratify independent auditors	55,926,139	81,918	51,697

**Item 5. Other Information.**

The Audit Committee of the Board of Directors has approved the services rendered by our independent auditors during the period covered by this Form 10-Q filing.

**Item 6. Exhibits.**

The following exhibits are filed as part of, or are incorporated in, the Quarterly Report on Form 10-Q:

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation of ABX Air, Inc., dated May 9, 2006, filed herewith.
3.2	Amended and Restated Certificate of Incorporation of ABX Air, Inc., dated August 15, 2003, filed herewith.
10.1	Agreement with DHL dated March 15, 2006, incorporated by reference to the Company's 10-K filed March 16, 2006.
10.2	Letter from DHL dated July 19, 2006, notifying ABX Air, Inc. of a change to the scope of services under the ACMI agreement, filed herewith.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized:

ABX AIR, INC.,  
a Delaware Corporation  
Registrant

/s/ JOSEPH C. HETE

Joseph C. Hete  
Chief Executive Officer

Date: August 9, 2006

/s/ QUINT O. TURNER

Quint O. Turner  
Chief Financial Officer

Date: August 9, 2006

**CERTIFICATE OF AMENDMENT  
OF  
AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION  
OF  
ABX AIR, INC.  
(a Delaware corporation)**

ABX Air, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), DOES HEREBY CERTIFY THAT:

FIRST: The name of the Corporation is ABX Air, Inc.

SECOND: The Corporation's original Certificate of Incorporation was filed with the Secretary of State of Delaware on January 22, 1980, as restated and amended by an Amended and Restated Certificate of Incorporation filed with the Secretary of State of Delaware on August 15, 2003.

THIRD: The Board of Directors of the Corporation, by resolution duly adopted, declared it advisable that the Amended and Restated Certificate of Incorporation of the Corporation be amended by amending Section (A) of Article FOURTEENTH of the Amended and Restated Certificate of Incorporation of the Corporation to read in its entirety as follows:

(A) The number of directors of the Corporation shall be not less than three nor more than nine. The exact number of directors shall be fixed from time to time, within the limits specified in this section, by the Board of Directors.

FOURTH: This amendment to the Amended and Restated Certificate of Incorporation of the Corporation was duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, ABX Air, Inc. has caused this Certificate of Amendment of Amended and Restated Certificate of Incorporation to be

signed by its duly authorized officers, Joseph C. Hete, President and Chief Executive Officer, and W. Joseph Payne, Vice President, General Counsel and Secretary of the Corporation, this 9th day of May, 2006.

ABX AIR, INC.

/s/ Joseph C. Hete

Joseph C. Hete  
President and Chief Executive Officer

/s/ W. Joseph Payne

W. Joseph Payne,  
Vice President, General Counsel and Secretary

**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**  
**OF**  
**ABX AIR, INC.**  
(a Delaware corporation)

The undersigned, being the President and Secretary of ABX Air, Inc., a corporation organized and existing under the laws of the State of Delaware, do hereby certify as follows:

1. The name of the corporation is ABX Air, Inc. (the “Corporation”).
2. The Certificate of Incorporation of this Corporation was originally filed with the Secretary of State of Delaware on January 22, 1980. The Certificate of Incorporation was originally filed under the name of Airborne Express, Inc.
3. This Amended and Restated Certificate of Incorporation has been duly adopted by resolutions adopted and declared advisable by the Board of Directors of the Corporation, duly adopted by the stockholders of the Corporation, and duly acknowledged by the officers of the Corporation in accordance with the provisions of Sections 103, 228, 242 and 245 of the General Corporation Law of the State of Delaware and restates and further amends the provisions of the Corporation’s Certificate of Incorporation, and upon filing with the Delaware Secretary of State in accordance with Section 103, shall thenceforth supersede the Certificate of Incorporation, and shall, as it may thereafter be amended in accordance with the terms and applicable law, be the Amended and Restated Certificate of Incorporation of the Corporation.
4. The text of the Certificate of Incorporation, as amended, is hereby amended and restated to read in its entirety as follows:

FIRST: The name of the Corporation is ABX AIR, INC. (the “Corporation”).

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the city of Wilmington, County of New Castle, and the name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the “General Corporation Law”).

FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is 95,000,000 shares, of which 75,000,000 shares shall be Common Stock, par value \$0.01 per share (“Common Stock”) and 20,000,000 shares shall be Preferred Stock, par value \$0.01 per share (“Preferred Stock”), of which 75,000 shares shall be Series A Junior Participating Preferred Stock, par value \$0.01 per share (“Series A Junior Preferred Stock”).

(A) Common Stock.

(1) Voting Rights. Subject to Article Fifth below, the holders of Common Stock shall, on all matters submitted to a vote of the stockholders of the Corporation, be entitled to one vote per share.

(2) Dividends. Subject to any other provisions of this Certificate of Incorporation and the terms of any series of Preferred Stock that may from time to time come into existence, holders of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, such dividends as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation. Subject to Article Fifth below, all shares of Common Stock shall be entitled to any assets of the Corporation available for distribution to stockholders after payment in full of any preferential amount to which holders of Preferred Stock may be entitled.

(4) Legend. Each certificate representing shares of Common Stock shall bear the following legend:

“The shares of Common Stock represented hereby are subject to foreign stock ownership restrictions as set forth in the Corporation’s Certificate of Incorporation.”

(B) Preferred Stock.

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby expressly authorized to fix and determine by resolution or resolutions the number of shares of each series of Preferred Stock and the designation thereof, and voting and other powers, preferences and relative, participating, optional or other special rights, if any, with such qualifications, limitations or restrictions on such powers, preferences and rights, if any, as shall be stated in the resolution or resolutions providing for the issue of such series of Preferred Stock as may be adopted from time to time by the Board of Directors prior to the issuance of any shares thereof, in accordance with the General Corporation Law, and to the full extent permitted thereby; including, without limitation, any dividend rights, dividend rates, conversion rights and terms, voting rights, redemption rights and terms (including any sinking fund provisions), redemption price(s) and terms, and rights in the event of liquidation, dissolution or distribution of assets. Subject to any limitations or restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, the Board of Directors may by resolution or resolutions likewise adopted increase or decrease (but not below the number of shares of such series then outstanding) the number of any such series subsequent to the issuance of shares of that series, and in case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(C) Designation of Series A Junior Preferred Stock.

(1) Designation and Amount. The Series A Junior Preferred Stock shall have a par value \$0.01 per share, and the number of shares constituting such series shall be 75,000.

(2) Proportional Adjustment. In the event that the Corporation shall at any time after the issuance of any share or shares of Series A Junior Preferred Stock (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Corporation shall simultaneously effect a proportional adjustment to the number of outstanding shares of Series A Junior Preferred Stock.

(3) Dividends and Distributions.

(a) Subject to the prior and superior right of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Preferred Stock with respect to dividends, the holders of shares of Series A Junior Preferred Stock shall be entitled to receive when, as and if declared by the Board of Directors out of funds legally available therefor, quarterly dividends payable in cash on the last day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Preferred Stock, in an amount per share (rounded to the nearest cent) equal to 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Preferred Stock.

(b) The Corporation shall declare a dividend or distribution on the Series A Junior Preferred Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(c) Dividends shall begin to accrue on outstanding shares of Series A Junior Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

(4) Voting Rights. The holders of shares of Series A Junior Preferred Stock shall have the following voting rights:

(a) Each share of Series A Junior Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation.

(b) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) Except as required by law, the holders of Series A Junior Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent that they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(5) Certain Restrictions.

(a) The Corporation shall not declare any dividend on, make any distribution on, or redeem or purchase or otherwise acquire for consideration any shares of Common Stock after the first issuance of a share or fraction of a share of Series A Junior Preferred Stock unless concurrently therewith it shall declare a dividend on the Series A Junior Preferred Stock as required by Section (3) hereof.

(b) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Preferred Stock as provided in Section (3) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Preferred Stock;

(ii) declare or pay dividends on, or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Preferred Stock, except dividends paid ratably on the Series A Junior Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(c) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section (5), purchase or otherwise acquire such shares at such time and in such manner.

(6) Reacquired Shares. Any shares of Series A Junior Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Series A Junior Preferred Stock and may be reissued.

(7) Liquidation. Upon any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A Junior Preferred Stock shall be entitled to receive an aggregate amount per share equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock plus an amount equal to any accrued and unpaid dividends on such shares of Series A Junior Preferred Stock.

(8) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged.

(9) No Redemption. The shares of Series A Junior Preferred Stock shall not be redeemable.

