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

FORM 10-Q

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

For Quarter Ended September 30, 2006

Commission File Number 000-50368

ABX AIR, INC.
(Exact name of registrant as specified in its charter)

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)

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

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.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except earnings per share)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	**2005**	**2006**	**2005**
REVENUES	$281,348	$369,921	$954,091	$1,067,752
OPERATING EXPENSES				
Salaries, wages and benefits	150,039	155,302	467,396	441,579
Fuel	69,253	67,131	200,305	189,397
Purchased line-haul and yard management	1,879	78,911	86,328	230,019
Maintenance, materials and repairs	19,528	25,629	75,377	79,645
Depreciation and amortization	11,649	10,467	34,002	30,351
Landing and ramp	4,071	5,030	16,193	19,286
Rent	2,116	2,135	6,826	6,099
Other operating expenses	14,641	15,854	41,660	43,668
	273,176	360,459	928,087	1,040,044
INTEREST EXPENSE	(2,832)	(2,765)	(8,398)	(8,028)
INTEREST INCOME	1,234	694	3,520	1,549
INCOME BEFORE INCOME TAXES	6,574	7,391	21,126	21,229
INCOME TAXES	—	—	—	—
NET EARNINGS	$ 6,574	$ 7,391	$ 21,126	$ 21,229
EARNINGS PER SHARE				
Basic	$ 0.11	$ 0.13	$ 0.36	$ 0.36
Diluted	$ 0.11	$ 0.13	$ 0.36	$ 0.36
WEIGHTED AVERAGE SHARES				
Basic	58,270	58,270	58,270	58,270
Diluted	58,585	58,322	58,543	58,388

See notes to consolidated financial statements.

ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,122	$ 69,473
Marketable securities - available for sale	17,146	15,637
Accounts receivable, net of allowance of $872 in 2006 and 2005	6,161	15,776
Inventory	13,418	14,014
Prepaid supplies and other	6,957	5,546
Aircraft and engines held for sale	3,029	—
TOTAL CURRENT ASSETS	87,833	120,446
Property and equipment, net	424,808	381,645
Other assets	12,849	13,952
TOTAL ASSETS	$ 525,490	$ 516,043
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 54,273	$ 78,068
Salaries, wages and benefits	35,429	47,249
Accrued expenses	10,206	9,240
Current portion of post-retirement liabilities	9,907	14,701
Current portion of long-term obligations	10,186	8,612
Unearned revenue	11,373	4,399
TOTAL CURRENT LIABILITIES	131,374	162,269
Long-term obligations	174,706	164,572
Post-retirement liabilities	81,537	74,618
Other liabilities	1,910	1,505
Commitments and contingencies (Note G)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock	—	—
Common stock, par value $0.01 per share; 75,000,000 shares authorized; 58,539,300 and 58,385,100 shares issued in 2006 and 2005, respectively; 58,270,400 outstanding in 2006 and 2005	585	584
Additional paid-in capital	430,622	429,338
Deficit	(276,764)	(297,890)
Accumulated other comprehensive loss	(18,480)	(18,953)
TOTAL STOCKHOLDERS' EQUITY	135,963	113,079
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 525,490	$ 516,043

See notes to consolidated financial statements.

ABX AIR, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30	
	2006	2005
OPERATING ACTIVITIES:		
Net earnings	$ 21,126	$ 21,229
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	34,002	30,351
Stock-based compensation	1,284	274
Impairment	257	—
Other	446	—
Changes in assets and liabilities:		
Accounts receivable	9,615	34,572
Inventory and prepaid supplies	(2,697)	(3,774)
Accounts payable	(36,154)	977
Unearned revenue	6,974	460
Accrued expenses, salaries, wages and benefits and other liabilities	(10,449)	(8,109)
Post-retirement liabilities	2,125	313
Other assets	195	386
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,724	76,679
INVESTING ACTIVITIES:		
Capital expenditures	(67,106)	(47,218)
Proceeds from the sale of property and equipment	233	—
Purchases of marketable securities	(13,461)	(21,306)
Proceeds from redemptions of marketable securities	13,551	3,500
NET CASH USED IN INVESTING ACTIVITIES	(66,783)	(65,024)
FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(6,500)	(5,906)
Proceeds from borrowings	18,208	—
Financing fees	—	(103)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	11,708	(6,009)
NET INCREASE (DECREASE) IN CASH	(28,351)	5,646
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	69,473	38,749
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 41,122	$ 44,395
SUPPLEMENTAL CASH FLOW INFORMATION:		
Accrued aircraft modification expenditures	$ 12,359	$ 3,120
Interest paid, net of amount capitalized	$ 8,048	$ 6,453

See notes to consolidated financial statements.

ABX AIR, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three month and nine month periods ended September 30, 2006 and 2005

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 primarily all of its revenues from an aircraft, crew, maintenance and insurance agreement ("ACMI agreement") and a hub services 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 quarter, the Company measures the achievement of quarterly goals and records any incremental revenues earned by achieving the goals during the quarter. In a similar way, the Company measures annual goals and records incremental revenues at the end of its fiscal year.

In August 2005, the Hub Services agreement was amended to extend the initial term of the Hub Services agreement in exchange for temporarily placing more of the Company's revenue potential under a cost-related incentive. The amendment temporarily reduced the base mark-up under the Hub Services agreement from 1.75% to 1.25% during the last six months of 2005. The maximum incremental mark-up that ABX could earn from cost incurred during the third and fourth quarters of 2005 from its quarterly cost-related incentives under the Hub Services agreement was temporarily increased from approximately 0.54% to 1.04%. In 2006, the base mark-up reverted to 1.75% and the maximum incremental mark-up from the quarterly cost-related incentives reverted to approximately 0.54%. The amendment did not change the annual cost and service-related incremental mark-up opportunities under the Hub Services agreement and did not affect the mark-up or the term of the ACMI agreement.

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 nine month periods ended September 30, 2006 and 2005. The deferred tax assets remain fully reserved at September 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 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 Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144")." 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 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 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. This Interpretation requires financial statement recognition of the impact of a tax position, if that position is more likely than not of being sustained 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.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Accounting," ("SFAS 157") which defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 will be effective for the Company's fiscal year beginning January 1, 2008. The Company is currently evaluating the impact SFAS 157 may have on its financial statements.

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

- recognize on its balance sheet the funded status (measured as the difference between the fair value of plan assets and the projected benefit obligation) of pension and other post-retirement benefit plans;
- recognize, through comprehensive income, certain changes in the funded status of a defined benefit and post-retirement plan in the year in which the changes occur;
- measure plan assets and benefit obligations as of the end of the employer's fiscal year; and
- disclose additional information.

The Company will adopt the requirement to recognize the funded status of a benefit plan and the additional disclosure requirements effective December 31, 2006. Retrospective application is not permitted. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end is effective for the Company's year ending after December 15, 2008.

SFAS 158 requires that the defined benefit plan liabilities reflect projected pension benefit obligations, which include estimates of benefits from estimated salary increases in future years. As a result, the requirement to recognize the funded status on the balance sheet will have a material impact on the Company's financial statements. For example, using the information disclosed as of December 31, 2005, total liabilities would have been approximately $180.8 million higher, and stockholders' equity would have been approximately $187.2 million lower. Because our pension and other post-retirement benefit plans are dependent on future events and circumstances and actuarial calculations, the impact at the time of adoption of SFAS 158 will differ from these amounts.

The Company is currently working with its lenders to assess the impact that SFAS 158 may have on its credit agreements and obtain waivers of covenants if necessary. The Company does not anticipate any resulting impact on its borrowing capacity as a result of implementing SFAS 158.

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 $269.8 million and $361.0 million for the three month periods ended September 30, 2006 and 2005, respectively, and $925.4 million and $1,045.4 million for the nine month periods ended September 30, 2006 and 2005, respectively.

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

	September 30, 2006	December 31, 2005
Assets (Liabilities):		
Accounts receivable	$ 2,136	$ 10,574
Excess funding and interest payable	(14,937)	(395)
Unearned revenue	(6,570)	(4,151)
Net asset (liability)	$ (19,371)	$ 6,028

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's earnings from line-haul operations were approximately $1.3 million in the first quarter of 2006. The Company did not realize any net earnings from the line-haul operations during the second and third quarters of 2006. Additionally, DHL plans to transition the operation of its regional hub in Allentown, Pennsylvania, from the Company's management effective January 1, 2007. The Company's net earnings from the Allentown operations were approximately $0.1 million and $0.3 million during three and nine month periods ended September 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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net income applicable to common stockholders	$ 6,574	$ 7,391	$21,126	$21,229
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	315	52	273	118
Weighted-average shares outstanding assuming dilution	58,585	58,322	58,543	58,388
Basic earnings per share	$ 0.11	$ 0.13	$ 0.36	$ 0.36
Diluted earnings per share	$ 0.11	$ 0.13	$ 0.36	$ 0.36

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 $3.5 million at September 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	
	September 30, 2006	December 31, 2005
Obligations of U.S. Government Agencies	$ 11,400	$ 12,977
Obligations of U.S. corporations	9,274	7,052
Total marketable securities	$ 20,674	$ 20,029

NOTE E—PROPERTY AND EQUIPMENT

At September 30, 2006, the Company's operating fleet consisted of 99 aircraft, including 32 Boeing 767, six McDonnell Douglas DC-8 and 61 McDonnell Douglas DC-9 aircraft.

