ABX Holdings, Inc.
Form 10-K
March 17, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission file number 000-50368

ABX HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-1631624**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

145 Hunter Drive, Wilmington, OH 45177

(Address of principal executive offices)

937-382-5591

(Registrant s telephone number, including area code)

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

Common Stock, Par Value $.01 per share

Preferred Stock Purchase Rights

(Title of class)

Name of each exchange on which registered: NASDAQ Stock Market LLC

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

Title of class: None

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant s most recently completed second fiscal quarter: $467,635,502.

As of March 17, 2008, 62,678,856 shares of the registrant s common stock, par value $0.01, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders scheduled to be held May 13, 2008 are incorporated by reference into Part III.

Table of Contents

FORWARD LOOKING STATEMENTS

Statements contained in this annual report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations, in Item 7, that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as projects, believes, anticipates, will, estimates, plans, expects, intends and simi expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in Risk Factors starting on page 10 and Outlook starting on page 22.

Filings with the Securities and Exchange Commission

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

ABX HOLDINGS, INC. AND SUBSIDIARIES

2007 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

General Business Development

ABX Holdings Inc. (the Company) is a holding company whose principal subsidiaries include three independently U.S certificated airlines: ABX Air, Inc. (ABX), Capital Cargo International Airlines, Inc. (CCIA), and Air Transport International, LLC (ATI). The Company, which is incorporated in Delaware, was reorganized into a holding company structure on December 31, 2007. At that time, ABX became a wholly-owned subsidiary of the Company and all of the common shares of ABX, which were then publicly-traded, were converted into shares of the Company. The Company s shares are publicly traded on the NASDAQ Stock Market under the symbol ABXA. When the context requires, we may also use the term Company in this report to refer to the business of the Company and its subsidiaries on a consolidated basis.

ABX was incorporated in 1980 and is based in Wilmington, Ohio. ABX provides air cargo transportation through a fleet of Boeing 767 and McDonnell Douglas DC-9 (DC-9) aircraft. ABX complements its air transport capabilities with package handling and warehousing services. Between 1980 and August 2003, ABX was an affiliate of Airborne, Inc. (Airborne), a publicly traded, integrated delivery service provider. On August 15, 2003, ABX was separated from Airborne in conjunction with the acquisition of Airborne by an indirect wholly owned subsidiary of DHL Worldwide Express, B.V. The merger agreement required Airborne to separate its air operations from its ground operations with the air operations being retained by ABX. At that time, ABX became an independent publicly traded company. Airborne was subsequently merged into DHL.

Immediately after ABX became a wholly-owned subsidiary of the Company, the Company completed the acquisition of Orlando, Florida based Cargo Holdings International, Inc. (CHI), the privately-owned parent company of CCIA and ATI. The Company acquired all of the outstanding stock, stock options and warrants of CHI for a combination of cash, shares of the Company, and debt repayment. The overall transaction value was approximately $340 million. ABX financed the deal partially through a $270 million unsubordinated term loan.

CCIA obtained its airline operating certificate in 1996 and currently operates fourteen Boeing 727 aircraft, primarily providing air freight transportation for BAX Global, Inc. (BAX). In February 2006, CHI acquired all of the outstanding stock of ATI from Brink s, Inc., who at the time also owned BAX. ATI, based in Little Rock, Arkansas, began operations in 1979. ATI operates sixteen McDonnell Douglas DC-8 aircraft, also for BAX, and provides airlift to the U.S. military through the Air Mobility Command. The acquisition of CHI also includes the operations of Cargo Aircraft Management, Inc. (CAM) and LGSTX Services, Inc. These CHI companies provide aircraft leasing, fuel management, specialized transportation management and air charter brokerage services. Besides BAX, CHI s customers include the U.S. government, DHL Aviation Americas, Inc. (an affiliate of DHL), the U.S. Postal Service (USPS), and United Parcel Service, Inc.

Description of Business

During 2007, the Company operated two reportable segments, DHL and Charters. As described below, ABX s other business operations included aircraft maintenance and modification services, aircraft part sales and mail handling for the USPS. These other business operations do not constitute reportable segments. Financial information about our segments is presented in Note N to the accompanying consolidated financial statements. In 2008, the Company s reportable segments will include the airline and leasing operations of CHI.

Business with DHL

DHL is ABX s largest customer, constituting substantially all of ABX s revenues in recent years. Using its aircraft, ABX provides the airlift for DHL s domestic express and deferred delivery services. ABX also manages a network of sixteen hubs for DHL, providing package sorting and handling. It processes shipments ranging from individual letters to shipper-packaged pallets of electronic equipment, retail catalogs, movies and

Table of Contents

pharmaceuticals. DHL s express delivery services include its Next Day Service and DHL 2nd Day Service. Next Day Service packages are primarily transported by ABX s fleet of aircraft and sorted through the nightly hub operations it staffs for DHL. 2nd Day and DHL s other deferred delivery services, which include DHL@home and DHL Ground Service, are primarily transported by contracted trucks and sorted through the Wilmington daytime sort and regional hub operations that ABX staffs for DHL.

ABX and DHL operate primarily under two commercial agreements. The aircraft, crew, maintenance and insurance agreement with DHL Network Operations (USA), Inc. (ACMI agreement) and the hub services agreement (Hub Services agreement) with DHL Express (USA), Inc., both of which became effective August 16, 2003, in conjunction with the acquisition of Airborne (DHL Network Operations (USA), Inc. and DHL Express (USA), Inc. are individually and collectively referred to herein as DHL).

ABX operates and maintains DHL s primary U.S. hub facility located in Wilmington, Ohio. In addition to the sort facility in Wilmington, ABX operates fifteen regional hubs on behalf of DHL. These regional hub facilities primarily sort shipments originating and having a destination within approximately 250 miles. ABX also conducts daytime sort operations in Wilmington that process deferred delivery shipments. The day sort generally receives shipments through a combination of aircraft and trucks originating from regional hubs, DHL station facilities or customer sites. The night sort and day sort operations at Wilmington handle approximately 57% of the total system-wide shipment weight, while the regional hubs handle the remaining 43%.

The fifteen regional hubs are located near Atlanta, Georgia; Baton Rouge, Louisiana; Chehalis, Washington; Kansas City, Missouri; Denver, Colorado; Erie, Pennsylvania; Fresno, California; Memphis, Tennessee; Minneapolis, Minnesota; Orlando, Florida; Phoenix, Arizona; Providence, Rhode Island; Roanoke, Virginia; Salt Lake City, Utah; and Waco, Texas.

ACMI Agreement

Air cargo transportation services are provided to DHL under the ACMI agreement on a cost-plus pricing structure. Costs incurred under the ACMI agreement are generally marked-up 1.75% and recorded in revenues. Certain costs which are reimbursed by DHL, the most significant of which include fuel, rent, interest on a promissory note to DHL, ramp fees and landing fees incurred under the ACMI agreement, are recorded in revenues without mark-up. By achieving certain cost-related and service goals specified in the agreement, the mark-up can increase from a base of 1.75% up to approximately 3.35%.

The initial term of the ACMI agreement expires August 15, 2010 and automatically renews for an additional three years unless a one-year notice of non-renewal is given. DHL may terminate the ACMI agreement if, after a cure period, ABX is not in compliance with applicable performance standards specified in the agreement. The agreement allows DHL to reduce the air routes that ABX flies or to remove aircraft from service. For any aircraft removed from service during the term of the ACMI agreement, the agreement allows ABX to put the aircraft to DHL, requiring DHL to buy such aircraft from ABX at the lesser of book value or fair market value. If ABX s stockholders equity is less than or equal to $100 million at the time of sale, any amount by which the appraised fair market value is less than net book value would be applied to a promissory note ABX owes to DHL. However, if ABX s stockholders equity is greater than $100 million, as it is at this time, any amount by which fair market value is less than net book value would be recorded as an operating charge. For purposes of applying the $100 million stockholders equity threshold, ABX s stockholders equity will be calculated after including the effect of any charges caused by the removal of aircraft.

During 2007, DHL removed three DC-8 and four DC-9 aircraft from service under the ACMI agreement, bringing the total aircraft reductions to 35 (17 DC-8 and 18 DC-9 aircraft) since 2004. DHL agreed to continue to reimburse ABX s depreciation expense on eight (DC-9 aircraft) of these 35 aircraft through their remaining depreciable lives in exchange for access to their engines for use as spares. During that same time, DHL has added seven of ABX s Boeing 767 freighter aircraft into its network, five under the ACMI agreement and two under other contractual terms.

Table of Contents

Hub Services Agreement

Under the Hub Services agreement, ABX provides staff to conduct package sorting, warehousing, and logistics services, as well as airport, facilities and equipment maintenance services for DHL. Costs incurred under the agreement are generally marked-up 1.75% and included in revenues. By achieving certain cost and service goals specified in the agreement, the mark-up can increase from a base of 1.75% up to approximately 3.85%.