(10) Ranking. The Series A Junior Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

(11) Amendment. If any shares of Series A Junior Preferred Stock have been issued, this Certificate of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences, privileges or relative, participating, optional or other special rights, or the qualifications, limitations or restrictions, of the Series A Junior Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority of the outstanding shares of Series A Junior Preferred Stock, voting separately as a series.

(12) Fractional Shares. Series A Junior Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Preferred Stock.

FIFTH: Ownership Restrictions.

(A) Foreign Ownership Limitation.

The ownership or control of (1) twenty-five percent (25%) (the "Maximum Voting Percentage") or more of the issued and outstanding Voting Stock (as defined below) of the Corporation or (2) shares of capital stock of the Corporation entitled to receive fifty percent (50%) (the "Maximum Economic Percentage") or more of the Corporation's dividends, distributions or proceeds upon liquidation, by persons who are not citizens of the United States ("U.S. Citizens") as defined in 49 U.S.C. Section 40102(a)(15) is prohibited; provided, however, that the Maximum Voting Percentage shall be deemed to be automatically increased or decreased from time to time to that percentage of ownership which is then permissible by persons who are not U.S. Citizens under applicable Foreign Ownership Restrictions; provided, further, that the Board of Directors, by a majority vote of the Independent Directors, may increase or decrease the Maximum Economic Percentage if the Board of Directors in good faith, and upon advice of independent counsel, determines that such increase or decrease is permitted by applicable Foreign Ownership Restrictions. As used in this Certificate of Incorporation, "Voting Stock" means the Common Stock, the Series A Junior Preferred Stock, and any other classes of stock issued by the Corporation that are entitled to vote on matters generally referred to the stockholders for a vote and "Foreign Ownership Restrictions" shall mean United States statutory and United States Department of Transportation regulatory or interpretive restrictions on foreign ownership or control of the Corporation the breach of which would result in the loss of any operating certificate or authority of the Corporation or any of its subsidiaries, including any successor provisions or regulations thereto.

(B) Foreign Stock Record.

In furtherance of enforcing the prohibition set forth in Section (A) above, a transfer of shares of any class of stock of the Corporation to an Alien (as defined below) shall not be valid, except between the parties to the transfer, until the transfer shall have been recorded on the Foreign Stock Record of the Corporation as provided in this Article Fifth. The "Foreign Stock Record" shall mean a record maintained by the Corporate Secretary of the Corporation which shall record the date of a transfer to an Alien, the parties to the transfer and the number and description of the shares of stock transferred to a Foreigner. At no time shall ownership or control of shares representing more than the lesser of (i) the Maximum Voting Percentage of the

issued and outstanding Voting Stock, or (ii) the Maximum Economic Percentage of all shares of stock of the Corporation, be registered on the Foreign Stock Record. If at any time the Corporation shall determine that shares of stock are purportedly owned or controlled by one or more Aliens who are not registered on the Foreign Stock Record, the registration of such shares shall, subject to the limitation in the preceding sentence, be made in chronological order in the Foreign Stock Record, based on the date of the Corporation's finding of ownership or control of such shares by an Alien. If at any time the Corporation shall determine that the number of shares of Voting Stock registered on the Foreign Stock Record exceeds the Maximum Voting Percentage, or that the number of shares of stock of the Corporation registered on the Foreign Stock Record exceeds the Maximum Economic Percentage, sufficient shares shall be removed from the Foreign Stock Record in reverse chronological order so that the number of shares of Voting Stock registered on the Foreign Stock Record does not exceed the Maximum Voting Percentage and so that the number of shares of stock of the Corporation registered on the Foreign Stock Record does not exceed the Maximum Economic Percentage. At no time shall shares of stock of the Corporation known by the Corporation to be held of record or controlled by Aliens and not registered on the Foreign Stock Record be entitled to vote or to receive dividends, distributions or other benefits of ownership. All shares of stock of the Corporation known to the Corporation to be held of record by Aliens as of the date of the adoption of this Certificate of Incorporation shall be registered on the Foreign Stock Record. The shares registered on the Foreign Stock Record pursuant to the preceding sentence have chronological priority over any subsequent request for the registration of additional shares of stock of the Corporation on the Foreign Stock Record. As used in this Certificate of Incorporation, "Alien" shall mean (i) any person who is not a U.S. Citizen, or any nominee of such person; (ii) any foreign government or representative thereof; (iii) any corporation organized under the laws of any foreign government; or (iv) any corporation, partnership, trust, association, or other entity which is an Affiliate of an Alien or Aliens. "Affiliate" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(C) **Beneficial Ownership Inquiry.**