Property and equipment, to be held and used, consisted of the following (in thousands):

	September 30, 2006	December 31, 2005
Aircraft and flight equipment	$ 665,737	$ 601,982
Support equipment	49,644	47,136
Vehicles and other equipment	2,157	2,192
Leasehold improvements	719	147
	$ 718,257	$ 651,457
Accumulated depreciation	(293,449)	(269,812)
Property and equipment, net	$ 424,808	$ 381,645

Aircraft and flight equipment included $35.5 million for aircraft held under capitalized leases as of September 30, 2006 and December 31, 2005. Accumulated depreciation included $7.8 million as of September 30, 2006 and $5.9 million as of December 31, 2005 for capital leases.

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 $0.7 million and $0.9 million for the nine months ended September 30, 2006 and 2005, respectively.

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

Under the contract with DHL, the Company had the option to put each of the other ten DC-8s and three DC-9s to DHL at the lower of their fair value or net book value. After having the aircraft appraised, management believes it can realize a higher value by selling the aircraft to part dealers or, in some cases, operating the aircraft for other customers. As of September 30, 2006, eleven aircraft, previously in service to DHL, are held for sale, while five aircraft formerly under contract to DHL are available for non-DHL charter/ACMI operations. Aircraft for sale at September 30, 2006 consisted of eight DC-8 and three DC-9 aircraft.

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

NOTE F—LONG TERM DEBT AND CREDIT FACILITY

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

	September 30, 2006	December 31, 2005
Promissory note due to DHL	$ 92,276	$ 92,276
Capital lease obligations	75,189	80,908
Aircraft loan	17,427	—
Total long-term obligations	184,892	173,184
Less: current portion	(10,186)	(8,612)
Total long-term obligations, net	$ 174,706	$ 164,572

The unsecured promissory note is due in 2028 and bears interest at 5.00% per annum payable semi-annually. Interest on the promissory note is reimbursable under the ACMI agreement without mark-up. The capital lease obligations 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% (7.9375% at September 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 aircraft loan is collateralized by an aircraft and is due in 2016 and bears interest at 7.07% per annum payable monthly.

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 September 30, 2006, the unused credit facility totaled $35.2 million, net of outstanding letters of credit of $9.8 million. There were no borrowings outstanding under the Credit Agreement as of September 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 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, three have been deployed in the Company's non-DHL operations as of September 30, 2006. Based on the most current projections, the Company is planning to deploy one more former Delta aircraft late in the fourth quarter 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 $139.6 million as of September 30, 2006. Payments by period are estimated below (in thousands):

	Remainder of 2006	2007	2008	Total
Aircraft and modification commitments	$ 29,348	$85,729	$24,513	$139,590

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. On September 27, 2006, each of the defendants entered guilty pleas in U.S. district court and are currently scheduled to be sentenced on January 30, 2007. No proceedings have been initiated against the Company. The Company believes it has adequately reserved for potential losses stemming from this matter. In the event proceedings were initiated against the Company that resulted in an adverse finding, the Company could be subjected to a financial penalty that is materially greater than the amount we have accrued and restrictions on our ability to engage in business with agencies of the U.S. Government.

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 September 30				Nine Months Ended September 30			
	Pension Plans		Post-retirement Healthcare Plans		Pension Plans		Post-retirement Healthcare Plans	
	2006	2005	2006	2005	2006	2005	2006	2005
Service cost	$ 9,540	$ 7,455	$ 602	$ 498	$ 28,620	$ 22,365	$1,806	$1,494
Interest cost	7,505	5,851	480	395	22,515	17,553	1,440	1,185
Expected return on plan assets	(6,305)	(5,120)	—	—	(18,915)	(15,360)	—	—
Amortization of prior service cost	1,052	928	—	4	3,156	2,784	—	12
Amortization of net loss	2,638	1,626	268	251	7,914	4,878	804	753
Net periodic benefit cost	$14,430	$10,740	$1,350	$1,148	$ 43,290	$ 32,220	$4,050	$3,444

During the three and nine month periods ended September 30, 2006, the Company paid $28.2 million and $44.5 million of contributions to its defined benefit pension plans, respectively. The Company presently anticipates contributing an additional $9.1 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, 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 reportable segments and are combined in "All other" with interest income below (in thousands):

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Revenues:				
DHL	$ 269,774	$ 360,967	$ 925,435	$ 1,045,358
Charter	6,587	4,060	15,838	9,414
All other	4,987	4,894	12,818	12,980
Total	$ 281,348	$ 369,921	$ 954,091	$ 1,067,752
Depreciation Expense:				
DHL	$ 10,319	$ 8,804	$ 29,686	$ 26,343
Charter	715	1,058	2,559	2,187
All other	68	33	143	87
Total	$ 11,102	$ 9,895	$ 32,388	$ 28,617
Earnings:				
DHL	$ 3,595	$ 5,203	$ 12,487	$ 15,395
Charter	834	490	1,780	633
All other	2,145	1,698	6,859	5,201
Total	$ 6,574	$ 7,391	$ 21,126	$ 21,229

	September 30, 2006	December 31, 2005
Assets:		
DHL	$ 374,095	$ 368,733
Charter	87,438	62,392
All other	63,957	84,918
Total	$ 525,490	$ 516,043

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 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.

	Nine Months Ended September 30, 2006		Nine Months Ended September 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	597,000	$ 7.37	264,600	$ 8.33
Vested	49,600	$ 7.44		

The grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company 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 nine month periods ended September 30, 2006 and 2005, the Company recorded expense of $1.3 million and $0.3 million for stock incentive awards, respectively. At September 30, 2006, there was $2.8 million of unrecognized expense related to the stock incentive awards that is expected to be recognized over a weighted-average period of 1.6 years. As of September 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 September 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 may execute financing transactions for seven of the former Delta 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 loan 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 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 loan 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 December 2006 and June 2007, near the forecasted execution dates of the anticipated financing transactions.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company accounts for the treasury locks as cash flow hedges. The treasury locks were evaluated and deemed to be highly effective as hedges at their inception and at September 30, 2006. The Company records unrealized gains or losses resulting from the changes in fair value in the consolidated balance sheets under accumulated other comprehensive income in stockholders' equity. These gains and losses are recognized into earnings over the terms of the forecasted loan transactions. During the three and nine month periods ended September 30, 2006, any amounts of hedge ineffectiveness were not material.

The table below provides information about outstanding treasury lock instruments at September 30, 2006 (in thousands):

Expire	Notional Amount	Stated interest rate	Market value (liability)
2006	$12,000	4.670%	$ (53)
2007	12,000	4.750%	(116)
2007	12,000	4.750%	(114)
	$36,000		$ (283)

NOTE L—COMPREHENSIVE INCOME

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Net income	$ 6,574	$ 7,391	$21,126	$21,229
Other comprehensive income				
Unrealized gain (loss) on marketable securities	58	(30)	38	(30)
Unrealized gain (loss) on hedge derivatives	(1,585)	—	442	—
Less: Reclassification of hedging gain realized in net income	(7)	—	(7)	—
Other comprehensive income (loss)	(1,534)	(30)	473	(30)
Comprehensive income	$ 5,040	$ 7,361	$21,599	$21,199

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

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 operates an in-service fleet of nearly 100 aircraft as of September 30, 2006. We provide cargo transportation, package sorting and handling primarily within the United States. We operate a network of nineteen domestic hubs for DHL Network Operations (USA), Inc. ("DHL"). DHL is our largest customer, constituting approximately all of our 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 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 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.

2006 Developments

DHL

We reported in November 2004 that DHL intended to remove aircraft that ABX operated under the ACMI agreement. In conjunction with its network plan, DHL notified us in July 2006 that 21 specific aircraft (eleven DC-9s and ten DC-8s) would be released from dedicated service for DHL in August 2006. Several of these aircraft had previously been placed in back-up status since September of 2005, when DHL consolidated its air hub operations from Cincinnati into its main, ABX-managed hub in Wilmington, Ohio, eliminating redundant air routes. The August 2006 reduction of 21 aircraft brings the total number of aircraft released from service under the ACMI agreement since November 2004 to 28 (fourteen DC-8s and fourteen DC-9s). DHL will continue to fully fund depreciation for eight of the DC-9s that were removed through their remaining depreciable lives in August 2010. The net book value of these eight aircraft is approximately $4.1 million. We will use the engines on these eight DC-9 aircraft to support the remaining 59 DC-9 aircraft that ABX has in service to DHL. In conjunction with DHL's November 2004 network plan, we deployed two additional standard freighter Boeing 767 aircraft under the ACMI agreement in 2006, one in 2005 and one in 2004.

Under the ACMI agreement, ABX had the option to put each of the other ten DC-8s and three DC-9s to DHL at the lower of their fair value or net book value. After having the aircraft appraised, ABX management believes it can realize a higher value by selling the aircraft to part dealers or, in some cases, operating the aircraft for other customers. As of September 30, 2006, eleven aircraft, previously in service to DHL, are held for sale, while five aircraft formerly under contract to DHL are available for non-DHL charter/ACMI operations.

The removal of aircraft from service to DHL constituted an event requiring ABX to evaluate the recoverability of the carrying value of those aircraft removed from the ACMI agreement. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” ABX recorded an impairment charge of $0.3 million during the three months ended September 30, 2006 for the excess of the carrying value of the aircraft over their fair value less cost to sell. The charge is reflected under the ACMI expenses but is not reimbursed by DHL.