The Hub Services agreement renewed on August 15, 2007 for one year and automatically renews for periods of one year each unless a ninety-day notice of non-renewal is given. DHL may terminate the Hub Services agreement if, after a cure period, ABX is not in compliance with applicable performance standards specified in the agreement. DHL may also terminate the Hub Services agreement if the ACMI agreement has been terminated. The agreement allows DHL to terminate specific services after giving at least sixty days advance notice.

DHL has reduced the scope of services provided by ABX in recent years. Since the second quarter of 2006, DHL has directly managed the truck line-haul network previously managed by ABX. In 2006, DHL transferred the international gateway operations from ABX. In 2007, DHL transferred management of the following operations from ABX s management to its own management: in January, the regional hub in Allentown, Pennsylvania; in June, the regional hub in Riverside, California; and in November, the regional hub in South Bend, Indiana. In January 2008, management of the Columbus, Ohio logistics center was transferred from ABX to DHL, and the Wilmington, Ohio logistics operations will be transferred from ABX to DHL management in May 2008.

Business with BAX

CCIA and ATI each have contracts to provide air lift to BAX under ACMI agreements. BAX provides freight transportation and supply chain management services, specializing in the heavy freight market for business-to-business shipping. CHI has the exclusive right to supply all main deck freighter air lifts in BAX s U.S. domestic network through December 31, 2011. During the exclusivity period, BAX had the option to buy CHI s exclusive rights for $4.0 million at December 31, 2007. After this date, the amount of the buy-out declines on a straight-line basis through December 31, 2011.

ABX ACMI and Charter Services for Customers other than DHL

ABX also has aircraft that are not under contract to DHL. It deploys these aircraft to provide ACMI services and fly charters for other customers. We refer to this ABX business as our Charter segment. A typical ACMI contract requires the ABX to supply, at a specific rate per block hour, the aircraft, crew, maintenance and insurance for specified cargo operations, while the customer is responsible for substantially all other aircraft operating expenses, including fuel, landing fees, parking fees and ground and cargo handling expenses. Charter agreements usually require the airline to provide full service, including fuel and other operating expenses in addition to aircraft, crew, maintenance and insurance for a fixed, all-inclusive price. Under ABX s ACMI and charter arrangements, it has exclusive operating control of its aircraft, and its customers must typically obtain any government authorizations and permits required to service the designated routes.

In May 2007, ABX deployed two Boeing 767s on regularly scheduled flights in Asia for All Nippon Airways Co. under an ACMI agreement and recently extended the agreement into January 2010. In late 2007, ABX began to implement a domicile for its flight crewmembers in Japan. The Company s airlines are pursuing additional opportunities in Asia for Boeing 767 aircraft.

Table of Contents

Other Products and Services

U.S. Postal Service

During the third quarter of 2006, ABX s subsidiary, ABX Cargo Services, Inc. (ACS), was awarded contracts to manage USPS mail sort centers in Dallas, Texas and Memphis, Tennessee. In 2006, ACS was also awarded a renewal of a USPS sort center in Indianapolis, Indiana that it has operated since 2004. Under each of these contracts, ACS is 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.

Airport-to-Airport Transportation of Freight on a Space-Available Basis

The ACMI agreement with DHL allows ABX, subject to certain limitations described in the agreement, to sell to other customers any aircraft space that DHL does not use. On the routes ABX operates for DHL, we sell airport-to-airport transportation services to freight forwarders and to the USPS.

Aircraft Maintenance and Modification Services

ABX operates a Federal Aviation Administration (FAA) certified 145 repair station. ABX leverages the repair station facilities (including hangars and a component shop leased from DHL) and its engineering capabilities to perform airframe and component maintenance and repair services for other airlines and maintenance repair organizations. ABX has developed technical expertise related to aircraft modifications as a result of its long history in aviation. ABX owns many Supplemental Type Certificates (STCs). An STC is granted by the FAA and represents an ownership right, similar to an intellectual property right, which authorizes the alteration of an airframe, engine or component. ABX markets its capabilities by identifying aviation-related maintenance and modification opportunities and matching them to its capabilities.

ABX s marketable capabilities include the installation of terrain awareness warning systems (TAWS), traffic collision avoidance systems (TCAS), reduced vertical separation minima (RVSM) and flat panel displays for Boeing 757 and Boeing 767 cockpits. The flat panel display updates aircraft avionics equipment and reduces maintenance costs by combining multiple display units into a single instrumentation panel. ABX performs heavy maintenance and airframe overhauls on DC-9 and Boeing 767 aircraft and line maintenance on DC-8, DC-9, Boeing 747 and Boeing 767 aircraft. ABX has the capabilities to refurbish approximately 60% of the airframe components for DC-8 and DC-9 aircraft and the wheels and brakes for DC-8, DC-9 and Boeing 767 aircraft types. ABX can also perform intermediate repairs on the engines for DC-8 aircraft and the engines and auxiliary power units for DC-9 aircraft. Additionally, ABX provides digital aircraft manuals for customers in conjunction with the modification of aircraft from passenger to cargo configuration.

Aircraft Parts Sales and Brokerage

ABX s subsidiary, ABX Material Services, Inc. (AMS), which holds a certificate relating to free trade zone rights, is an ASA (Aviation Suppliers Association) 100 Certified reseller and broker of aircraft parts. AMS carries an inventory of DC-8, DC-9 and Boeing 767 spare parts and also maintain inventory on consignment from original equipment manufacturers, resellers, lessors and other airlines. AMS s customers include the commercial air cargo industry, passenger airlines, aircraft manufacturers and contract maintenance companies serving the commercial aviation industry, as well as other resellers.

Flight Crew Training

ABX is FAA-certificated to offer training to customers and rent usage of ABX s flight simulators for outside training programs. ABX trains flight crewmembers in-house, utilizing its own classroom instructors and facilities. It owns four flight simulators, including one Boeing 767, one DC-8 and two DC-9 flight simulators.

Table of Contents

ABX s Boeing 767 and one of its DC-9 flight simulators are level C certified, which allows ABX to qualify flight crewmembers under FAA requirements without performing check flights in an aircraft. The DC-8 and the other DC-9 flight simulator are level B certified, which allows ABX to qualify flight crewmembers by performing a minimum number of flights in an aircraft.

Airline Operations

Flight Operations and Control

ABX s flight operations, including aircraft dispatching, flight tracking and crew scheduling, are planned and controlled by ABX personnel from the DHL Air Park in Wilmington, Ohio. The airline staffs aircraft dispatching and flight tracking 24 hours per day, 7 days per week. ABX s flight operations office at the DHL Air Park also coordinates the technical support necessary for its flights to operate into other airports. CCIA flight operations, including flight tracking and crew scheduling, are controlled by on-duty personnel in CCIA s operations center in Orlando, Florida, and the same functions for ATI are controlled from ATI s operations center in Little Rock, Arkansas.

Maintenance

Our airline subsidiaries operations are regulated by the FAA for aircraft safety and maintenance. ABX is certificated as an FAA repair station to perform maintenance on DC-8, DC-9 and Boeing 767 aircraft and their related avionics and accessories. ABX s maintenance and engineering personnel coordinate all routine and non-routine maintenance requirements. The maintenance programs include tracking the maintenance status of each aircraft, consulting with manufacturers and suppliers about procedures to correct irregularities and training maintenance personnel on the requirements of ABX s FAA-approved maintenance program. ABX conducts nearly all of its own maintenance training. Performing a majority of the aircraft maintenance themselves reduces costs, minimizes the out-of-service time for aircraft and achieves a higher level of reliability.

ABX performs airframe heavy maintenance and modification on its DC-9 and Boeing 767 aircraft. They perform routine inspections and airframe maintenance, including Airworthiness Directives and Service Bulletin compliance on all of their aircraft. Additionally, ABX contracts with a maintenance repair organization to perform the passenger-to-freighter cargo conversions on its Boeing 767 airframes. ABX contracts with maintenance repair organizations to perform heavy airframe maintenance on its Boeing 767 airframes. ABX also contracts with maintenance repair organizations for the performance of heavy maintenance on its aircraft engines. ABX owns a supply of spare aircraft engines, auxiliary power units, aircraft parts and consumable items. The number of spare items maintained is based on the size of the fleet of each aircraft and engine type operated and the reliability history of the item types. CAM contracts for airframe heavy maintenance, modification and repairs on CCIA s fleet of Boeing 727 aircraft and ATI s fleet of DC-8 aircraft, both of which are leased from CAM.

Insurance

Our airline subsidiaries are required by the Department of Transportation (DOT) to carry liability insurance on each of their aircraft. Their aircraft leases, loans and the ACMI agreement also require them to carry such insurance. The Company currently maintains public liability and property damage insurance and our airline subsidiaries currently maintain aircraft hull and liability insurance and war risk insurance for their respective aircraft fleets in amounts consistent with industry standards.

