UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2008

Commission File Number 000-50368

AIR TRANSPORT SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-1631624**

(State of incorporation or organization) **(IRS Employer Identification No.)**

145 Hunter Drive

Wilmington, Ohio 45177

(Address of Principal Executive Office)

(937) 382-5591

(Registrant s telephone number, including area code)

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

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of August 11, 2008, Air Transport Services Group, Inc. had outstanding 63,227,084 shares of common stock, par value $.01.

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AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

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FORWARD LOOKING STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as projects, believes, anticipates, will, estimates, plans, ex intends and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in this report and in our 2007 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

Filings with the Securities and Exchange Commission

Our filings with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, are available free of charge from our website at www.atsginc.com as soon as reasonably practicable after filing with the SEC.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
REVENUES	$ 394,860	$ 281,297	$ 776,916	$ 569,359
OPERATING EXPENSES				
Salaries, wages and benefits	149,011	151,114	307,768	309,039
Fuel	151,280	61,398	271,172	120,351
Maintenance, materials and repairs	27,964	22,673	54,108	45,545
Depreciation and amortization	22,928	12,837	44,170	24,780
Landing and ramp	7,534	4,377	21,571	14,178
Rent	3,430	2,195	6,876	4,713
Purchased line-haul and yard management	1,360	1,546	2,807	3,217
Other operating expenses	23,302	15,640	44,813	29,232
	386,809	271,780	753,285	551,055
INTEREST EXPENSE	(8,697)	(3,403)	(19,072)	(6,566)
INTEREST INCOME	517	1,191	1,519	2,449
INCOME (LOSS) BEFORE INCOME TAXES	(129)	7,305	6,078	14,187
INCOME TAXES	(397)	(2,760)	(2,817)	(5,375)
NET EARNINGS (LOSS)	$ (526)	$ 4,545	$ 3,261	$ 8,812
EARNINGS (LOSS) PER SHARE				
Basic	$ (0.01)	$ 0.08	$ 0.05	$ 0.15
Diluted	$ (0.01)	$ 0.08	$ 0.05	$ 0.15
WEIGHTED AVERAGE SHARES				
Basic	62,460	58,282	62,438	58,282
Diluted	62,460	58,635	62,667	58,612

See notes to condensed consolidated financial statements.

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AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 82,670	$ 59,271
Marketable securities available-for-sale	1,247	49,636
Accounts receivable, net of allowance of $363 in 2008 and 2007	37,328	55,339
Inventory	17,082	14,701
Prepaid supplies and other	14,687	19,621
Deferred income taxes	18,311	19,262
Aircraft and engines held for sale	3,755	1,896
TOTAL CURRENT ASSETS	175,080	219,726
Property and equipment, net	692,233	690,813
Other assets	40,011	26,280
Deferred income taxes	11,400	15,794
Intangibles	30,382	31,700
Goodwill	175,363	178,654
TOTAL ASSETS	$ 1,124,469	$ 1,162,967
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 59,187	$ 76,425
Salaries, wages and benefits	59,240	64,560
Accrued expenses	12,309	11,266
Current portion of long-term obligations	37,235	22,815
Unearned revenue	29,697	21,046
TOTAL CURRENT LIABILITIES	197,668	196,112
Long-term obligations	515,899	567,987
Post-retirement liabilities	194,700	186,338
Other liabilities	6,760	12,527
Commitments and contingencies (Note G)		
STOCKHOLDERS EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock		
Common stock, par value $0.01 per share; 75,000,000 shares authorized; 63,227,084 and 62,650,278 shares issued and outstanding in 2008 and 2007, respectively	632	626
Additional paid-in capital	459,287	458,091
Accumulated deficit	(186,283)	(189,544)
Accumulated other comprehensive loss	(64,194)	(69,170)
TOTAL STOCKHOLDERS EQUITY	209,442	200,003
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,124,469	$ 1,162,967

See notes to condensed consolidated financial statements.

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AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30	
	2008	**2007**
OPERATING ACTIVITIES:		
Net earnings	$ 3,261	$ 8,812
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	44,170	24,780
Pension and post-retirement amortization	3,491	5,708
Deferred income taxes	2,510	5,375
Stock-based compensation	1,202	1,341
Other	(819)	(100)
Changes in assets and liabilities:		
Accounts receivable	18,011	(2,178)
Inventory and prepaid supplies	1,502	575
Accounts payable	(11,000)	(2,755)
Unearned revenue	8,180	6,592
Accrued expenses, salaries, wages and benefits and other liabilities	(9,728)	(2,411)
Post-retirement liabilities	8,517	2,356
Other	3,711	376
NET CASH PROVIDED BY OPERATING ACTIVITIES	73,008	48,471
INVESTING ACTIVITIES:		
Capital expenditures	(53,959)	(92,032)
Proceeds from the sale of property and equipment	6,469	538
Long-term deposits	(9,000)	(10,017)
Proceeds from redemptions of marketable securities	48,389	7,705
Acquisition of CHI	(3,840)	
Purchases of marketable securities		(8,291)
NET CASH USED IN INVESTING ACTIVITIES	(11,941)	(102,097)
FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(57,668)	(5,890)
Proceeds from borrowings on long-term obligations	20,000	35,000
Financing fees		(19)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(37,668)	29,091
NET DECREASE IN CASH	23,399	(24,535)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	59,271	63,219
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 82,670	$ 38,684