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 $74.7 million and $158.8 million during the third quarter and first nine months of 2006 compared to 2005. ABX did not have any earnings from line-haul services in the second or third quarters of 2006 and earned $1.3 million during the first quarter of 2006. Earnings from line-haul services were $1.3 million and $3.6 million during the third quarter and first nine months of 2005.

Effective January 1, 2007, we will not operate or manage DHL’s Allentown hub facility. A new Allentown 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 $3.7 million of ABX’s revenues and less than $0.1 million of net earnings during the third quarter of 2006 and $12.0 million of ABX’s revenues and $0.3 million of net earnings during the first nine months 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. Management believes achieving these additional incentives is unlikely.

Non-DHL

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 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 Boeing 767 aircraft, three were deployed in our non-DHL charter operations through September 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 one more former Delta aircraft late in the last quarter of 2006 and eight additional aircraft during the next two years. In addition to these Boeing 767 aircraft, we have two DC-8 aircraft in standard cargo configuration, one DC-8 aircraft in non-standard cargo configuration and two DC-9 aircraft in non-standard cargo configuration that are available for service.

During the third quarter of 2006, ABX was awarded contracts to manage USPS mail sort centers in Dallas, Texas and Memphis, Tennessee. Each of these facilities began operations in September 2006. ABX was also awarded a renewal of a USPS sort center in Indianapolis, Indiana that we have operated since 2004. Under each of these contracts, we are compensated at a firm price for fixed costs and an additional amount based on the volume of mail handled at each sort center. Each of the contracts has a four-year term with extensions at the discretion of the USPS.

RESULTS OF OPERATIONS

For the third quarter of 2006, net earnings were $6.6 million compared to net earnings of $7.4 million for the third quarter of 2005. The decline in earnings for the third quarter of 2006 was primarily a result of transitioning line-haul operations to DHL during the second quarter of 2006. Additionally, the third quarter results of 2006 included a non-reimbursable impairment charge of $0.3 million as a result of removing aircraft from the ACMI agreement with DHL. The decline of earnings in the third quarter of 2006 was partially offset by improved results from our non-DHL charter operations and increased interest income.

Total revenues decreased $88.6 million, or 23.9%, to $281.3 million for the third quarter of 2006 compared to the third 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 $74.7 million compared to the third quarter of 2005. Revenues associated with the ACMI agreement declined approximately $10.6 million in the third quarter of 2006 compared to 2005. The decline reflects the contracted air charters that were transitioned to DHL's management during the third quarter of 2005 and lower expenses due to fewer hours flown since the implementation of an integrated flight schedule in conjunction with the DHL hub consolidation in September 2005. Revenues during the third quarter of 2006 were positively impacted compared to 2005 by increased non-DHL charter flight hours.

For the first nine months of 2006, we had net earnings of $21.1 million compared to net earnings of $21.2 million for the first nine months of 2005. Decreased earnings, primarily due to the transition of line-haul services to DHL, were nearly offset by increased non-DHL ACMI/charters and improved interest income. Total revenues decreased 10.6% to $954.1 million compared to the first nine months of 2005. Lower revenues from DHL, which declined 11.5%, were partially offset by increased non-DHL charter revenues, which grew 68.2% compared to the first nine months of 2005.

Under the ACMI and Hub Services 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 $0.8 million and $1.2 million of incremental mark-up under the two DHL agreements during the third quarter of 2006 and 2005, respectively. The decrease is primarily due to the lower level of cost subject to mark-up compared to the third quarter of 2005. We earned $3.0 million and $2.4 million of incremental mark-up under the two DHL agreements during the first nine months of 2006 and 2005, respectively. The improved incremental mark-up for the first nine months 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 higher incremental mark-up under the Hub Services agreement was a result of processing more pieces than budgeted while minimizing additional cost during the first quarter of 2006.

The two commercial agreements with DHL allow us to earn additional cost-related and service mark-up revenues based on our performance against annual goals, in addition to quarterly cost-related mark-up. No incremental mark-up contribution from the annual cost and service goals specified in the two agreements was included in our revenue for the third quarter or first nine months of 2006 and 2005. Any revenue earned through the achievement of annual goals is recorded in the fourth quarter. Based on cost-related performance through September 30, 2006, we are on pace to achieve 100% of the additional mark-up which is approximately 0.81% of the ACMI expenses subject to mark-up. Based on service-related performance through September 30, 2006 we are on pace to achieve an additional annual mark-up of 0.20% of ACMI expenses and 0.47% of hub services expenses subject to mark-up. We would not earn an additional annual mark-up under the Hub Services agreement for cost-related performance based on results through September 30, 2006. By comparison, in the fourth quarter of 2005, we earned 100% of the annual cost-related mark-up from the ACMI agreement, and we earned an annual mark-up for service performance equal to 0.15% of ACMI expense subject to mark-up. We did not earn any annual incremental mark-up under the Hub Services agreement in 2005. Actual cost savings and service performance for the first nine months of 2006 are not necessarily indicative of full-year performance, and results during the last three months of 2006 may improve upon, or detract from, performance through September 30, 2006.

During the third quarter and first nine months of 2006, our expenses for the DHL segment included approximately $0.6 million and $2.1 million, respectively, 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 decreased $6.4 million for the third quarter compared to the same 2005 period due primarily to the transition of line-haul to DHL in the second quarter of 2006. For the first nine months of 2006, our expenses for DHL that are reimbursed without mark-up increased by $14.5 million compared to the same 2005 period. 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 62.2% over the third quarter of 2005 to $6.6 million. For the first nine months of 2006, charter revenues grew 68.2% to $15.8 million compared to the first nine months 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 $0.8 million from non-DHL charter operations for the third quarter of 2006 compared to $0.5 million for the third quarter of 2005. For the first nine months of 2006 and 2005, earnings from non-DHL charter operations were $1.8 million and $0.6 million, respectively. Our non-DHL charter earnings in the first half of 2005 were hampered by low utilization and higher fixed costs while we transitioned the 767 freighters into non-DHL service.

Other non-DHL revenues increased to $5.0 million in the third quarter of 2006 compared to $4.9 million in the third quarter of 2005. For the first nine months of 2006 and 2005, other non-DHL revenues decreased to $12.8 million compared to $13.0 million. Declines in other non-DHL revenues reflect the volatility associated with aircraft modification and heavy maintenance orders.

Earnings from all other non-DHL activities declined $0.1 million during the third quarter and $0.3 million during the first nine months of 2006 compared to the corresponding periods in 2005. During the third quarter, the two new postal facilities negatively impacted our earnings by approximately $0.2 million dollars due to start-up costs.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Revenues:				
DHL Contracts				
ACMI				
Base mark-up	$109,437	$119,926	$352,520	$ 364,119
Incremental mark-up	621	682	2,052	1,678
Total ACMI	110,058	120,608	354,572	365,797
Hub Services				
Base mark-up	80,110	153,998	309,674	433,116
Incremental mark-up	160	557	952	753
Total Hub Services	80,270	154,555	310,626	433,869
Other Reimbursable	79,446	85,804	260,237	245,692
Total DHL	269,774	360,967	925,435	1,045,358
Charter	6,587	4,060	15,838	9,414
All Other	4,987	4,894	12,818	12,980
Total Revenues	$281,348	$369,921	$954,091	$1,067,752
Expenses				
DHL Contracts				
ACMI	$107,984	$117,864	$347,201	$ 357,857
Hub Services	78,749	152,096	305,510	426,414
Other Reimbursable	79,446	85,804	260,237	245,692
Total DHL	266,179	355,764	912,948	1,029,963
Charter	5,753	3,570	14,058	8,781
All Other	4,076	3,890	9,479	9,328
Total Expenses	$276,008	$363,224	$936,485	$1,048,072
Earnings				
DHL Contracts				
ACMI	$ 2,074	$ 2,744	$ 7,371	$ 7,940
Hub Services	1,521	2,459	5,116	7,455
Other Reimbursable	—	—	—	—
Total DHL	3,595	5,203	12,487	15,395
Charter	834	490	1,780	633
All Other	911	1,004	3,339	3,652
Interest Income	1,234	694	3,520	1,549
Total Earnings	$ 6,574	$ 7,391	$ 21,126	$ 21,229

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 decreased 3.4% and increased 5.8% during the third quarter and first nine months of 2006, respectively, as compared to the corresponding periods of 2005. During the third quarter of 2006, we were able to reduce the higher level of sort labor that was added to consolidate DHL's Cincinnati hub with its central hub in Wilmington and to operate DHL's expanded ground network since the hub integration project in September 2005.

Purchased line-haul expense decreased 97.6% and 62.5% during the three and nine month periods ended September 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 third quarter and first nine months of 2005, this expense category included $3.9 million and $15.0 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 3.2% and 5.8% during the three and nine month periods ended September 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 $2.30 and $1.95 per gallon in the third quarter of 2006 and 2005, respectively. Our consumption of aviation fuel during the third quarter and first nine months 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 23.8% and 5.4% during the three and nine month periods ended September 30, 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 third quarter of 2006, we processed eight heavy maintenance checks compared to sixteen checks in the third quarter of 2005. During the first nine months of 2006, 46 heavy maintenance checks were performed, compared to 51 checks in the first nine months of 2005.

Depreciation and amortization expense increased 11.3% and 12.0% during the three and nine month periods ended September 30, 2006, respectively, compared to the corresponding periods in 2005. The increase is primarily a result of four additional Boeing 767 aircraft that we placed in service since September of 2005.