Employees

As of December 31, 2007, ABX Holdings and its subsidiaries had approximately 10,150 employees, including 5,835 full-time employees and 4,315 part-time employees. We employ approximately 775 flight crewmembers, 1,650 aircraft maintenance technicians and flight support personnel, 3,760 sort employees at the

DHL Air Park, 2,315 sort employees at the regional hubs and postal centers, 515 employees for airport and hub maintenance, 630 employees for warehousing and logistics and 505 employees for administrative functions. We also use contracted labor during business peaks, particularly during the fourth calendar quarter.

Labor Agreements

The Company s flight crewmembers are unionized employees. The table below summarizes the representation of the Company s flight crewmembers.

Airline	Labor Agreement Unit	Date Contract Became Amendable	Approximate Number of Employees Represented
ABX	International Brotherhood of Teamsters	7/31/2006	610
ATI	International Brotherhood of Teamsters	5/1/2004	95
CCIA	Airline Pilot Association	3/31/2004	70

Under the Railway Labor Act (RLA), as amended, the labor agreements do not expire, so the existing contract remains in effect throughout any negotiation process. If required, mediation under the RLA is conducted by the National Mediation Board, which has the sole discretion as to how long mediation can last and when it will end. In addition to direct negotiations and mediation, the RLA includes a provision for potential arbitration of unresolved issues and a 30-day cooling-off period before either party can resort to self-help.

Training

Our airline subsidiaries flight crewmembers are required to be licensed in accordance with Federal Aviation Regulation (FAR) Part 121, with specific ratings for the aircraft type to be flown, and to be medically certified as physically fit to fly aircraft. Licenses and medical certifications are subject to recurrent requirements as set forth in the FARs to include recurrent training and minimum amounts of recent flying experience.

The FAA mandates initial and recurrent training for most flight, maintenance and engineering personnel. Mechanics and quality control inspectors must also be licensed and qualified for specific aircraft. Our airline subsidiaries pay for all of the recurrent training required for their flight crewmembers and provide training for their ground service and maintenance personnel. Their training programs have received all required FAA approvals.

Industry

The primary competitive factors in the air cargo industry are price, fuel efficiency, geographic coverage, flight frequency, reliability and capacity. Our airline subsidiaries compete for domestic cargo volume principally with other cargo airlines and passenger airlines which have substantial belly cargo capacity. Other cargo airlines include Astar Air Cargo, Inc. (Astar), World Air Holdings, Inc., Atlas Air, Inc., and Evergreen International, Inc. The industry is highly competitive. At least two other cargo airlines have an ACMI agreement with DHL.

Cargo volumes within the U.S. are highly dependent on the economic conditions and the level of commercial activity. Generally, time-critical delivery needs, such as just-in-time inventory management, increase the demand for air cargo delivery, while higher costs of jet fuel generally reduces the demand for air delivery services within the U.S. When jet fuel prices increase, shippers will consider using ground transportation within the U.S. if the delivery times allows. Historically, the cargo industry has experienced higher volumes during the fourth calendar quarter of each year.

Table of Contents

The scheduled delivery industry is dominated by integrated, door-to-door carriers including DHL, the USPS, FedEx Corporation, BAX and United Parcel Service, Inc. Although the volume of our DHL business is being impacted by competition among these integrated carriers, we do not usually compete directly with these integrated carriers.

Intellectual Property

ABX owns a small number of U.S. patents that are important to its business operations and have nominal commercial value. It also owns approximately 160 STCs issued by the FAA. ABX uses these STCs mainly in support of its own fleet; however, it has marketed certain STCs to other airlines.

Information Systems

ABX has invested significant management and financial resources in the development of information systems to facilitate cargo, flight and maintenance operations. ABX utilizes its systems to maintain records about the maintenance status and history of each major aircraft component, as required by FAA regulations. Using its systems, ABX tracks and controls inventories and costs associated with each maintenance task, including the personnel performing those tasks. In addition, ABX s flight operations system coordinates flight schedules and crew schedules. It has developed and procured systems to track flight time, flight crewmember duty and flight hours and crewmember training status.

Regulation

Our subsidiaries air carrier operations are generally regulated by the DOT and the FAA. Those operations must comply with numerous security and environmental laws, ordinances and regulations. In addition, they must also comply with various other federal, state, local and foreign authorities.

Environment

Under current federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or clean-up of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of contamination from hazardous or toxic substances, or the failure to properly clean up such contaminated property, may adversely affect the ability of the owner of the property to use such property as collateral for a loan or to sell such property. Environmental laws also may impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated and may impose remediation or compliance costs. Under the DHL sublease, ABX and DHL are required to defend, indemnify and hold each other harmless from and against certain environmental claims associated with DHL Air Park.

We are subject to the regulations of the U.S. Environmental Protection Agency and state and local governments regarding air quality and other matters. In part, because of the highly industrialized nature of many of the locations at which we operate, there can be no assurance that we have discovered all environmental contamination for which we may be responsible.

Our subsidiaries aircraft currently meet all known requirements for engine emission levels. However, under the Clean Air Act, individual states or the U.S. Environmental Protection Agency may adopt regulations requiring reduction in emissions for one or more localities based on the measured air quality at such localities. Such regulations may seek to limit or restrict emissions by restricting the use of emission-producing ground service equipment or aircraft auxiliary power units. There can be no assurance that, if such regulations are adopted in the future or changes in existing laws or regulations are promulgated, such laws or rules would not have a material adverse effect on our financial condition or results of operations.

Table of Contents

The federal government generally regulates aircraft engine noise at its source. However, local airport operators may, under certain circumstances, regulate airport operations based on aircraft noise considerations. The Airport Noise and Capacity Act of 1990 provides that, in the case of Stage 3 aircraft (all of our operating aircraft satisfy Stage 3 noise compliance requirements), an airport operator must obtain the carriers consent to or the government s approval of the rule prior to its adoption. We believe the operation of our airline subsidiaries aircraft either complies with or is exempt from compliance with currently applicable local airport rules. However, some airport authorities are considering adopting local noise regulations, and, to the extent more stringent aircraft operating regulations are adopted on a widespread basis, our airlines subsidiaries may be required to spend substantial funds, make schedule changes or take other actions to comply with such local rules.

The U.S. government, working through the International Civil Aviation Organization, has in the past adopted more stringent aircraft engine emissions regulations with regard to newly certificated engines and aircraft noise regulations applicable to newly certificated aircraft. Although these rules will not apply to any of our airlines subsidiaries existing aircraft, additional rules could be adopted in the future that would either apply these more stringent noise and emissions standards to aircraft already in operation or require that some portion of the fleet be converted over time to comply with these new standards.

Department of Transportation

The DOT maintains authority over certain aspects of domestic air transportation, such as requiring a minimum level of insurance and the requirement that a person be fit to hold a certificate to engage in air transportation. In addition, the DOT continues to regulate many aspects of international aviation, including the award of international routes. The DOT has issued to ABX, CCIA and ATI separately Domestic All-Cargo Air Service Certificates for air cargo transportation between all points within the U.S., the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Additionally, the DOT has issued ABX a Certificate of Public Convenience and Necessity (Route 377) to engage in scheduled foreign air cargo transportation between the U.S. and Canada. Prior to issuing such certificates, the DOT examines a company s managerial competence, financial resources and plans, compliance, disposition and citizenship in order to determine whether the carrier is fit, willing and able to engage in the transportation services it has proposed to undertake. By maintaining these certificates, the Company, through its airline subsidiaries, can conduct all-cargo charter operations worldwide.

The DOT has the authority to impose civil penalties, or to modify, suspend or revoke our certificates for cause, including failure to comply with federal law or DOT regulations. A corporation holding either of such certificates must qualify as a U.S. citizen, which requires that (1) it be organized under the laws of the U.S. or a state, territory or possession thereof, (2) that its president and at least two-thirds of its Board of Directors and other managing officers be U.S. citizens, (3) that not more than 25% of its voting interest be owned or controlled by non-U.S. citizens, and (4) that it not otherwise be subject to foreign control. Neither type of certificate confers proprietary rights on the holder, and the DOT may impose conditions or restrictions on such certificates. We believe we possess all necessary DOT-issued certificates and authorities to conduct our current operations and continue to qualify as a U.S. citizen.

Federal Aviation Administration

The FAA regulates aircraft safety and flight operations generally, including equipment, ground facilities, maintenance, flight dispatch, training, communications, the carriage of hazardous materials and other matters affecting air safety. The FAA issues operating certificates and operations specifications to carriers that possess the technical competence to conduct air carrier operations. In addition, the FAA issues certificates of airworthiness to each aircraft that meets the requirements for aircraft design and maintenance. ABX, CCIA and ATI believe they hold all airworthiness and other FAA certificates and authorities required for the conduct of their business and the operation of their aircraft, although the FAA has the power to suspend, modify or revoke such certificates for cause, or to impose civil penalties for any failure to comply with federal law and FAA regulations.