(1) The Corporation may by notice in writing (which may be included in the form of proxy or ballot distributed to stockholders of the Corporation in connection with the annual meeting (or any special meeting) of the stockholders of the Corporation, or otherwise) require a person that is a holder of record of stock of the Corporation or that the Corporation knows to have, or has reasonable cause to believe has, Beneficial Ownership of such stock to certify in such manner as the Corporation shall deem appropriate (including by way of execution of any form of proxy or ballot by such person) that, to the knowledge of such person:

(a) all stock of the Corporation as to which such person has record ownership or Beneficial Ownership are owned and controlled only by U.S. Citizens; or

(b) the number and class or series of stock of the Corporation owned of record or Beneficially Owned by such person that are owned or controlled by Aliens are as set forth in such certificate.

As used herein, “Beneficial Ownership” and “Beneficially Owned” refer to beneficial ownership as defined in Rule 13d-3 (without regard to the 60-day provision in paragraph (d)(1)(i) thereof) under the Exchange Act.

(2) With respect to any equity securities identified by such person in response to Section (C)(1), the Corporation may require such person to provide such further information as the Corporation may reasonably require in order to implement the provisions of this Article Fifth.

(3) For purposes of applying the provisions of this Article Fifth with respect to any stock of the Corporation, in the event of the failure of any person to provide the certificate or other information to which the Corporation is entitled pursuant to this Section (C) (1), the Corporation shall presume that the equity securities in question are owned or controlled by Aliens.

SIXTH: The Corporation shall be entitled to treat the person in whose name any share, right or option is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided by the laws of the State of Delaware.

SEVENTH: A director shall be fully protected in relying in good faith upon the books of account of the Corporation or statements prepared by any of its officials as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid.

EIGHTH: Without action by the stockholders, the shares of stock may be issued by the Corporation from time to time for such consideration not less than the par value thereof, as may be fixed from time to time by the Board of Directors thereof, and any and all such shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid stock and not liable to any further call or assessment thereon, and the holder of such shares shall not be liable for any further call or assessment thereon or for any further payment thereon.

NINTH: The Corporation is to have perpetual existence.

TENTH: In furtherance and not in limitation of the powers conferred by the General Corporation Law, but subject to the provisions of this Certificate of Incorporation, the Board of Directors is expressly authorized and empowered to adopt, repeal, alter, amend and rescind from time to time any or all of the Bylaws of the Corporation, without the assent or vote of the stockholders, in any manner not inconsistent with the laws of the State of Delaware or this Certificate of Incorporation; provided, however, that, in addition to any other approval required by law, any amendment, alteration or repeal of the Bylaws shall require the approval of at least 66 2/3% of the directors at any regular or special meeting of the Board of Directors or by unanimous written consent in lieu of a meeting. The stockholders may not amend the Bylaws of the Corporation without the affirmative vote of the holders of at least 66 2/3 % of the votes entitled to be cast by holders of the outstanding Voting Stock of the Corporation.

ELEVENTH: The Board of Directors of the Corporation shall consist of such number of directors as may be determined from time to time by the Board of Directors in its sole discretion in accordance with the Bylaws of the Corporation.

TWELFTH: No person shall be elected to serve as a director of the Corporation unless immediately following such election, (A) at least two-thirds of the directors of the Corporation consist of persons who are then U.S. Citizens, and (B) a majority of the directors of the Corporation are Independent Directors (as defined below). No person shall be appointed to serve as an officer of the Corporation unless immediately following such appointment, at least two-thirds of the officers of the Corporation consist of persons who are then U.S. Citizens. The President of the Corporation shall at all times be a U.S. Citizen. For purposes of this Certificate of Incorporation, "Independent Director" shall mean a director who is not (x) a director, officer, employee, agent, stockholder or representative of (i) a party (other than the Corporation) to the ACMI Service Agreement dated August 15, 2003, by and between the Corporation and DHL Worldwide Express, B.V., a company organized and existing under the laws of the Netherlands, until the termination of such agreement or (ii) any Affiliate of any such holder or party (a "Restricted Party"), or (y) a spouse, parent, sibling or child of any person described in clause (x).