Landing and ramp expense decreased 19.1% and 16.0% during the three and nine month periods ended September 30, 2006, compared to the corresponding periods in 2005. The reduction reflects lower 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 remained the same for the three month period ended September 30, 2006 and increased $0.7 million during the nine month period ended September 30, 2006, 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 the impairment charge, travel, professional fees, insurance, utilities and cost of parts sold to non-DHL customers. Other operating expenses decreased by $1.2 million and $2.0 million in the third quarter and first nine months of 2006 compared to the corresponding periods in 2005. During the third quarter of 2005, our expenses included significant costs associated with DHL's hub integration project and bad debt expenses associated with airline bankruptcy filings. Additionally, the expense decrease reflects the reduction in non-DHL aircraft maintenance orders during the first half of 2006 compared to 2005.

Our interest expense for the third quarter of 2006 remained the same at $2.8 million compared to the third quarter of 2005. Our interest expense for the first nine months of 2006 increased $0.4 million to $8.4 million compared to the first nine months of 2005. The increase in interest expense in 2006 is a result of lower capitalized interest cost during the first nine months of 2006 compared to the first nine months of 2005.

Interest income increased by $0.5 million and $2.0 million during the third quarter and first nine months 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, 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, three were deployed in our non-DHL charter operations through September of 2006. Two of these aircraft were funded with our cash and one was financed with an aircraft loan. Based on the most current projections, we are planning to deploy one more former Delta aircraft late in the fourth quarter 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 $139.6 million as of September 30, 2006. Payments by period are estimated below (in thousands):

	Remainder of 2006	2007	2008	Total
Aircraft and anticipated modification commitments	$ 29,348	$85,729	$24,513	$139,590

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 seven more 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 $9.1 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 $14.4 million for the remainder of 2006 for all pension plans, totaling $57.7 million for the year.

Cash flows

Operating cash flows were $26.7 million and $76.7 million in the first nine 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 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 $67.1 million in the first nine months of 2006 compared to $47.2 million in the first nine months of 2005. Our capital expenditures in the first nine 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 nine 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 additional borrowings of approximately $17.0 million in late 2006 to finance one more of the former Delta aircraft.

Liquidity and Capital Resources

As of September 30, 2006, we had approximately $41.1 million of cash balances and $20.7 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 September 30, 2006, the unused credit facility totaled $35.2 million, net of outstanding letters of credit of $9.8 million.

We believe that our current cash balances and forecasted cash flows provided by the 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.

In August 2005, the Hub Services agreement was amended to extend the initial term of the Hub Services agreement in exchange for temporarily placing more of the Company's revenue potential under a cost-related incentive. The amendment temporarily reduced the base mark-up under the Hub Services agreement from 1.75% to 1.25% during the last six months of 2005. The maximum incremental mark-up that ABX could earn from cost incurred during the third and fourth quarters of 2005 from its quarterly cost-related incentives under the Hub Services agreement was temporarily increased from approximately 0.54% to 1.04%. In 2006, the base mark-up reverted to 1.75% and the maximum incremental mark-up from the quarterly cost-related incentive reverted to approximately 0.54%. The amendment did not change the annual cost and service-related incremental mark-up opportunities under the Hub Services agreement and did not affect the mark-up or the term of the ACMI agreement.

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 September 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 the 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 except for a new fixed interest rate aircraft loan described in Note F.

We anticipate that ABX will execute financing transactions for seven of the remaining aircraft we are committed to modify and place in service through 2008. The financing transactions are expected to be fixed interest rate aircraft loans based on ten-year U.S. Treasury Notes. To reduce our exposure to rising interest rates before the financing transactions are executed, we entered into forward treasury lock agreements ("treasury locks") for five of the aircraft 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. Three remaining treasury locks are timed to expire between December 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 September 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 September 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. On September 27, 2006, each of the defendants entered guilty pleas in U.S. district court and are currently scheduled to be sentenced on January 30, 2007. 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 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:

Exhibit No.	Description of Exhibit
3.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation of ABX Air, Inc., dated May 9, 2006[2].
3.2	Amended and Restated Certificate of Incorporation of ABX Air, Inc., dated August 15, 2003[2].
10.1	Agreement with DHL dated March 15, 2006[1].
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[2].
10.3	Aircraft Loan and Security Agreement and related promissory note, dated August 24, 2006, by and among ABX Air, Inc. and Chase Equipment Leasing, Inc., 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.

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

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

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: November 9, 2006

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: November 9, 2006

Exhibit 10.3

LOAN AND SECURITY AGREEMENT

(aircraft)

Loan Number: 1000129301

This Agreement is dated as of August 24, 2006 and is executed by and between CHASE EQUIPMENT LEASING INC. ("Lender"), with Lender's principal office located at 1111 Polaris Parkway, Suite A3 (OH1-1085), Columbus, Ohio 43240 and the borrower identified below ("Borrower"):

Borrower Name: ABX Air, Inc.

Borrower Address: 145 Hunter Drive, Wilmington, Ohio 45177

1. GRANT OF SECURITY INTEREST. Borrower grants, pledges and assigns to Lender a security interest in all of Borrower's respective right, title and interest in and to the property described on the **attached Schedule A-1**, now or hereafter arising or acquired, wherever located, together with any and all additions, accessions, parts, accessories, substitutions and replacements thereof, now or hereafter installed in, affixed to or used in connection with said property (the "Equipment"), in all proceeds thereof, cash and non-cash, including, but not limited to, proceeds of notes, checks, instruments, indemnity proceeds, or any insurance on such and any refund or rebate of premiums on such ("Collateral"). This Agreement secures the prompt payment and complete performance in full when due, whether at the stated maturity, by acceleration or otherwise, of all payment and other obligations of Borrower under or in connection with this Agreement, the Business Purpose Promissory Note executed in connection with the Loan Number referenced above with Borrower as the maker (the "Note"), and any and all renewals, extensions or substitutions for any such instrument, and also any and all other liabilities of Borrower to Lender, or any affiliate of either Lender or JPMORGAN CHASE & CO., direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and without limitation, all indebtedness, leases, debts and liabilities (including principal, interest, late charges, collection costs, attorney fees and the like) (collectively, the "Obligations"). The absence of any reference to this Agreement in any documents, instruments or agreements evidencing or relating to any Obligations secured hereby shall not limit or be construed to limit the scope of this Agreement. While any Obligations are outstanding, Borrower is and will continue to be (or, with respect to after acquired property, will be when acquired) the legal and beneficial owner of the Collateral free and clear of any Lien except for the security interest created by this Agreement. No effective Uniform Commercial Code ("UCC") financing statement or other instrument providing notice of a security interest in all or any part of the Collateral is on file in any recording office, except those in favor of Lender. At its sole expense, Borrower shall protect and defend Lender's first priority security interest in the Collateral against all claims and demands whatsoever.

2. MAINTENANCE; USE AND OPERATION; LOCATION.

2.1 At its sole expense, Borrower shall: (a) repair and maintain the Equipment in good condition and working order and supply and install all replacement parts or other devices when required to so maintain the Equipment or when required by applicable law or regulation, which parts or devices shall automatically become part of the Equipment; (b) use and operate the Equipment in a careful manner in the normal course of its business and only for the purposes for which it was designed in accordance with the manufacturer's warranty requirements, and comply with all laws and regulations relating to the Equipment, and obtain all permits or licenses necessary to install, use or operate the Equipment; (c) make no alterations, additions, subtractions, upgrades or improvements to the Equipment with a cost in excess of $150,000.00 without Lender's prior written consent (which consent will not be unreasonably withheld), but any such alterations, additions, upgrades or improvements shall automatically become part of the Equipment; (d) maintain, inspect, service and repair, overhaul and test the Equipment in accordance with the FAA approved maintenance program, manufacturer's approved maintenance program, FAA airworthiness directives, and the manufacturer's alert bulletins and urgently recommended service bulletins and procedures, and perform all duties and tasks which would be required to maintain the Equipment, including the engines, in full compliance with the manufacturer's specification (i) so as to keep the Equipment in as good operating condition as when delivered to the Borrower hereunder, ordinary wear and tear excepted, and (ii) so as to keep the Equipment in such operating condition as may be necessary to enable the airworthiness certification of such Equipment to be maintained in good standing at all times under the Act (as defined in Section 19 hereof); and (e) maintain all records, logs and other materials required by the FAA to be maintained in respect of the Equipment. Lender has the right upon reasonable notice to Borrower to inspect the Equipment wherever located. Notwithstanding anything to the contrary contained herein, Borrower may remove an Engine from the Airframe and install an Engine on another airframe owned or leased by Borrower provided that: (i) the Engine does not become subject to any Lien (other than Lender's security interest) or claim of ownership; and (ii) Borrower installs a Replacement Engine on the Airframe. "Airframe" means the airframe described on the Schedule A-1 attached hereto. "Engine" shall mean any one of the engines described on the Schedule A-1 attached hereto. "Replacement Engine" shall mean an engine of the same make and model (or an improved model engine) as the Engine.