Table of Contents

The FAA has the authority to issue maintenance directives and other mandatory orders relating to, among other things, the inspection and maintenance of aircraft and the replacement of aircraft structures, components and parts, based on the age of the aircraft and other factors. For example, the FAA has required ABX to perform inspections of its DC-9 and Boeing 767 aircraft to determine if certain of the aircraft structures and components meet all aircraft certification requirements. If the FAA were to determine that the aircraft structures or components are not adequate, it could order operators to take certain actions, including but not limited to, grounding aircraft, reducing cargo loads, strengthening any structure or component shown to be inadequate, or making other modifications to the aircraft. New mandatory directives could also be issued requiring the Company s airline subsidiaries to inspect and replace aircraft components based on their age or condition. As a matter of routine, the FAA issues airworthiness directives applicable to the aircraft operated by our airline subsidiaries, and our airlines comply, sometimes at considerable cost, as part of our aircraft maintenance program.

The FAA is proposing legislation that would permit the adoption of rules that would limit the number of daily airline operations to control airport and air traffic control congestion. The FAA would seek to do so by permitting airport rates and charges to be set at levels reflecting the scarcity of airspace and airside capacity. With this new authority, the FAA or airport operators may in the future seek to impose limits on the number of arrivals and departures and, were they to do so, the Company s airline subsidiaries may incur higher airport fees and charges as a result. Currently, the Company s airline subsidiaries has all of the necessary airport operator permission to operate at each of the airports we serve.

Transportation Security Administration

The Transportation Security Administration (TSA), an administration within the Department of Homeland Security, is responsible for the screening of passengers, baggage and cargo and the security of aircraft and airports. Our airline subsidiaries comply with all applicable aircraft and cargo security requirements. TSA is currently considering the adoption of additional cargo security-related rules that, if adopted as proposed, could impose additional burdens on our airlines, which could have an impact on their ability to efficiently process cargo or otherwise increase costs. In addition, we may be required to reimburse the TSA for the cost of security services it may provide to the Company s airlines subsidiaries in the future.

Other Regulations

We believe that our subsidiaries current operations are in compliance with the numerous regulations to which their businesses are subject; however, various regulatory authorities have jurisdiction over significant aspects of their business, and it is possible that new laws or regulations or changes in existing laws or regulations or the interpretations thereof could have a material adverse effect on their operations. In addition to the above, other laws and regulations to which they are subject, and the agencies responsible for compliance with such laws and regulations, include the following:

- The labor relations of our airline subsidiaries are generally regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory powers with respect to disputes between airlines and labor unions arising under collective bargaining agreements;

- The Federal Communications Commission regulates our airline subsidiaries use of radio facilities pursuant to the Federal Communications Act of 1934, as amended;

- U.S. Customs and Border Protection inspects cargo imported from our subsidiaries international operations;

- Our airlines must comply with U.S. Citizenship and Immigration Services regulations regarding the citizenship of our employees;

- The Company and its subsidiaries must comply with wage, work conditions and other regulations of the Department of Labor regarding our employees.

Table of Contents

Security and Safety

Security

The Company s subsidiaries have instituted various security procedures to comply with FAA and TSA regulations and comply with the directives outlined in the federal Domestic Security Integration Program. The airline subsidiaries customers are required to inform them in writing of the nature and composition of any freight which is classified as Dangerous Goods by the DOT. In addition, the Company and its subsidiaries conduct background checks on our respective employees, restrict access to aircraft, inspect aircraft for suspicious persons or cargo, and inspect all dangerous goods. Notwithstanding these procedures, our airline subsidiaries could unknowingly transport contraband or undeclared hazardous materials for customers, which could result in fines and penalties and possible damage to their aircraft.

Safety and Inspections

Management is committed to the safe operation of its aircraft. In compliance with FAA regulations, our subsidiaries aircraft are subject to various levels of scheduled maintenance or checks and periodically go through phased overhauls. In addition, a comprehensive internal review and evaluation program is in place and active. Our subsidiaries aircraft maintenance efforts are monitored closely by the FAA. They also conduct extensive safety checks on a regular basis.

ITEM 1A. RISK FACTORS

The risks described below could adversely affect our financial condition or results of operations. The risks below are not the only risks that the Company faces. Additional risks that are currently unknown to us or that we currently consider immaterial or unlikely could also adversely affect the Company.

We continue to rely on DHL for a substantial portion of our revenue and operating cash flows. DHL could reduce the scope of service provided by ABX.

DHL may make strategic changes in its network in an effort to reduce its operating losses in the U.S. DHL can, after a contractual advance-notice period, reduce the scope of services that ABX provides under the ACMI or Hub Services agreements. For example, DHL can reduce the number of aircraft or the number of routes that ABX flies, or DHL can transfer the management of any or all of the hubs that ABX operates. Further, DHL continues to place pressure on its vendors and service providers, including ABX, to reduce costs, improve productivity and stem its operating losses in the U.S.

DHL competes in the U.S. against FedEx Corporation and United Parcel Service, Inc., each of which has significant resources, market penetration and brand recognition. ABX may experience declines in its revenues and operating cash flows if volume reductions are experienced by DHL.

The term of the Hub Services agreement will automatically renew for an additional year unless either party gives notice of termination on or before May 17, 2008. Termination of the Hub Services agreement would adversely impact our business, resulting in a significant decline in our revenues and earnings. As a condition to renewal, DHL may seek to negotiate new terms, possibly creating greater risk/reward opportunities related to ABX s performance and cost controls or a reduction in the scope of services ABX provides to DHL.

The Company is highly leveraged and relies on debt arrangements for liquidity.

ABX and CHI have a Credit Agreement and other debt arrangements that subject them to covenants and stipulate events of default. The removal of services from the ACMI agreement or other significant declines in our business could result in a condition of default that could limit ABX s and CHI s use of the credit arrangements.

Conditions in the credit market may affect the cost of the Company s borrowings. The Company and the lead bank for its Credit Agreement are currently marketing the $270 million unsubordinated term loan to other banks and investors. Conditions in the credit market may result in a higher cost of borrowing to attract additional lenders.

On January 14, 2008, ABX received from DHL a demand for payment in full of all amounts due under the DHL Note (including principal and accrued but unpaid interest), which would total $92.9 million. In its demand, DHL asserts that the acquisition by the Company of CHI and the related financing transaction, which closed on December 31, 2007, constituted a change of control under the terms of the DHL Note. We do not believe a change of control occurred in connection with the CHI acquisition and, accordingly, have disputed DHL s demand. If, however, it becomes necessary for ABX to repay the DHL Note, it has secured back-up financing through January 2009. See Note H to the consolidated financial statements of this report for additional information. The costs to the Company of such back-up financing could be significantly greater than the financing costs under the DHL Note.

The combined Company created by our acquisition of CHI may not perform as well financially as we expect.

The Company, through its subsidiaries, is highly leveraged and has a large fleet of recently modified, and soon to be modified, cargo aircraft, many of which are currently not under long-term contracts. The success of the combination will depend, in part, on our ability to realize the anticipated revenue opportunities while leveraging cost structures when possible. Benefits of the combination must be realized in a timely manner, due to significant debt servicing requirements presupposed by the acquisition. We will attempt to identify and realize synergies without adversely affecting revenues or suffering a business interruption. If we are not able to successfully bring cost effective service offerings to the market, the anticipated benefits of the acquisition may not be realized or may take longer to realize than expected. Leveraging certain business functions, even if achieved in an efficient, effective and timely manner, may not produce results of operations and financial condition consistent with our expectations or superior to what ABX and CHI could have achieved independently.

Allocations of corporate overhead expenses will negatively impact our operating results.

The provisions of the two commercial agreements ABX has with DHL do not require an allocation of overhead to the charter segment or to other non-DHL operations until such time as ABX derives more than 10% of its total revenue from non-DHL business activities. ABX may reach this threshold in 2008, depending on the timeframe over which the revenues are measured. Once the 10% threshold is reached, a portion of overhead costs will be allocated to ABX s charter segment and other non-DHL operations and will no longer be reimbursed by DHL. ABX and DHL have begun to discuss how the expense allocations will be accomplished, but, at this time, management cannot predict with reasonable certainty the level of overhead costs that will be allocated to non-DHL operations.