THIRTEENTH: The Corporation shall not enter into any transaction between the Corporation and any Restricted Party unless such transaction shall have been approved by a majority of the Independent Directors then in office.

FOURTEENTH: (A) The number of directors of the Corporation shall be not less than three nor more than five. The exact number of directors shall be fixed from time to time, within the limits specified in this section, by the Board of Directors.

(B) The Board of Directors shall be and is divided into three classes, Class I, Class II and Class III, which shall be as nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director is elected; provided, however, that each initial director of Class I shall hold office until the annual meeting of stockholders in 2004; each initial director in Class II shall hold office until the annual meeting of stockholders in 2005; and each initial director in Class III shall hold office until the annual meeting of stockholders in 2006.

(C) Advance notice of nominations for the election of directors, other than by the Board of Directors or a duly authorized committee thereof or any authorized officer of the Corporation to whom the Board of Directors or such committee shall have delegated such authority, and information concerning nominees, shall be given in the manner provided by the Bylaws.

FIFTEENTH: Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time only by the Board of Directors, the Chairman of the Board of Directors or the President. Special Meetings shall be held at such date and time as may be specified in the notice. The business permitted to be conducted at any special meeting of the stockholders is limited to the purpose or purposes specified in the notice.

SIXTEENTH: The affirmative vote of the holders of not less than 66-2/3% of the outstanding Voting Stock of the Corporation shall be required for the approval or authorization of any: (i) merger or consolidation of the Corporation with or into any other corporation; or (ii) sale, lease, exchange or other disposition of all or substantially all of the assets of the Corporation to or with any other disposition of all or substantially all of the assets of the Corporation to or with any other corporation, person or other entity; provided, however, that such 66-2/3% voting requirement shall not be applicable if the Board of Directors of the Corporation shall have approved such transaction in clause (i) or (ii) by a resolution adopted by 66-2/3% of the members of the Board of Directors.

SEVENTEENTH: Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof having a preference over the Common Stock as to dividends or upon liquidation, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

EIGHTEENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereinafter prescribed by statute, and all rights conferred by stockholders herein are granted subject to this reservation; provided, however, that any amendment, alteration or repeal of Section (C) of Article Fourth, Article Tenth, Article Fourteenth, Article Fifteenth, Article Sixteenth, Article Seventeenth or this Article Eighteenth shall require the approval of the holders of shares of the Corporation representing at least 66 2/3% of the shares then entitled to vote thereon.

NINETEENTH: A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

TWENTIETH: Indemnification and Insurance.

(A) Right to Indemnification.

(1) Persons Entitled to Indemnification. Subject to the General Corporation Law as existing or hereafter amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), the Corporation will indemnify and hold harmless each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was, had agreed to become or is alleged to have been, a director or officer of the Corporation, and each person who is or was serving, or had agreed to serve or is alleged to

have served, at the request of or to further the interests of the Corporation as a director, officer, employee or agent of, or in a similar capacity for, another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans of the Corporation or of any of its affiliates (“Indemnitee”).

(2) Scope of Indemnification. The indemnification right pursuant to this Section (A) will extend to persons entitled to such right whether the basis of such proceeding is alleged action or inaction in an official capacity or in any other capacity while serving as a director, officer, employee or agent.

(3) Expenses Indemnified. The Corporation will indemnify persons entitled to indemnity against all costs, charges, expenses, liabilities and losses (including court costs and attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith.

(4) Survival. The indemnification right outlined in this Section (A) will continue as to a person who has ceased to be a director, officer, employee or agent. Further, the indemnification right will inure to the benefit of such Indemnitee’s estate, heirs, executors and administrators.

(5) Limitation of Indemnification. The Corporation will indemnify any Indemnitee seeking indemnification in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if such Proceeding (or part thereof) was authorized by the Board of Directors.

(B) Repayment of Indemnified Expenses.

The right to indemnification conferred in this Article Twentieth shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in investigating and defending or responding to any such Proceeding in advance of its final disposition, and any appeal therefrom (“Advance Payment”), such advances to be paid by the Corporation within twenty (20) days after the receipt by the Corporation of a statement or statements from the claimant requesting such advance or advances from time to time. Nevertheless, if the General Corporation Law so requires, such Advance Payment of expenses incurred by an Indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) will be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined that such Indemnitee is not entitled to be indemnified under Delaware law.