2.2 The Equipment will not be operated, used or located outside of the United States of America ("USA") by Borrower or any other party; provided, that Borrower may temporarily use, operate and locate the Equipment outside the USA (any country or jurisdiction other than the USA hereinafter called a “Foreign Jurisdiction”) so long as all of the following conditions are satisfied: (a) the Geneva Convention on the International Recognition of Rights in Aircraft together with the necessary enacting laws, rules and regulations for such Geneva Convention (or some similar treaty, laws and regulations) shall be in effect in any such Foreign Jurisdiction; (b) any notices, statements, documents and instruments necessary or required to be filed in any such Foreign Jurisdiction for the operation, use or location of the Equipment therein shall have been filed in accordance with applicable law and regulation and Borrower shall provide file stamped copies to Lender upon Lender’s request from time to time; (c) the Equipment shall remain insured in accordance with the terms of this Agreement at all times and shall be insured in accordance with the laws and regulations of each Foreign Jurisdiction in or over which the Equipment will be operated; (d) the Equipment will not be registered under the laws of any Foreign Jurisdiction and shall remain registered under the Act at all times; and (e) the Equipment shall not be used, operated or located in any Foreign Jurisdiction if at the time of such use, operation or location (i) the insurance covering the Equipment would not permit the use, operation or location of the Equipment in such Foreign Jurisdiction or such use, operation or location would otherwise void, result in the cancellation of, limit or diminish the coverage provided by the applicable insurance policy, or (ii) any law, regulation or presidential executive order of the USA prohibits the use, operation or location of the Equipment in such Foreign Jurisdiction, or (iii) there is any material risk of war (declared or civil), of other hostilities or of confiscation, seizure or detention of the Equipment in such Foreign Jurisdiction, or (iv) the USA does not have diplomatic relations with such Foreign Jurisdiction. The Equipment shall be hangered at the location specified on Schedule A-1.

3. INSURANCE. At its sole expense, Borrower at all times shall keep the Equipment insured against all risks of loss or damage from every cause whatsoever (including, without limitation, standard war risk insurance coverage) for an amount not less than the greater of the full replacement value of the Equipment or 102% of the outstanding principal balance of the Note. All insurers shall be reasonably satisfactory to Lender. Borrower shall deliver to Lender satisfactory evidence of such coverage. Proceeds of any insurance covering damage or loss of the Equipment shall be payable to Lender as loss payee and shall be applied as set forth in Section 4 below. If an Event of Default occurs and is continuing, then Borrower automatically appoints Lender as Borrower’s attorney-in-fact with full power and authority in the place of Borrower and in the name of Borrower or Lender to make claim for, receive payment of, and sign and endorse all documents, checks or drafts for loss or damage under any such policy. Each insurance policy will require that the insurer give Lender at least 30 days prior written notice of any cancellation of such policy and will require that Lender’s interests remain insured regardless of any act, error, omission, neglect or misrepresentation of Borrower. The insurance maintained by Borrower shall be primary without any right of contribution from insurance that may be maintained by Lender.

4. LOSS OR DAMAGE. Borrower bears the entire risk of loss, theft, damage or destruction of Equipment in whole or in part from any reason whatsoever (“Casualty Loss”). No Casualty Loss to Equipment shall relieve Borrower from the obligation to pay the installment payments or from any other obligation under this Agreement. In the event of Casualty Loss to any item of Equipment, Borrower shall immediately notify Lender of the same and Borrower shall, if so directed by Lender, immediately repair the same. If Lender determines that the Equipment has suffered a Casualty Loss beyond repair or a Casualty Loss which substantially and permanently reduces the fair market value of the Equipment (“Lost Equipment”), then Borrower, at the option of Lender, shall: (1) immediately replace the Lost Equipment with similar equipment in good repair, condition and working order free and clear of any Liens and deliver to Lender a bill of sale covering the replacement equipment, in which event such replacement equipment shall automatically be Equipment under this Agreement; or (2) on the installment payment due date which is at least 30 but no more than 60 days after the date of the Casualty Loss (“Loss Payment Due Date”), pay to Lender all accrued and unpaid principal, interest, late charges and other amounts then due and payable by Borrower under this Agreement or the Note plus the remaining principal balance of the Note as of the Loss Payment Due Date as determined by Lender’s records. Upon payment by Borrower of all amounts due under the above clause (2), the security interest of the Lender in the Lost Equipment will terminate.

5. TAXES. Borrower will pay promptly when due all taxes, assessments and governmental charges upon or against Borrower, the Collateral or the property or operations of Borrower, in each case before same becomes delinquent and before penalties accrue thereon, unless and to the extent that same are being contested in good faith by appropriate proceedings.

6. GENERAL INDEMNITY. Borrower assumes all risk and liability for, and shall defend, indemnify and keep Lender harmless on an after-tax basis from, any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs and expenses, including reasonable attorney fees and expenses, of whatsoever kind and nature imposed on, incurred by or asserted against Lender, in any way relating to or arising out of the manufacture, purchase, acceptance, rejection, ownership, possession, use, selection, delivery, operation, condition, sale, return or other disposition of the Equipment or any part thereof (including, without limitation, any claim for latent or other defects, whether or not discoverable by Borrower or any other person, any claim for negligence, tort or strict liability, any claim under any environmental protection or hazardous waste law and any claim for patent, trademark or copyright infringement). Borrower will not indemnify Lender under this section for loss or liability caused by the gross negligence or willful misconduct of Lender. In this section, “Lender” also includes any director, officer, employee, agent, successor or assign of Lender. Borrower’s obligations under this section shall survive the expiration, cancellation or termination of this Agreement.

7. PERSONAL PROPERTY. Borrower represents and agrees that the Equipment is, and shall at all times remain, separately identifiable personal property. Lender may display notice of its interest in the Equipment by any reasonable identification and Borrower shall not alter or deface any such indicia of Lender's interest.

8. FINANCIAL & OTHER REPORTS. Borrower agrees to furnish to Lender: (a) annual audited financial statements setting forth the financial condition and results of operation of Borrower (financial statements shall include balance sheet, income statement and statement of cash flows and all notes and auditor's report thereto) within 90 days of the end of each fiscal year of Borrower; (b) upon Lender's request, quarterly financial statements setting forth the financial condition and results of operation of Borrower within 45 days of the end of each of the first three fiscal quarters of Borrower; and (c) such other financial information as Lender may from time to time reasonably request including, without limitation, financial reports filed by Borrower with federal or state regulatory agencies. All such financial information shall be prepared in accordance with generally accepted accounting principles on a basis consistently applied. Borrower will promptly notify Lender in writing with full details if any event occurs or any condition exists which constitutes, or which but for a requirement of lapse of time or giving of notice or both would constitute, an Event of Default under this Agreement or which might materially and adversely affect the financial condition or operations of Borrower or any affiliate of Borrower. Borrower will promptly notify Lender in writing of the commencement of any litigation to which Borrower or any of its subsidiaries or affiliates may be a party (except for litigation in which Borrower's or the affiliate's contingent liability is fully covered by insurance) which, if decided adversely to Borrower would materially adversely affect or impair the security interest of Lender to the Equipment or which, if decided adversely to Borrower would materially adversely affect the business operations or financial condition of Borrower. Borrower will immediately notify Lender, in writing, of any judgment against Borrower if such judgment would have the effect described in the preceding sentence.

9. NO CHANGES IN BORROWER. Borrower shall not: (a) liquidate, dissolve or suspend its business; (b) sell, transfer or otherwise dispose of all or a majority of its assets, except that Borrower may sell its inventory in the ordinary course of its business; (c) enter into any merger, consolidation or similar reorganization unless it is the surviving corporation; (d) transfer all, or any substantial part of, its operations or assets outside of the United States of America; or (e) without 30 days advance written notice to Lender, change its name, state of incorporation or organization, or chief place of business. There shall be no transfer of more than a 25% ownership interest in Borrower or any Guarantor (as defined in Section 12 hereof) by shareholders, partners, members or proprietors thereof in any calendar year without Lender's prior written consent. All financial covenants of Borrower and any Guarantor under any Affiliate Credit Agreement (as defined in Section 12 hereof) shall remain fully applicable to Borrower and any Guarantor (as the case may be) and shall not be violated by Borrower or any Guarantor (as the case may be) at any time. If for any reason whatsoever an Affiliate Credit Agreement is canceled, discharged or otherwise terminated and if no other Affiliate Credit Agreement remains in effect as to Borrower or any Guarantor, then, automatically and without any action by Lender or any other party, all financial covenants which are in effect as of the date immediately prior to the cancellation, discharge or termination of such Affiliate Credit Agreement shall remain in full force and effect, shall be incorporated in this Agreement by reference, and shall be made a part of this Agreement.

10. REPRESENTATIONS. Borrower represents and warrants that: (a) Borrower is a corporation, limited liability company, partnership or proprietorship as stated below Borrower's signature duly organized, validly existing and in good standing under the laws of the state of its organization as stated below Borrower's signature and Borrower is qualified to do business and is in good standing under the laws of each other state in which the Equipment is or will be located; (b) Borrower's name as set forth at the outset of this Agreement is its complete and correct legal name as indicated in the public records of Borrower's state of organization; (c) Borrower has full power, authority and legal right to sign, deliver and perform this Agreement, the Note and all related documents and such actions have been duly authorized by all necessary corporate, company, partnership or proprietorship action; (d) this Agreement, the Note and each related document has been duly signed and delivered by Borrower and each such document constitutes a legal, valid and binding obligation of Borrower enforceable in accordance with its terms; (e) there is no litigation or other proceeding pending, or to the best of the Borrower's knowledge, threatened against or affecting Borrower which, if decided adversely to Borrower, would adversely affect, impair or encumber the interest of Lender in the Equipment or would materially adversely affect the business operations or financial condition of Borrower; (f) all balance sheets, income statements and other financial data that have been delivered to Lender (or JPMorgan Chase Bank, N.A.) with respect to Borrower are complete and correct in all material respects, fairly present the financial condition of Borrower on the dates for which, and the results of its operations for the periods for which, the same have been furnished and have been prepared in accordance with generally accepted accounting principles consistently applied, (g) there has been no material adverse change in the condition of Borrower, financial or otherwise, since the date of the most recent financial statements delivered to Lender (or JPMorgan Chase Bank, N.A.), (h) Borrower's organizational number assigned to Borrower by the state of its organization is correctly stated below Borrower's signature; (i) this Agreement and the Note evidence a loan made primarily for business, commercial or agricultural purposes and not primarily for personal, family, or household purposes; (j) the Equipment is not, and will not, be registered under the laws of any foreign country; (k) the Equipment is, and shall remain at all times, eligible for registration under the Act (as defined in Section 19 hereof); (l) the Equipment shall be based in, and primarily used in, the United States all as required by the Act; and (m) the Equipment will not be used in violation of any law, regulation, ordinance or policy of insurance affecting the maintenance, use or flight of the Equipment; and (n) Borrower qualifies as a citizen of the United States as defined in the Act and will continue to qualify as a United States citizen in all respects.