DHL has communicated to ABX s management its assertions that under provisions within the ACMI and Hub Services agreements 1) certain corporate overhead expenses incurred by ABX as a result of being a publicly traded company are not required to be reimbursed by DHL (these expenses include professional fees incurred by the Company to evaluate an offer by ASTAR to acquire all of the outstanding stock of ABX) and 2) ABX reached the 10% threshold for allocating overhead expenses to the Charter segment and other non-DHL operations during the second quarter of 2007 when excluding fuel revenues that are reimbursed without mark-up. ABX s management maintains that the 10% threshold included in the commercial agreements includes the fuel revenues, and, until such time as the 10% threshold is met, all of the corporate overhead expenses are reimbursable under the commercial agreements. The dispute resolution procedures, as specified in the agreements, have begun, and management is preparing to prosecute its position through arbitration. While we expect to prevail in the dispute resolution process and, accordingly, no charge or reserve for disputed overhead expenses has been recorded, the arbitration process could result in an unfavorable outcome, requiring ABX to bear overhead expenses currently in dispute, without reimbursement from DHL.

Certain terms of the ACMI agreement and Hub Services agreement with DHL may adversely affect ABX s operating results.

Under the ACMI agreement and Hub Services agreement, if ABX does not meet certain performance standards, after a cure period, DHL may terminate the ACMI agreement and Hub Services agreement prior to the end of their respective terms. A recurring work slowdown or strike by one or more groups of employees, such as ABX s mechanics, sorters or flight crews, could adversely impact our operating performance. These events could result in reductions by DHL to the scope of services provided under the DHL agreements, leading to the termination of those agreements.

Although the ACMI agreement and Hub Services agreement with DHL are structured as cost-plus arrangements, the costs for which ABX can be reimbursed are subject to certain limitations. For instance, labor rate increases are capped at predetermined levels and certain other costs are non-reimbursable. DHL can dispute whether expenses ABX has incurred are reimbursable under the agreements. The agreements give DHL, within reason, certain rights to audit ABX s expenses. Further, the agreements stipulate dispute and arbitration procedures. If labor costs sharply increase or ABX incurs excessive non-reimbursable costs, there can be no assurance that the revenues from these agreements will generate sufficient income for ABX to recover its costs.

The Company is dependent upon the economic conditions in the U.S.

An economic downturn in the U.S. is likely to adversely affect demand for delivery services offered by DHL and BAX, in particular expedited services shipped via aircraft. During an economic slowdown, customers generally use ground-based delivery services instead of more expensive air delivery services. A prolonged economic slowdown may increase the likelihood that DHL would reduce the scope of services ABX provides under the ACMI agreement. Although the cost of jet fuel does not directly affect our net earnings, increased prices of jet fuel could also reduce the demand for air delivery services from DHL, BAX or our other ACMI customers.

The Company has made a significant investment in Boeing 767 aircraft.

The Company, through its subsidiaries, is planning to add six Boeing 767 aircraft to service through 2008. This is in addition to eleven Boeing 767 aircraft that ABX added to its Charter segment operations since 2005. Our future operating results and financial condition will depend in part on our subsidiaries ability to successfully deploy these aircraft in operations that provide a positive return on investment. Our success will depend, in part, on their ability to obtain and operate additional cargo volumes with customers other than DHL and BAX. Certain of our subsidiaries are pursuing international opportunities, including flights in Asia, Central America, South America and Europe. Deploying aircraft in new international markets may pose additional risk, regulatory requirements and costs. Our future operating results will be affected by the interest rates, limits and other terms and conditions of the borrowings or leases. See page 30 for further discussion of these aircraft.

We may need to reduce the carrying value of our assets.

We own a significant amount of aircraft, aircraft parts and related equipment. Additionally, our balance sheet reflects assets for income tax carryforwards and other deferred tax assets. The removal of aircraft from service could require the Company to evaluate the recoverability of the carrying value of those aircraft in accordance with Statements of Financial Accounting Standard (SFAS) No. 144 and result in an impairment charge. At the Company s current level of stockholders equity, the removal of additional aircraft from the DHL ACMI agreement could result in impairment charges for aircraft if their fair market values are less than their carrying values.

As a result of acquiring CHI, we have recorded significant amounts of goodwill and acquisition-related intangibles, which will be tested periodically for impairment. If we are unable to achieve the projected levels of operating results and these assets are impaired, it may be necessary to record a charge to earnings.

If we incur operating losses or our estimates of expected future earnings indicate a decline, it may be necessary to reassess the need for a valuation allowance for some or all of the Company s net deferred tax assets.

Table of Contents

Penalties, fines, and sanctions levied by governmental agencies or the costs of complying with government regulations could negatively affect our results of operations.

Our subsidiaries operations are subject to complex aviation, transportation, environmental, labor, employment and other laws and regulations. These laws and regulations generally require us to maintain and comply with a wide variety of certificates, permits, licenses and other approvals. Their inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations could result in substantial fines or, in the case of DOT and FAA requirements, possible suspension or revocation of their authority to conduct operations.

All aircraft in our airline subsidiaries in-service fleet of 127 aircraft were manufactured prior to 1990. The average ages of our Boeing 767, Boeing 727, DC-9 and DC-8 aircraft are approximately 24, 28 and 36 and 40 years, respectively. Manufacturer Service Bulletins and the FAA Airworthiness Directives issued under its Aging Aircraft program cause aircraft operators of such aged aircraft to be subject to extensive aircraft examinations and require such aircraft to undergo structural inspections and modifications to address problems of corrosion and structural fatigue at specified times. Airworthiness Directives have been issued that require inspections and both major and minor modifications to such aircraft. It is possible that additional Service Bulletins or Airworthiness Directives applicable to the types of aircraft or engines included in our fleet could be issued in the future. The cost of compliance with Airworthiness Directives and of following Service Bulletins cannot currently be reasonably estimated but could be substantial.

Failure to maintain the operating certificates and authorities of ABX, ATI and CCIA would adversely affect our business.

Our airline subsidiaries have the necessary authority to conduct flight operations within the U.S. and maintain Domestic All-Cargo Air Service Certificates for their domestic services, a Certificate of Public Convenience and Necessity for Route 377 for ABX s Canada service, and Air Carrier Operating Certificates issued by the FAA. The continued effectiveness of such authority is subject to their compliance with applicable statutes and DOT, FAA and TSA rules and regulations, including any new rules and regulations that may be adopted in the future.

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 separation of ABX from Airborne required it to file a notice of a substantial change with the DOT. In connection with the filing, 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. The DOT may determine that DHL actually controls ABX as a result of the commercial arrangements (in particular, the ACMI agreement and the Hub Services agreement) between ABX and DHL. If the DOT determined that ABX was controlled by DHL, the DOT could bring an enforcement action against ABX to revoke its certificates. The DOT could take action requiring ABX to show cause that it is a U.S. citizen and that it is fit, willing and able to engage in air transportation of cargo, or requiring amendments or modifications of the ACMI agreement, the Hub Services agreement or the other transaction documents. If ABX was unable to modify these agreements to the satisfaction of the DOT, the DOT may seek to suspend, modify or revoke its air carrier certificates and/or authorities.

The loss of our airlines authorities, including in the situation described above, would materially and adversely affect our airline operations and would effectively eliminate our ability to operate the air services.

Employees may decide to institute labor agreements.

Our subsidiaries rely on a diverse group of employees, including sorters, mechanics and pilots. Today, only flight crewmembers are organized under labor agreements. Operations could be interrupted and business could be adversely affected if no agreements are reached with the pilots or if other employee groups choose to organize with a union.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

ABX leases its corporate offices, 210,000 square feet of maintenance hangars and a 100,000-square-foot component repair shop from DHL. These facilities are located at the DHL Air Park in Wilmington, Ohio. ABX also has the non-exclusive right to use the airport which includes two runways, taxi ways, and ramp space comprising approximately 300 paved acres. The term of the lease runs concurrently with the term of the ACMI agreement with DHL. We believe our existing facilities are adequate to meet our current and reasonably foreseeable future needs.

Aircraft

Our airline subsidiaries currently utilize pre-owned Boeing 767, Boeing 727, McDonnell Douglas DC-9 and McDonnell Douglas DC-8 aircraft. Once acquired, aircraft are modified for use in our cargo operation. As of December 31, 2007, the combined in-service fleet consisted of 127 aircraft, including 40 Boeing 767 aircraft, 14 Boeing 727 aircraft, 57 DC-9 aircraft and 16 DC-8 aircraft.

Most of ABX s DC-9 aircraft and 24 of its Boeing 767 aircraft are not equipped with standard cargo doors, but instead utilize the former passenger doors for the loading and unloading of freight. This reduced the cost of modifying the aircraft from passenger to freighter configuration but limits the size of the freight that can be carried onboard the aircraft and necessitates the use of specialized containers and loading equipment. The absence of a cargo door may also negatively impact the market value of the aircraft.

At December 31, 2007, ABX had a total 16 Boeing 767 aircraft in service that have been converted from passenger aircraft to a standard cargo door configuration. Seven more Boeing 767 freighters will be added into certain of our subsidiary fleets in 2008. Additionally, CCIA will begin operating a Boeing 757 freighter in the first quarter of 2008. The timing of acquisitions and modification payments are described on page 30 of this report.