(C) Indemnification of Other Persons.

The Corporation may, by action of the Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the indemnification of directors and officers as outlined in Sections (A)(1) and (A)(2) above.

(D) Right of Claimant to Bring Suit.

If a claim brought under Sections (A)(1), (A)(2) or (A)(3) of this Article Twentieth is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the claimant's suit is successful in whole or in part, the claimant will be entitled to recover also the expense of prosecuting such claim.

(1) Valid Defenses to the Claimant's Action. It shall be a defense to any such action (other than an action brought to enforce a claim for Advance Payment where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Delaware law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation.

(2) Invalid Defenses to the Claimant's Action. Neither of the following acts or omissions will be a defense to the claimant's action or create a presumption that the claimant has failed to meet the standard of conduct described in Section (D)(1) above:

(a) the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because the claimant has met such standard of conduct; nor

(b) an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such standard of conduct.

(E) Non-Exclusivity of Rights.

The right to indemnification and to Advance Payments conferred in this Article Twentieth shall not be exclusive of any other right which any person may have or hereafter acquire under any: (i) statute; (ii) provision of this Certificate of Incorporation; (iii) Bylaw; (iv) agreement; (v) vote of stockholders; (vi) vote of disinterested directors; or (vii) otherwise.

(F) Insurance.

Regardless of whether the Corporation would have the power under Delaware law to indemnify itself or any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise, the Corporation may purchase and maintain insurance, at its expense, to protect such persons or entities against any such expense, liability or loss.

(G) Expenses as a Witness.

The Corporation will indemnify any director, officer, employee or agent of the Corporation who, by reason of such position, or a position with another entity at the request of the Corporation, is a witness in any Proceeding. Such indemnity will cover all costs and expenses actually and reasonably incurred by the witness or on his or her behalf in connection with the Proceeding.

(H) Indemnity Agreements.

The Corporation may enter into agreements with any director, officer, employee or agent of the Corporation providing for indemnification to the full extent permitted by Delaware law.

(I) Amendment.

No amendment, repeal, modification or termination of this Article Twentieth or the relevant provision of the General Corporation Law or any other applicable laws shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the Corporation hereunder in respect of any occurrence or matter arising prior to any such amendment, repeal, modification or termination.

(J) Severability.

If any provision or provisions of this Article Twentieth shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article Twentieth (including, without limitation, each portion of any section of this Article Twentieth containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article Twentieth (including, without limitation, each portion of any section of this Article Twentieth containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

The foregoing Amended and Restated Certificate of Incorporation has been duly adopted by the Corporation's Board of Directors and Stockholders in accordance with the applicable provisions of Section 228, Section 242 and Section 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned have executed this certificate on August 15, 2003.

ABX Air, Inc.

By: /s/ Joseph C. Hete

Joseph C. Hete, President and Chief  
Operating Officer

/s/ W. Joseph Payne

W. Joseph Payne, Secretary



July 19<sup>th</sup>, 2006  
Via Facsimile and Overnight Delivery

ABX Air, Inc.  
145 Hunter Drive  
Wilmington, Ohio 45177  
Attn: Joe Hete, CEO  
cc: Joe Payne, VP and General Counsel

Re: ACMI Agreement, dated August 15th, 2003 (the "Agreement") by and between DHL Express (USA), Inc. (the surviving corporate entity from the merger with AIRBORNE INC.) ("DHL") and ABX AIR, INC. ("ABX")

#### CHANGE TO THE SCOPE OF SERVICES

Dear Mr. Hete,

Pursuant to the terms of the Agreement and with reference to the sections 6.2, 12.3 (c) and 12.3 (d) of the Agreement, this letter shall serve as DHL official written notice to ABX concerning a change of scope of services resulting into the termination of 12 DC 9 aircraft and 10 DC86 aircraft, specified by tail number and listed below in the "Released Aircraft Statement".