11. OTHER DOCUMENTS; EXPENSES; APPOINTMENT OF ATTORNEY-IN-FACT. Borrower agrees to sign and deliver to Lender any additional documents deemed desirable by Lender to effect the terms of the Note or this Agreement including, without limitation, Uniform Commercial Code financing statements and instruments to be filed with the Federal Aviation Administration, all of which Lender is authorized to file with the appropriate filing officers. Borrower hereby irrevocably appoints Lender as Borrower's attorney-in-fact with full power and authority in the place of Borrower and in the name of Borrower to prepare, sign, amend, file or record any Uniform Commercial Code financing statements or other documents deemed desirable by Lender to perfect, establish or give notice of Lender's interests in the Equipment or in any collateral as to which Borrower has granted Lender a security interest. Borrower agrees to sign and deliver to Lender any additional documents deemed desirable by Lender to effect the terms of this Agreement. Borrower shall pay upon Lender's request any out-of-pocket costs and expense paid or incurred by Lender in connection with the above terms of this Agreement or the funding and closing of this Agreement (including, without limitation, all out-of-pocket fees and expenses of any outside counsel to Lender).

12. EVENTS OF DEFAULT. Each of the following events shall constitute an Event of Default under this Agreement and the Note: (a) Borrower fails to pay any installment payment or other amount due under this Agreement or the Note within 10 days of its due date; or (b) Borrower fails to perform or observe any of its obligations in Sections 3, 9, or 18 hereof; or (c) Borrower fails to perform or observe any of its other obligations in this Agreement or the Note within 30 days after Lender notifies Borrower of such failure; or (d) Borrower or any Guarantor fails to pay or perform or observe any term, covenant (including, but not limited to, any financial covenant), agreement or condition contained in, or there shall occur any payment or other default under or as defined in, any loan, credit agreement, extension of credit or lease in which Lender or any subsidiary (direct or indirect) of JPMorgan Chase & Co. (or its successors or assigns) is the lender, creditor or lessor (each an "Affiliate Credit Agreement") that shall not be remedied within the period of time (if any) within which such Affiliate Credit Agreement permits such default to be remedied; or (e) any statement, representation or warranty made by Borrower in this Agreement or in any document, certificate or financial statement in connection with this Agreement proves at any time to have been untrue or misleading in any material respect as of the time when made; or (f) Borrower or any Guarantor becomes insolvent or bankrupt, or admits its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors, or applies for, institutes or consents to the appointment of a receiver, trustee or similar official for it or any substantial part of its property or any such official is appointed without its consent, or applies for, institutes or consents to any bankruptcy, insolvency, reorganization, debt moratorium, liquidation or similar proceeding relating to it or any substantial part of its property under the laws of any jurisdiction or any such proceeding is instituted against it without stay or dismissal for more than 60 days, or it commences any act amounting to a business failure or a winding up of its affairs, or it ceases to do business as a going concern; or (g) with respect to any guaranty, letter of credit, pledge agreement, security agreement, mortgage, deed of trust, debt subordination agreement or other credit enhancement or credit support agreement (whether now existing or hereafter arising) signed or issued by any party (each a "Guarantor") in connection with all or any part of Borrower's obligations under this Agreement or the Note, the Guarantor defaults in its obligations thereunder or any such agreement shall cease to be in full force and effect or shall be declared to be null, void, invalid or unenforceable by the Guarantor; or (h) Borrower or any Guarantor fails to pay or perform or observe any term, covenant (including, but not limited to, any financial covenant), agreement or condition contained in, or there shall occur any payment or other default under or as defined in any Other Credit Agreement (as defined in Section 19 hereof) that shall not be remedied within the period of time (if any) within which such Other Credit Agreement permits such default to be remedied, regardless of whether such default is waived by any other party to such Other Agreement or such default produces or results in the cancellation of such Other Credit Agreement or the acceleration of the liability, indebtedness or other obligation under such Other Credit Agreement; or (i) Borrower or any Guarantor shall suffer the loss of any material license or franchise when Lender shall reasonably conclude that such loss fairly impairs Borrower's or such Guarantor's ability to perform its obligations required under this Agreement or the Note; or (j) Borrower or any Guarantor shall fail to pay any final judgment for the payment of money in an amount equal to or in excess of $50,000.00; or (k) there shall occur in Lender's reasonable opinion any material adverse change in the financial condition, business or operations of Borrower or any Guarantor that will impair or impede Borrower's ability to meet its financial obligations hereunder or under the Note.

13. RIGHTS UPON DEFAULT.

13.1 If any Event of Default exists, Lender may exercise in any order one or more of the remedies described in the lettered subparagraphs of this section, and Borrower shall perform its obligations imposed thereby:

(a) Lender may require Borrower to turnover any and all Collateral to Lender.

(b) Lender or its agent may repossess any or all Collateral wherever found, may enter the premises where the Collateral is located and remove it, may use such premises without charge to store or show the Collateral for sale for up to 90 days, and may demand that Borrower cease using the Collateral.

(c) Lender may sell any or all Collateral at public or private sale, with or without advertisement or publication, may lease or otherwise dispose of it or may use, hold or keep it.

(d) Lender may require Borrower to pay to Lender on a demand date specified by Lender, (i) all accrued and unpaid interest, late charges and other amounts due under the Note or this Agreement as of such demand date, plus (ii) the remaining principal balance of the Note as of such demand date, plus (iii) interest at the Overdue Rate on the total of the foregoing from such demand date to the date of payment. “Overdue Rate” means an interest rate per annum equal to the higher of 18% or 2% over the Prime Rate, but not to exceed the highest rate permitted by applicable law. If an Event of Default under section 12(f) of this Agreement exists, then Borrower will be automatically liable to pay Lender the foregoing amounts as of the next installment payment date under the Note unless Lender otherwise elects in writing.

(e) Borrower shall pay all costs, expenses and damages incurred by Lender because of the Event of Default or its actions under this section, including, without limitation any collection agency and/or attorney fees and expenses, and any costs related to the repossession, safekeeping, storage, repair, reconditioning or disposition of the Collateral.

(f) Lender may sue to enforce Borrower’s performance of its obligations under the Note and this Agreement and/or may exercise any other right or remedy then available to Lender at law or in equity.

13.2 Except as otherwise expressly required by Section 12 hereof or by applicable law, Lender is not required to take any legal process or give Borrower any notice before exercising any of the above remedies. If Lender is required to give notice, 10 calendar days advanced notice is reasonable notification. None of the above remedies is exclusive, but each is cumulative and in addition to any other remedy available to Lender. Lender’s exercise of one or more remedies shall not preclude its exercise of any other remedy. No action taken by Lender shall release Borrower from any of its obligations to Lender. No delay or failure on the part of Lender to exercise any right hereunder shall operate as a waiver thereof nor as an acquiescence in any default, nor shall any single or partial exercise of any right preclude any other exercise thereof or the exercise of any other right. After any Event of Default, Lender’s acceptance of any payment by Borrower under the Note or this Agreement shall not constitute a waiver by Lender of such default, regardless of Lender’s knowledge or lack of knowledge at the time of such payment, and shall not constitute a reinstatement of the Note or this Agreement if this Agreement has been declared in default by Lender, unless Lender has agreed in writing to reinstate this Agreement and to waive the default. With respect to any Collateral or any Obligation, Borrower assents to all extensions or postponements to the time of payment thereof or any other indulgence in connection therewith, to each substitution, exchange or release of Collateral, to the release of any party primarily or secondarily liable, to the acceptance of partial payment thereof or to the settlement or compromise thereof, all in such matter and such time or times as Lender may deem advisable.

13.3 If Lender actually repossesses any Collateral, then it will use commercially reasonable efforts under the then current circumstances to attempt to mitigate its damages; provided, that Lender shall not be required to sell, lease or otherwise dispose of any Collateral prior to Lender enforcing any of the remedies described above. Lender may sell or lease the Collateral in any manner it chooses, free and clear of any claims or rights of Borrower and without any duty to account to Borrower with respect thereto except as provided below. If Lender actually sells or leases the Collateral, it will credit the net proceeds of any sale of the Collateral, or the net present value (discounted at the then current Prime Rate) of the rents payable under any lease of the Collateral, against the amounts Borrower owes Lender. The term “net” as used above shall mean such amount after deducting the costs and expenses described in clause (e) of Section 13.1 above. Borrower shall remain liable for any deficiency if the net proceeds are insufficient to pay all amounts to which Lender is entitled hereunder.