The tables below show our subsidiaries aircraft fleets and the certificates under which they operate.

ABX Air, Inc. In-Service Fleet

Aircraft Type	**Number of Aircraft as of Dec. 31, 2007**	**Year of Manufacture**	**Gross Payload (Lbs.)**	**Still Air Range (Nautical Miles)**
DC-9	49	1967-1978	26,000-36,000	550-1,100
DC-9-F (1)	8	1967-1970	26,000-36,000	550-1,100
767-200	24	1983-1985	67,000-91,000	1,800-4,400
767-200SF (2)	16	1982-1987	67,000-91,000	1,800-4,400
Total	97			

Table of Contents

Air Transport International, LLC In-Service Fleet

Aircraft Type	Number of Aircraft as of Dec. 31, 2007	Year of Manufacture	Gross Payload (Lbs.)	Still Air Range (Nautical Miles)
DC-8-F	12	1967-1969	96,000-108,800	1,800-4,400
DC-8-CF (3)	4	1968-1970	80,000-85,000	1,800-4,400
Total	16			

Capital Cargo International Airlines, Inc. In-Service Fleet

Aircraft Type	Number of Aircraft as of Dec. 31, 2007	Year of Manufacture	Gross Payload (Lbs.)	Still Air Range (Nautical Miles)
727-200SF	14	1973-1981	52,300-61,000	1,200-2,100

Aircraft Currently Undergoing Modification

Aircraft Type	Number of Aircraft as of Dec. 31, 2007	Year of Manufacture	Expected In-Service Date
757-200 SF	1	1986	4/2008
767-200 SF	3	1982-1984	4/2008-7/2008
767-200 ER	4	1984-1985	7/2008-12/2008
Total	8		

(1) These aircraft were manufactured with a cargo door for transporting freight. The cargo doors are currently deactivated.
(2) These passenger aircraft are configured for standard cargo containers, including activated cargo doors.
(3) These aircraft are configured as combi aircraft capable of carrying passenger and cargo containers on the main flight deck.

Because our airline subsidiaries flight operations can be hindered by inclement weather, they use sophisticated landing systems and other equipment that is intended to minimize the effect that weather may have on their flight operations. For example, ABX s Boeing 767 aircraft are equipped for Category III landings. This allows their crews to land under weather conditions with runway visibility of only 600 feet at airports with Category III Instrument Landing Systems. All of ABX s DC-9 aircraft are equipped for Category II landings, which enable landing with runway visibility of only 1,200 feet.

ITEM 3. LEGAL PROCEEDINGS

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 and again in September of 2007, 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

Table of Contents

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.

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 (USA), Inc. (Now DPWN Holdings (USA), Inc.) (DPWN 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 DPWN 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 filed briefs in the matter and oral arguments were heard on October 17, 2007. We are currently awaiting the U.S. Court of Appeals decision in this matter. The declaratory judgment matter and related counterclaim in the U.S. District Court remain stayed at this time.

We believe the NLRB s decision will be sustained on appeal and that ALPA s grievance and counterclaim will be denied.

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 of 2006, a non-senior management employee of the Company entered a plea to a misdemeanor related to this matter. In July of 2006, a federal grand jury indictment was unsealed charging two

Table of Contents

Garcia companies, the president of Garcia and two of their corporate officers with numerous counts involving the violation of federal immigration laws. The Garcia defendants subsequently entered guilty pleas in U.S. district court and were sentenced in February and March of 2007. No proceedings have been initiated against ABX by the DOJ. See Note I to the consolidated financial statements of this report for additional information.

On April 13, 2007, a former ABX employee filed a complaint against ABX, a total of three current and former executives and managers of ABX, DHL, Garcia Labor Company, Garcia Labor Company of Ohio, and three former executives of the Garcia Labor companies, in the U.S. District Court for the Southern District of Ohio. The case was filed as a putative class action against the defendants, and asserts violations of the Racketeer Influenced and Corrupt Practices Act (RICO). The complaint, which seeks damages in an unspecified amount, alleges that the defendants engaged in a scheme to hire illegal immigrant workers to depress the wages paid to hourly wage employees during the period from December 1999 to January 2005. ABX filed a motion to dismiss on June 11, 2007 and that motion is currently pending. We believe the claim is without merit.

Arbitration under ACMI Agreement and Hub Services Agreement

On November 15, 2007, DHL filed a demand for arbitration with the American Arbitration Association in accordance with the dispute resolution provisions under the ACMI agreement and Hub Services agreement. DHL is seeking certain declarations, including that (i) ABX may not include fuel costs as revenues under the ACMI agreement for purposes of determining whether it receives more than 10% of its revenues from other customers; (ii) ABX exceeded the 10% threshold in the second quarter of 2007 and therefore must begin absorbing a portion of its overhead for the second quarter of 2007 and each quarter going forward under the Agreements; and (iii) DHL is not obligated to reimburse ABX for the costs incurred in maintaining its status as a public company, including those costs incurred in evaluating a recent unsolicited indication of interest from another company.

On December 5, 2007, ABX filed an answer and counterclaim denying DHL s claims and requesting certain declarations, including that (i) DHL is in default of the ACMI agreement and Hub Services agreement; (ii) reimbursable costs, including fuel costs, are properly included as revenue under the Agreements for purposes of determining whether ABX has crossed the 10% threshold, and (iii) costs incurred by ABX in maintaining its status as a public company are properly included in the cost recovery amount under the Agreements.

An arbitration panel has been convened and the parties are currently engaged in the discovery process. The arbitration panel currently anticipates issuing its decision in mid-June of 2008.

We believe that ABX will prevail on all of its counterclaims and that all of DHL s claims will be denied.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our common stock became publicly traded on the NASDAQ Global Select Market under the symbol ABXA on May 9, 2005. The following table shows the range of high and low prices per share of our common stock for the periods.

2007 Quarter Ended:	**Low**	**High**
December 31, 2007	$ 3.45	$ 7.39
September 30, 2007	$ 6.51	$ 8.36
June 30, 2007	$ 6.00	$ 8.56
March 31, 2007	$ 6.47	$ 7.95

2006 Quarter Ended:	**Low**	**High**
December 31, 2006	$ 5.12	$ 6.94
September 30, 2006	$ 4.94	$ 6.07
June 30, 2006	$ 5.73	$ 7.11
March 31, 2006	$ 6.48	$ 8.50

On March 14, 2008, there were 2,122 stockholders of record of the Company s common stock. The closing price of the Company s common stock was $2.91 on March 14, 2008.

Table of Contents

Performance Graph

The graph below compares the cumulative total stockholder return on a $100 investment in the Company s common stock with the cumulative total return of a $100 investment in the NASDAQ Global Select Market and the cumulative total return of a $100 investment in the NASDAQ Transportation Index for the period beginning on August 18, 2003, the date on which the Company s shares first began trading publicly, and ending on December 31, 2007.

	8/18/2003	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
ABX Holdings, Inc.	100.00	277.42	573.55	506.45	447.10	269.68
NASDAQ Transportation Index	100.00	104.11	133.24	137.77	154.32	171.22
NASDAQ Composite Index	100.00	110.63	119.93	122.57	135.15	148.57

Dividends

ABX is restricted from paying dividends on its common stock in excess of $1.0 million during any calendar year under the provisions of its promissory note due to DHL, while the Company is restricted from paying dividends on its common stock in excess of $50.0 million during any calendar year under the provisions of the credit facility agreement. No cash dividends have been paid or declared.

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Comparability of financial data among years is affected by ABX s separation from Airborne on August 15, 2003. The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained in Item 7 of Part II, Management s Discussion and Analysis of Financial Condition and Results of Operations.

The selected consolidated financial data and the consolidated operations data below are derived from the Company s audited consolidated financial statements.

	As of and for the Years Ended December 31				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
OPERATING RESULTS:					
Revenues (1)	$ 1,174,515	$ 1,260,361	$ 1,464,390	$ 1,202,509	$ 1,160,959
Operating expenses (2)	1,131,717	1,217,576	1,425,627	1,157,511	1,720,125
Net interest expense	9,510	6,772	8,451	8,025	16,379
Earnings (loss) before income taxes	33,288	36,013	30,312	36,973	(575,545)
Income tax benefit (expense) (3)	(13,701)	54,041			128,644
Net earnings (loss) (2)	$ 19,587	$ 90,054	$ 30,312	$ 36,973	$ (446,901)
EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS					
Basic (2)	$ 0.34	$ 1.55	$ 0.52	$ 0.63	$ (8.52)
Diluted (2)	$ 0.33	$ 1.54	$ 0.52	$ 0.63	$ (8.52)
WEIGHTED AVERAGE SHARES:					
Basic	58,296	58,270	58,270	58,270	52,474
Diluted	58,649	58,403	58,475	58,270	52,474
SELECTED CONSOLIDATED FINANCIAL DATA:					
Cash and cash equivalents	$ 59,271	$ 63,219	$ 69,473	$ 38,749	$ 63,101
Deferred income taxes (3)	35,056	101,715			
Goodwill and intangible assets	210,354				
Property and equipment, net	690,813	458,638	381,645	351,646	312,803
Total assets	1,162,967	679,798	516,043	472,923	413,106
Post-retirement liabilities (4)	190,028	224,376	89,319	79,770	66,825
Capital lease obligations	88,483	73,551	80,908	88,861	96,193
Long-term debt	495,704	125,126	92,276	92,949	92,949
Stockholders equity	$ 200,003	$ 120,210	$ 113,079	$ 87,949	$ 58,666

(1) Prior to August 16, 2003, revenues were calculated as pre-tax net expenses plus two percent. See revenue recognition policy on page 33 of this report.