#### Released Aircraft Statement

DC9 tail numbers	Termination effective as of	DC86 tail numbers	Termination effective as of
1 936-31	July 19 <sup>th</sup> 2006		
2 948-31	July 19 <sup>th</sup> 2006	1 842	July 19 <sup>th</sup> , 2006
3 901-32	July 19 <sup>th</sup> 2006	2 820	July 19 <sup>th</sup> , 2006
4 987-32	July 19 <sup>th</sup> 2006	3 F - 814	July 19 <sup>th</sup> , 2006
5 923-31	July 19 <sup>th</sup> 2006	4 F - 811	July 19 <sup>th</sup> , 2006
6 938-31	July 19 <sup>th</sup> 2006	5 F - 815	July 19 <sup>th</sup> , 2006
7 945-31	July 19 <sup>th</sup> 2006	6 817	July 19 <sup>th</sup> , 2006
8 942-31	July 19 <sup>th</sup> 2006	7 F - 819	July 19 <sup>th</sup> , 2006
9 980-32	July 19 <sup>th</sup> 2006	8 825	July 19 <sup>th</sup> , 2006
10 902-32	July 19 <sup>th</sup> 2006	9 F - 826	July 31 <sup>st</sup> , 2006
11 988-32	July 19 <sup>th</sup> 2006	10 F - 813	July 31 <sup>st</sup> , 2006

#### DHL Express (USA), Inc.

1200 South Pine Island Road,  
Suite 600  
Plantation, Florida 33324

Phone: +1 954 888-7000  
www.dhl.com

#### Peter Harn

Senior Vice President  
Airline Operations  
Phone: (954) 888 7104  
Fax: (954) 888 7288  
Peter.harn@dhl.com



Therefore, please remove all costs related to the operation of these aircraft from its monthly invoice, effective as of the tail number specific date of termination. ABX is kindly requested to reveal to/discuss with a team of DHL management within the forthcoming two weeks the impact on the Budget 2006 resulting from the termination of specific aircraft, and the recently issued adjusted level of operations.

Please feel free to contact me should you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Peter Harn'. The signature is fluid and cursive, with a large loop at the top and a long, sweeping underline.

Peter Harn  
SVP Airline Operations

Attachment: Agreed list of aircraft to be operated for DHL Network as of August 1<sup>st</sup>, 2006.

1200 South Pine Island Road  
Suite 600  
Plantation, FL 33324

Phone: +1 954 888-7000  
[www.dhl.com](http://www.dhl.com)



**ABX Aircraft Retained in DHL Network as of August 1, 2006**

	<u>DC9</u>	<u>DC8</u>	<u>B767</u>
1	N900AX	N812AX F	N702AX
2	N903AX	N816AX F	N707AX
3	N904AX	N828AX F	N708AX
4	N905AX		N709AX
5	N906AX		N713AX
6	N907AX		N752AX F
7	N908AX		N767AX
8	N909AX		N768AX
9	N924AX		N769AX
10	N928AX		N773AX
11	N929AX		N774AX
12	N930AX		N775AX
13	N932AX		N783AX
14	N933AX		N784AX
15	N934AX		N785AX
16	N935AX		N786AX
17	N937AX		N787AX
18	N939AX		N788AX
19	N941AX		N789AX
20	N943AX		N790AX
21	N944AX		N791AX
22	N946AX		N792AX F
23	N947AX		N793AX
24	N949AX		N794AX
25	N951AX		N795AX
26	N952AX		N796AX
27	N953AX		N797AX F
28	N954AX		N798AX F
29	N955AX		N799AX F
30	N956AX		
31	N957AX		
32	N958AX		
33	N959AX		
34	N960AX		
35	N962AX		
36	N963AX		
37	N964AX		
38	N965AX		

39 N966AX  
40 N967AX  
41 N968AX  
42 N969AX  
43 N970AX  
44 N971AX  
45 N972AX  
46 N973AX  
47 N974AX  
48 N975AX  
49 N976AX  
50 N977AX  
51 N978AX  
52 N979AX  
53 N981AX  
54 N982AX  
55 N984AX  
56 N985AX  
57 N986AX  
58 N989AX  
59 N990AX

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Quint O. Turner, certify that:

1. I have reviewed this report on Form 10-Q of ABX Air, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ QUINT O. TURNER

Quint O. Turner  
Chief Financial Officer

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

In connection with the Quarterly Report of ABX Air, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph C. Hete, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ JOSEPH C. HETE

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Joseph C. Hete  
Chief Executive Officer

Date: August 9, 2006

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

In connection with the Quarterly Report of ABX Air, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Quint O. Turner, Chief Financial Officer, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ QUINT O. TURNER

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Quint O. Turner  
Chief Financial Officer

Date: August 9, 2006