14. LATE CHARGES. If any installment payment or other amount payable under the Note or this Agreement is not paid within 5 business days of its due date, then as compensation for the administration and enforcement of Borrower’s obligation to make timely payments, Borrower shall pay with respect to each overdue payment on demand an amount equal to the greater of fifteen dollars ($15.00) or five percent (5%) of the each overdue payment (but not to exceed the highest late charge permitted by applicable law) plus any collection agency fees and expenses. The failure of Lender to collect any late charge will not constitute a waiver of Lender’s right with respect thereto.

15. LENDER’S RIGHT TO PERFORM. If Borrower fails to make any payment under this Agreement or fails to perform any of its other obligations in this Agreement (including, without limitation, its agreement to provide insurance coverage), Lender may itself make such payment or perform such obligation, and the amount of such payment and the amount of the reasonable expenses of Lender incurred in connection with such payment or performance shall be deemed to be additional principal under the Note which is payable by Borrower on demand.

16. NOTICES; POWER OF ATTORNEY. (a) Service of all notices under this Agreement shall be sufficient if given personally or couriered or mailed to the party involved at its respective address set forth herein or at such other address as such party may provide in writing from time to time. Any such notice mailed to such address shall be effective three days after deposit in the United States mail with postage prepaid. Notice by overnight courier shall be deemed given and received on the date scheduled for delivery. (b) With respect to any power of attorney covered by this Agreement, the powers conferred on Lender thereby: are powers coupled with an interest; are irrevocable; are solely to protect Lender’s interests under this Agreement; and do not impose any duty on Lender to exercise such powers. Lender shall be accountable solely for amounts it actually receives as a result of its exercise of such powers.

17. ASSIGNMENT BY LENDER. Lender and any assignee of Lender, with notice to, but not consent of, Borrower, may sell, assign, transfer or grant a security interest in all or any part of Lender's rights, obligations, title or interest in the Collateral, the Note, this Agreement, or the amounts payable under the Note or this Agreement to any entity ("transferee"). The transferee shall succeed to all of Lender's rights in respect to this Agreement (including, without limitation, all rights to insurance and indemnity protection described in this Agreement). Borrower agrees to sign any acknowledgment and other documents reasonably requested by Lender or the transferee in connection with any such transfer transaction. Borrower, upon receiving notice of any such transfer transaction, shall comply with the terms and conditions thereof. Borrower agrees that Lender may provide loan information and financial information about Borrower on a confidential basis to any prospective transferee.

18. NO ASSIGNMENT OR LEASING BY BORROWER. BORROWER SHALL NOT, DIRECTLY OR INDIRECTLY, WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER: (a) MORTGAGE, ASSIGN, SELL, TRANSFER, OR OTHERWISE DISPOSE OF INTEREST IN THIS AGREEMENT OR THE COLLATERAL OR ANY PART THEREOF; OR (b) WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER, WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD, LEASE, RENT, LEND OR TRANSFER POSSESSION OR USE OF THE EQUIPMENT OR ANY PART THEREOF TO ANY PARTY; OR (c) CREATE, INCUR, GRANT, ASSUME OR ALLOW TO EXIST ANY LIEN ON ITS INTEREST IN THIS AGREEMENT, THE COLLATERAL OR ANY PART THEREOF.

19. CERTAIN DEFINITIONS. "Act" means subtitle VII of Title 49 of the United States Code. "Lien" means any security interest, lien, mortgage, pledge, encumbrance, judgment, execution, attachment, warrant, writ, levy, other judicial process or claim of any nature whatsoever by or of any person. "Prime Rate" means the prime rate of interest announced from time to time as the prime rate by JPMorgan Chase Bank, N.A. (or its successors or assigns); provided, that the parties acknowledge that the Prime Rate is not intended to be the lowest rate of interest charged by said bank in connection with extensions of credit. "Other Credit Agreement" means any agreement applicable to Borrower or any Guarantor or by which Borrower or any Guarantor is bound involving a liability, indebtedness or performance obligation of Borrower or any Guarantor with a potential liability to Borrower or any Guarantor in an amount equal to or in excess of $500,000.00. "Convention" means the Convention on International Interests in Mobile Equipment as implemented and modified by the Aircraft Protocol. "Aircraft Protocol" means the Protocol to the Convention on Matters Specific to Aircraft Equipment as adopted by the United States of America. "International Registry" means the International Registry formed pursuant to the Convention. All terms defined herein are equally applicable to both the singular and plural form of such terms.

20. CONDITIONS. Lender is not obligated to make any loan or disburse any principal hereunder unless: (a) Lender has received the Note signed by the Borrower; (b) Lender has received evidence of all required insurance; (c) in Lender's sole judgment, there has been no material adverse change in the financial condition or business of Borrower or any Guarantor that adversely impacts Borrower's ability to perform its obligations hereunder or under the Note; (d) Borrower has signed and delivered to Lender this Agreement and Lender has signed and accepted this Agreement; (e) Lender has received the documents, instruments and evidence as to satisfaction of the matters specified in **Schedule 2** attached hereto, each of which shall be satisfactory to Lender in form and substance and each document or instrument to be duly authorized, executed and delivered and in full force and effect; (f) Lender has received, in form and substance satisfactory to Lender, such other documents and information as Lender shall reasonably request; and (g) Borrower has satisfied all other reasonable conditions established by Lender.

21. USURY. It is not the intention of the parties to this Agreement to make an agreement that violates any of the laws of any applicable jurisdiction relating to usury ("Usury Laws"). Regardless of any provision in this Agreement, the Note, or any document in connection therewith, Lender shall not be entitled to receive, collect or apply, as interest on any Obligation, any amount in excess of the Maximum Amount (the "Excess"). As used herein, "Maximum Amount" shall mean the maximum amount of interest which would have accrued if the unpaid principal amount of the Obligation outstanding from time to time had borne interest each day at the maximum amount of interest which lender is permitted to charge on the Obligation under the Usury Laws. If Lender ever receives, collects or applies as interest any Excess, such Excess shall be deemed a partial repayment of principal and treated hereunder as such; and if principal is paid in full, any remaining Excess shall be paid to Borrower. In determining whether or not the interest paid or payable under any specific contingency exceeds the Maximum Amount, Borrower and Lender shall, to the maximum extent permitted under the Usury Laws, (a) characterize any non-principal payment as an expense, fee or premium rather than as interest, (b) exclude voluntary prepayments and the effect thereof, and (c) amortize, prorate, allocate and spread in equal parts, the total amount of interest throughout the entire contemplated term of the Obligation so that the interest rate is uniform throughout the entire term of the Obligation; provided that if the Obligation is paid and performed in full prior to the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Amount, Lender shall refund to Borrower the Excess, and, such event shall not be subject to any penalties provided by the Usury Laws.

22. GOVERNING LAW. THE INTERPRETATION, CONSTRUCTION AND VALIDITY OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OHIO WITHOUT REFERENCE TO CONFLICT OF LAW PROVISIONS.

23. MISCELLANEOUS. (a) Subject to the limitations herein, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, administrators, successors and assigns. (b) This Agreement may be executed in any number of counterparts, which together shall constitute a single instrument. (c) Section and paragraph headings in this Agreement are for convenience only and have no independent meaning. (d) The terms of this Agreement shall be severable and if any term thereof is declared unconscionable, invalid, illegal or void, in whole or in part, the decision so holding shall not be construed as impairing the other terms of this Agreement and this Agreement shall continue in full force and effect as if such invalid, illegal, void or unconscionable term were not originally included herein. (e) All indemnity obligations of Borrower under this Agreement and all rights, benefits and protections provided to Lender by warranty disclaimers shall survive the cancellation, expiration or termination of this Agreement. (f) Lender shall not be liable to Borrower for any indirect, consequential or special damages for any reason whatsoever. (g) This Agreement may be amended, but only by a written amendment signed by Lender and Borrower. (h) If this Agreement is signed by more than one Borrower, each of such Borrowers shall be jointly and severally liable for payment and performance of all of Borrower's obligations under this Agreement. (i) This Agreement represents the final, complete and entire agreement between the parties hereto, and there are no oral or unwritten agreements or understandings affecting this Agreement or the Collateral. (j) Borrower agrees that Lender is not the agent of any manufacturer or supplier, that no manufacturer or supplier is an agent of Lender, and that any representation, warranty or agreement made by manufacturer, supplier or by their employees, sales representatives or agents shall not be binding on Lender. (k) In order to secure all obligations of Borrower under this Agreement and the Note, Borrower assigns and grants to Lender a security interest in: all rights, powers and privileges of Borrower under any lease of any Equipment hereafter authorized in writing by Lender; and all funds, balances, accounts, proceeds of collateral and/or other property of any kind of Borrower or in which Borrower has an interest now or hereafter in the possession, custody, or control of Lender or JPMorgan Chase Bank, N.A. and any of its direct or indirect affiliates and subsidiaries, including, without limitation, J.P. Morgan Securities Inc.