(2) Operating expenses for 2003 include an impairment charge of $600.9 million recorded in conjunction with ABX s separation from Airborne, Inc. A tax benefit of $134.8 million occurred primarily as a result of recording the impairment charge.

(3) In the fourth quarter of 2006, an income tax benefit was recognized to completely reverse the valuation allowance on ABX s deferred tax assets. See Note G to the accompanying consolidated financial statements.

(4) Post-retirement liabilities for 2006 reflect the adoption of SFAS No. 158. See Note J to the accompanying consolidated financial statements.

Table of Contents

ITEM 7. 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 Holdings, Inc, and its subsidiaries (the Company) and should be read in conjunction with the Risk Factors on page 10 of this report, our historical financial statements, and the related notes contained in this report.

INTRODUCTION

On December 31, 2007, ABX Air, Inc. (ABX) was reorganized such that it became a subsidiary under a holding company structure. The holding company, ABX Holdings, Inc. (the Company), acquired all outstanding ownership of Orlando, Florida based Cargo Holdings International, Inc. (CHI) on December 31, 2007. CHI is the parent company of two certificated airline subsidiaries, CCIA and ATI. The consolidated financial statements of the Company include the balance sheet of CHI and its subsidiaries, including Capital Cargo International Airlines, Inc. (CCIA) and Air Transport International L.L.C. (ATI), as of the date of acquisition; accordingly, the activities of CHI are not included in the Company s consolidated statements of earnings or consolidated statements of cash flows for 2007, 2006 or 2005. For this reason and in the interest of convenience, ABX Holdings, Inc. and its subsidiaries may hereinafter individually and collectively be referred to as the Company , we , our or us from time to time.

ABX is an independent airline that provides cargo transportation and package sorting and handling services. ABX operates an in-service fleet of 97 aircraft as of December 31, 2007. DHL is ABX s largest customer, accounting for over 90% of our revenues. We are DHL s primary provider for air cargo transportation and for package handling and warehousing services within the U.S. ABX provides staffing, management and maintenance services for DHL s primary hub in Wilmington, Ohio and fifteen regional hubs throughout the U.S. In addition to DHL, ABX provides air cargo services to other customers through a fleet of Boeing 767 aircraft. Additionally, ABX provides aircraft part sales and maintenance services to other airlines and, through a wholly-owned subsidiary, operates three sorting facilities for the U.S. Postal Service (USPS). During 2007, ABX operated in two reportable segments: DHL and Charter. Its other business activities, including the USPS sort centers, aircraft part sales and maintenance services, do not constitute reportable segments.

DHL Segment

ABX has two commercial agreements with DHL: 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 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% (the base mark-up) and included in revenues. Both agreements also allow ABX to earn incremental mark-up above the 1.75% base mark-up (up to an additional 1.60% under the ACMI agreement and an additional 2.10% under the Hub Services agreement) 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.

ABX s DHL revenues declined 10.6% in 2007 compared to 2006 due to reductions in the services we provide to DHL. As a result, our pre-tax earnings from the DHL segment declined $1.3 million, or 5.7%, to $21.2 million for 2007 compared to $22.5 million in 2006. Declines were affected by a lower base of expenses subject to mark-up and lower achievement of cost-related incentives under the commercial agreements with DHL. Our DHL expense base declined during 2007 compared to 2006 due to DHL assuming the management of line-haul operations in May 2006, the removal of 21 aircraft from the ACMI agreement in August 2006, the transfer of the

Table of Contents

Allentown, Pennsylvania and Riverside, California hubs to DHL management during 2007 and the removal of seven aircraft from the ACMI agreement in 2007. Additionally, in November 2007, DHL assumed management of the South Bend, Indiana hub. Our 2006 pre-tax earnings included approximately $2.3 million on revenues of $111.2 million from management of DHL s line-haul trucking operations, the Allentown, Pennsylvania hub and the Riverside, California hub prior to the transfer of those operations to DHL.

By the end of 2007, ABX was no longer flying any DC-8 aircraft for DHL. Under the ACMI agreement with DHL, ABX had the option to put each of the four DC-9 aircraft and three DC-8 aircraft released in 2007 to DHL at the lower of their fair value or net book value. After having the aircraft appraised, management decided to exercise the put provisions on three of these aircraft. ABX is marketing the remaining aircraft to part dealers and other operations. The removal of aircraft from service to DHL required us 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, we recorded an impairment charge of $0.3 million in 2007 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.

Outlook

The ACMI agreement automatically renews for a period of three years in August 2010, unless at least a one year notice of non-renewal is given. The Hub Services agreement renewed in August 2007 and automatically renews for additional periods of one year each, unless at least 90 days notice of non-renewal is given. However, DHL can terminate specific ACMI aircraft, 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 before their respective renewal dates. In addition to the reductions noted above, DHL assumed the management of the Columbus, Ohio area logistics service operations in January 2008 and will assume management of the Wilmington, Ohio logistics operations in May 2008.

Our level of business depends substantially on DHL s ability to compete in the U.S., where FedEx Corporation and United Parcel Service, Inc., have significant resources, market penetration and brand recognition. DHL has indicated that it is incurring significant losses from its U.S. operations. DHL may make strategic changes in its network in efforts to reduce its operating losses in the U.S. Those changes may include the removal of ABX aircraft or the transfer of hub management from ABX. Our future operating results will depend, in part, on DHL s sourcing preferences for providing ACMI and hub services and the volume of business it is able to generate. In recent years, DHL has removed seventeen DC-8 aircraft and eighteen DC-9 aircraft from service. Since 2005, we have added seven Boeing 767 freighter aircraft to service in the DHL network and may provide more Boeing 767 freighter airlift if needed by DHL s network plan.

Charter Segment

ABX offers ACMI (aircraft, crew, maintenance and insurance) and full service charters to freight forwarders, airlines and other shippers through a fleet of Boeing 767 freighters. As of December 31, 2007, ABX had eleven Boeing 767 aircraft in this segment. 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.

Charter segment revenues were $55.6 million for 2007 and grew 127.4% compared to 2006. The growth of our charter revenues reflects the deployment of seven additional Boeing 767 aircraft into service since 2006, including two aircraft contracted to All Nippon Airways Co. (ANA). The agreement began May 15, 2007 and expires in January 2010. We are supporting ANA s cargo operations throughout the Asian market, including Japan, China and Thailand.

Pre-tax earnings from the charter segment were $4.6 million for 2007 compared to $3.7 million for 2006. Pre-tax earnings from the charter segment in 2007 were negatively impacted by the start-up time necessary to get

Table of Contents

recently delivered aircraft deployed for customers and the timing of scheduled heavy maintenance. Additionally, our margins during 2007 were hurt by high aircraft crewing expenses in our Asia start-up operations. Efforts to cooperatively find a long-term alternative to a foreign domicile at the request of the pilots union proved unsuccessful. We initially implemented a temporary crew rotation plan for the Asian operations that was too costly to maintain. In December 2007, we established a crew domicile in Japan under the provisions of our collective bargaining agreement. The full cost efficiency benefit of establishing a crew domicile will not be evident until the end of the first quarter in 2008.

Outlook

The market demand for the Boeing 767s remains strong in the Central American, South American and Asian markets that ABX serves. The fuel efficiency, cubic capacity, payload and operating cost of the Boeing 767 make it a desirable freighter aircraft in medium-range international air cargo markets and in trans-U.S. routes (less than 3,000 nautical miles). While some Boeing 767 aircraft may be contracted to DHL, interest from non-DHL customers is currently strong, particularly from cargo markets outside of the U.S. ABX expects to deploy two additional Boeing 767 aircraft into this segment in early 2008 as the freighter modifications are completed.

While customer demand for these aircraft is currently strong, our operating results could be impacted by aircraft utilization levels, including the timing difference between the redelivery of a modified aircraft to us and that aircraft s deployment into revenue service. We begin to incur depreciation expense for each additional aircraft when an aircraft is ready for service. Revenue-generating service may begin some time later, however, depending on satisfaction of a number of conditions, including international regulations and laws, contract negotiations, flight crew availability, and arranging resources for aircraft handling. New customer agreements typically involve start-up expenses, including those for route authorities, overfly rights, travel and other activities, and may impact future operating results, particularly if we experience a surge in aircraft deployments. We may begin to incur interest expense from incremental aircraft loans before those aircraft reach normal utilization levels. Additionally, our pre-tax earnings will fluctuate due to the timing of scheduled heavy maintenance, which, under ABX s policy, are expensed as maintenance is performed.

Our operating results during 2008 may be impacted by the allocation of overhead expenses to the Charter segment and other activities. The provisions of the two commercial agreements ABX has with DHL do not require an allocation of overhead to the charter segment or to other activities until such time as ABX derives more than 10% of its total revenue from non-DHL business activities. ABX may reach this threshold in 2008. ABX and DHL have begun to discuss how the expense allocations will be accomplished, but, at this time, management cannot predict with reasonable certainty the level of overhead cost that will be allocated to non-DHL operations.

Other Activities

Other activities revenue increased to $36.0 million in 2007 compared to $24.1 million in 2006. Increased revenues were a result of being awarded two additional USPS sort center contracts in September of 2006 and an increase in aircraft maintenance work compared to 2006. As a result, pre-tax earnings from all other activities increased $1.2 million during 2007, compared to 2006. In aggregate, pre-tax earnings on these operations as a percentage of revenues declined to 16% for 2007 from 20% for 2006, due primarily to the increase in lower-margin USPS revenues.

Our aircraft part sales and maintenance business activities typically earn operating margins relative to revenues that are higher than the margin on our DHL business. These other opportunities typically involve single sales or short-term service arrangements across many different customers. These opportunities have different economic and risk profiles that often dictate a higher sales price and expected return than our DHL business segment. Our pre-tax earnings relative to revenues from the DHL segment are predicated on large business volumes. We expect that revenues and earnings from non-DHL business could vary widely among quarters, due to the capacity of ABX s hangar and maintenance facilities and the timing of our non-DHL customers demand for services. Our direct costs to develop, market and offer services to non-DHL customers are not reimbursed by DHL.

CHI

The purchase price for all of CHI s equity securities was approximately $259 million, consisting of approximately $215 million in cash from the Company, $18 million in cash from CHI and the value of four million common shares of ABX Holdings, Inc., valued at $25 million, which were issued to certain shareholders. ABX also repaid $101 million of CHI s existing indebtedness under its senior credit facility and acquired approximately $20 million in CHI cash. The overall transaction value was approximately $340 million. The Company obtained $270 million of these funds from a new unsubordinated term loan.

Through its wholly-owned subsidiaries, CHI operates 30 aircraft, and, at December 31, 2007, also owned four Boeing 767-200s and one Boeing 757-200 that were undergoing conversions from passenger to freighter configurations. The Boeing 757-200 conversion was completed in the first quarter of 2008. CHI companies also provide aircraft leasing, fuel management, specialized transportation management and air charter brokerage services. CHI s primary customer is BAX Global Inc./Schenker AG, and its roster of more than thirty customers includes the U.S. government, DHL, the USPS, and United Parcel Service, Inc. By acquiring CHI, the Company expects to diversify its revenue base and accelerate its growth opportunities. We believe the acquisition of CHI and its wholly owned subsidiaries will result in a number of strategic benefits, including improved economies from a larger base of operations and expanded market leadership in 767 freighter services. We expect to continue the business operations of CHI s subsidiaries with largely the same management and employee team that was in place at the time of the acquistion.

The acquisition of CHI will have a significant impact on our future financial results. Unaudited pro forma combined financial information is presented on page 49 of this report. The unaudited pro forma information is not necessarily indicative of what the Company s results of operations actually would have been had the acquisition been completed by the earlier dates indicated. In addition, the unaudited pro forma financial information does not purport to project the future financial position or operating results of the combined company. The unaudited pro forma financial information was prepared using the purchase method of accounting with ABX Holdings, Inc. treated as the acquirer. Accordingly, the historical consolidated financial information has been adjusted to give effect to the impact of the consideration issued in connection with the acquisition. More detailed unaudited pro forma results and the basis of adjustments are included in ABX Holdings 8-K/A submitted for filing with the Securities and Exchange Commission on March 14, 2008.

Based on the unaudited pro forma information referred to above, DHL would have represented 74% of combined revenues, while BAX would have represented 14% of combined revenues in 2007.

RESULTS OF OPERATIONS

2007 compared to 2006

Net earnings decreased $70.5 million to $19.6 million for 2007 compared to $90.1 million in 2006, which included a $54.0 million income tax benefit recorded in 2006. Pre-tax earnings decreased $2.7 million in 2007 compared to 2006. Improved pre-tax earnings from the Charter segment and aircraft parts sales and maintenance services were offset by lower pre-tax earnings from the DHL segment and increased interest expense during 2007. Pre-tax earnings from the DHL segment decreased primarily due to a lower base of DHL expenses subject to mark-up and lower achievement of cost-related incentives under the commercial agreements. Our DHL expense base declined during 2007 compared to 2006 due to DHL assuming the management of line-haul operations in May 2006, the removal of aircraft from the ACMI agreement and the transfer of the Allentown, Pennsylvania and Riverside, California hubs to DHL management during 2007. Our incremental mark-up from hub services decreased $0.7 million, the incremental mark-up from the DHL ACMI agreement decreased by $0.4 million during 2007 and base earnings from the DHL agreements decreased $0.2 million compared to 2006. Charter segment earnings increased $0.8 million, earnings from all other activities increased $1.2 million and net interest income decreased $3.5 million due to seven aircraft financed by the end of 2007. Earnings were also negatively affected by $13.7 million in deferred income tax expense recorded in 2007.

During the fourth quarters of 2007 and 2006, we recognized $3.8 million and $4.1 million, respectively, or approximately 100%, of the maximum available incremental mark-up from the *annual cost-related* goal under the ACMI agreement. Also, during the fourth quarter of 2007, we recognized revenue from the *annual service* goal in the ACMI agreement of $0.9 million, or 80% of the maximum available. During the fourth quarter of 2006, we recognized revenue from the *annual service* goal in the ACMI agreement of $1.2 million, or 100% of the maximum available. During the fourth quarter of 2007, we recognized $2.3 million, or 100% of the maximum, from the *annual service* goal under the Hub Services agreement, compared to $2.1 million, or 70% of the maximum, during 2006. During 2007, our expenses for the DHL segment included approximately $2.2 million for costs and administrative expenses that are not reimbursable under the two DHL agreements, compared to approximately $3.3 million in the corresponding 2006 period.

Table of Contents

A summary of our revenues, expenses and pre-tax earnings is shown below (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
DHL Contracts			
ACMI			
Base mark-up	$ 445,390	$ 466,967	$ 480,322
Incremental mark-up - cost goals	6,170	6,303	6,319
Incremental mark-up - service goals	874	1,148	708
Total ACMI	452,434	474,418	487,349
Hub Services			
Base mark-up	314,687	400,336	605,094
Incremental mark-up - cost goals		951	753
Incremental mark-up - service goals	2,316	2,064	
Total Hub Services	317,003	403,351	605,847
Other Reimbursable	313,506	334,101	337,151
Total DHL	1,082,943	1,211,870	1,430,347
Charters	55,580	24,440	13,864
Other Activities	35,992	24,051	20,179
Total Revenues	$ 1,174,515	$ 1,260,361	$ 1,464,390
Expenses:			
DHL Contracts			
ACMI	$ 438,823	$ 459,926	$ 472,283
Hub Services	309,435	395,391	599,591
Other Reimbursable	313,506	334,101	337,151
Total DHL	1,061,764	1,189,418	1,409,025
Charters	51,016	20,736	12,726
Other Activities	30,094	19,356	14,786
Total Expenses	$ 1,142,874	$ 1,229,510	$ 1,436,537
Pre-Tax Earnings:			
DHL Contracts			
ACMI	$ 13,611	$ 14,492	$ 15,066
Hub Services	7,568	7,960	6,256
Other Reimbursable			
Total DHL	21,179	22,452	21,322
Charters	4,564	3,704	1,138
Other Activities	5,898	4,695	5,393
Interest Income and Other	1,647	5,162	2,459
Total Pre-Tax Earnings	$ 33,288	$ 36,013	$ 30,312

For the purposes of internal reporting, ABX 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.

Table of Contents

Operating Expenses

Our expenses are driven by operational variables, including the number of aircraft hours flown, 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. Pounds processed reflects the weight of a package at multiple times as it moves through the network. The design of the DHL air and ground network, which includes routing standards and transportation determinations, is generally communicated to us by DHL.