24. **GOVERNMENT REGULATION**. Borrower shall not (a) be or become subject, at any time, to any law, regulation, or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Lender from making any advance or extension of credit to Borrower or from otherwise conducting business with Borrower or (b) fail to provide documentary and other evidence of Borrower's identity as may be requested by Lender at any time to enable Lender to verify Borrower's identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

25. **USA PATRIOT ACT NOTIFICATION**. The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual, Lender will ask for Borrower's name, tax payer identification number, residential address, date of birth, and other information that will allow Lender to identify Borrower, and if Borrower is not an individual, Lender will ask for Borrower's name, taxpayer identification number, business address, and other information that will allow Lender to identify Borrower. Lender may also ask, if Borrower is an individual, to see Borrower's driver's license or other identifying documents, and if Borrower is not an individual, to see Borrower's legal organizational documents or other identifying documents.

26. COMPLIANCE WITH CONVENTION; RECORDATION WITH THE INTERNATIONAL REGISTRY. Without limiting any other terms or conditions of this Agreement, Borrower agrees as follows, all of which shall be undertaken at Borrower's sole expense:

(a) Prior to the closing and funding of any loan hereunder, Borrower shall register and be approved as a "user" with the International Registry.

(b) Prior to the closing and funding of any loan hereunder, Borrower shall take any and all such action, and shall execute and deliver such instruments, documents and certificates, as Lender may require in order to accurately register and timely record the respective interests of Borrower and Lender in the Equipment with the International Registry pursuant to the Convention, such interests to be searchable in the International Registry to the satisfaction of the Lender, and with the FAA pursuant to the Act, including, without limitation, providing such consents as may be required to permit Lender to give effect to the timely registration and recordation with the International Registry of the respective interests of Borrower and Lender in the Equipment.

(c) Upon Lender's request, Borrower shall execute and deliver to Lender a fully completed and originally executed Irrevocable De-Registration and Export Request Authorization ("IDERA"), in the form required by the Protocol and acceptable to the Lender in its sole and absolute discretion.

(d) Borrower shall take any and all such action, and shall execute and deliver such instruments, documents and certificates, as Lender may require in order to maintain the registration and recordation of the respective interests of Borrower and Lender in the Equipment with the International Registry pursuant to the Convention and with the FAA pursuant to the Act.

ALL PARTIES TO THIS AGREEMENT IRREVOCABLY CONSENT TO THE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT IN OHIO, AND WAIVE ALL RIGHTS TO TRIAL BY JURY, IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY ON ANY MATTER WHATSOEVER ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY RELATED TO THE NOTE OR THIS AGREEMENT.

CHASE EQUIPMENT LEASING INC.
(Lender)

By: /s/ Stacey R. Roth
Title: Funding Manager

Acceptance Date: August 24, 2006

ABX AIR, INC.
(Borrower)

By: /s/ Joseph C. Hete and Quint O. Turner
Title: Chief Executive Officer and Chief Financial Officer

Borrower's Witness: /s/ Joseph E. Roux

Borrower Organization Information:

A corporation organized under the laws of the State of Delaware with State Organization # 0885720

SCHEDULE A-1

Loan No. 1000129301

DESCRIPTION OF EQUIPMENT

Airframe Make/Model:	BOEING 767-232
Airframe Serial No.:	22213
U.S. Identification No.:	N740AX
Engine Quantity/Make/Model:	(2) GENERAL ELECTRIC CF6-80A2
Engine Serial No(s).:	580126 and 580200

Together with all engines, propellers, avionics, communication equipment, navigation equipment, instruments, accessories, attachments, parts, appurtenances, accessions, furnishings and other equipment attached to, installed in or relating to any of the foregoing property and all maintenance and service logs and records relating to the foregoing property.

Each engine has 550 or more rated takeoff horsepower or the equivalent of such horsepower.

The Equipment shall be hangered at the following location:

Airborne Park, 145 Hunter Drive,	Wilmington,	Ohio 45177,	Clinton County
Name of Airport and Street Address	City	State	County

This Schedule A-1 is attached to, and made a part of, the Loan Agreement and Security Agreement with the Loan Number referenced above and contains a true and accurate description of the Equipment.

ABX AIR, INC.
(Borrower)

By: /s/ Joseph C. Hete and Quint O. Turner
Title: Chief Executive Officer and Chief Financial Officer

SCHEDULE 2

Attached to Loan and Security Agreement for Loan No. 1000129301

ADDITIONAL CONDITIONS TO FUNDING THE LOAN*

1. Lender shall been offered an opportunity to inspect the maintenance and service logs and records relating to the Collateral and such logs and records shall be reasonably satisfactory to Lender.

2. Lender shall receive terminations or releases of liens in a form recordable with the Federal Aviation Administration from all creditors with a lien on any part of the Collateral as shown in the FAA lien records.

3. Lender shall receive UCC-3 terminations or release of liens in recordable form from all creditors with a lien on any part of the Collateral as shown in state or local lien records.

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* The inclusion of additional funding conditions in this Schedule 2 shall not limit the generality of the conditions set forth in the Agreement.

ABX AIR, INC.
(Borrower)

By: /s/ Joseph C. Hete and Quint O. Turner
Title: Chief Executive Officer and Chief Financial Officer

BUSINESS PURPOSE PROMISSORY NOTE
(fixed rate/principal and interest)

Loan Number: 1000129301

Amount $17,500,000.00 Date: August 24, 2006

This Note is executed together with the Loan and Security Agreement dated as of ______________________________ (the "Loan Agreement") and is executed at Wilmington (City), Ohio (State).

For value received, receipt of which is hereby acknowledged, the undersigned ("Borrower") promises to pay to the order of CHASE EQUIPMENT LEASING INC. ("Lender") at its principal office or at such other place as Lender may designate from time to time in lawful money of the United States of America, the principal sum of Seventeen Million Five Hundred Thousand and 00/100ths Dollars ($17,500,000.00), or such lesser portion thereof as may have from time to time been disbursed to, or for the benefit of Borrower, and as remains unpaid pursuant to the books or records of Lender, together with interest at the Interest Rate set forth below on the unpaid balance of principal advanced from the date(s) of disbursement until paid in full as set forth below. Principal sums(s) disbursed and repaid will not be available for redisbursement. Interest shall be calculated on a 360 day year basis with each month consisting of 30 days.

Interest Rate: **Seven and 07/100ths percent (7.07%) per annum**.

1. The term of this Note consists of the Interim Term plus the Base Term. The Interim Term begins on the Acceptance Date and continues up to the Commencement Date of the Base Term. The Acceptance Date is the date that Lender accepts this Note by initially disbursing principal hereunder. If the Acceptance Date is on the first (1st) day of the month or the fifteenth (15th) day of the month, then the Commencement Date shall be the Acceptance Date; if the Acceptance Date is on or after the second (2nd) day of the month and up to and including the fourteenth (14th) day of the month, then the Commencement Date shall be the fifteenth (15th) day of such month; and if the Acceptance Date is on or after the sixteenth (16th) day of the month and up to the last day of the month, then the Commencement Date shall be first (1st) day of the month following the Acceptance Date. The Base Term begins on the Commencement Date and continues for the number of months after the Commencement Date as stated in Section 3 below.

2. If the Acceptance Date is before the Commencement Date, then on the Commencement Date of the Base Term, Borrower shall pay one installment of interest only based upon the number of days in the Interim Term.

3. During the Base Term, Borrower shall pay installments of principal and interest in the amounts and on the dates stated below:

(a) Base Term: **120 months**

(b) Amount of each installment payment due during the Base Term (includes principal and interest):

119 @ $176,628.00
1 @ $4,901,628.00

(c) The first installment payment during the Base Term shall be paid **one month** after the Commencement Date and all subsequent installment payments shall be paid on the same day of **each month** thereafter until paid in full.

4. On or before the date of this Note, Borrower shall pay a set-up/filing fee in the amount of **$0.00**.

5. Payments shall be allocated between principal, interest and fees, if any, in the discretion of Lender. Borrower may not prepay the principal sum. Borrower's obligation to pay all installment payments and all other

amounts payable under this Note is absolute and unconditional under any and all circumstances and shall not be affected by any circumstances of any character including, without limitation, (a) any setoff, claim, counterclaim, defense or reduction which Borrower may have at any time against Lender or any other party for any reason, or (b) any defect in the condition, design or operation of, any lack of fitness for use of, any damage to or loss of, or any lack of maintenance or service for any of the Equipment (as defined in the Loan Agreement).

6. This Note is entitled to the benefits, and is subject to the terms and requirements of, the Loan Agreement executed by Borrower and Lender, which Loan Agreement, among other things, (a) provides for the making of the loan evidenced hereby, and (b) provides for events of default, acceleration and other remedies. Borrower waives presentment, demand, protest or notice of any kind in connection with this Note.

7. **LENDER AND BORROWER IRREVOCABLY CONSENT TO THE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT IN OHIO, AND WAIVE ALL RIGHTS TO TRIAL BY JURY, IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY ON ANY MATTER WHATSOEVER ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY RELATED TO THIS INSTRUMENT.**

ABX Air, Inc.	
(“Borrower”)	Witness as to Borrower’s signature

By: /s/ Joseph C. Hete and Quint O. Turner

Title: Chief Executive Officer and Chief Financial Officer

Exhibit 31.1

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

I, Joseph C. Hete, 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: November 9, 2006

/s/ JOSEPH C. HETE

Joseph C. Hete
Chief Executive Officer

Exhibit 31.2

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: November 9, 2006

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Exhibit 32.1

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 September 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
Joseph C. Hete
Chief Executive Officer

Date: November 9, 2006

Exhibit 32.2

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 September 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

Quint O. Turner
Chief Financial Officer

Date: November 9, 2006