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid, net of amount capitalized	$ 17,873	$ 5,882
Income taxes paid	$	$
SUPPLEMENTAL NON-CASH INFORMATION:		
Accrued aircraft modification expenditures	$ 6,166	$ 15,692

See notes to condensed consolidated financial statements.

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AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

NOTE A SUMMARY OF FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim period consolidated financial statements of Air Transport Services Group, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information, footnotes and disclosures required by generally accepted accounting principles for complete financial statements and are unaudited. The results of operations and cash flows for any interim periods are not necessarily indicative of results that may be reported for the full year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2007 financial amounts are extracted from the annual audited financial statements.

Nature of Operations

Air Transport Services Group, Inc. includes three independently certificated airlines through its wholly owned subsidiaries. Its airline subsidiaries are ABX Air, Inc. (ABX), Capital Cargo International Airlines, Inc. (CCIA), and Air Transport International, LLC (ATI). The Company acquired CCIA and ATI through its acquisition of Cargo Holdings International, Inc. (CHI) on December 31, 2007. The acquisition of CHI also included Cargo Aircraft Management, Inc. (CAM), an aircraft leasing company.

Under an aircraft, crew, maintenance and insurance agreement (ACMI agreement) and a Hub Services agreement, ABX provides airlift, package handling, warehousing, and other cargo-related services to DHL Express (USA), Inc. and DHL Network Operations (USA), Inc. (collectively, DHL). DHL, an international, integrated delivery company, is the Company s largest customer, accounting for 71% of the Company s revenue in the second quarter of 2008. ABX provides staffing, maintenance and management services for DHL s main air hub and package sorting center in Wilmington, Ohio and for fifteen DHL regional sort facilities in the U.S. The Company also provides supplemental airlift to DHL under other ACMI arrangements.

Through its airline subsidiaries, the Company provides airlift to other customers besides DHL, typically through ACMI agreements. At June 30, 2008, ABX had 12 Boeing 767-200 freighter aircraft in service that were not under the DHL ACMI agreement, while CCIA and ATI had 14 aircraft and 16 aircraft in revenue service, respectively. CCIA and ATI each have contracts to provide airlift to BAX Global, Inc. (BAX) under ACMI agreements. BAX provides freight transportation and supply chain management services, specializing in the heavy freight market for business-to-business shipping. ATI also provides passenger transportation, primarily to the U.S. military, using its DC-8 combi aircraft that are certified to carry passengers as well as cargo on the main deck.

In addition to its ACMI services, the Company sells aircraft parts and provides aircraft maintenance services to other airlines. Through a wholly owned subsidiary, the Company operates three sorting facilities for the U.S. Postal Service (USPS). The Company also provides specialized services for aircraft fuel management and freight logistics.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions are eliminated. The accounts of CHI and its subsidiaries, including CAM, CCIA and ATI, are included in the consolidated financial statements as of the date of acquisition; accordingly, the activities of CHI are not included in the 2007 consolidated statements of earnings and consolidated statements of cash flows.

Acquisition of CHI

On December 31, 2007, the Company acquired all of the outstanding equity securities of CHI. As described above, CHI operations historically consisted primarily of two cargo airlines, CCIA and ATI. BAX was the largest customer of CCIA and ATI during 2007.

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The following table provides pro forma condensed combined financial information for the Company after giving effect to the acquisition described above and the assumptions and adjustments described in the accompanying notes to the pro forma condensed combined financial statements. This information is based on adjustments to the historical consolidated financial statements of CHI using the purchase method of accounting for business combinations. The pro forma adjustments do not include any of the cost savings and other synergies anticipated to result from the acquisition. These pro forma results are based on assumptions considered appropriate by management and include all material adjustments of a recurring nature as considered necessary. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of results that would have actually been reported as of the date or for the quarter presented had the acquisition taken place on such date or at the beginning of the quarter indicated, or to project the Company s financial position or results of operations which may be reported in the future (in thousands except earnings per share data).

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Pro forma revenues	$ 358,766	$ 716,216
Pro forma depreciation and amortization	23,594	44,956
Pro forma interest expense	10,039	19,329
Pro forma earnings before income taxes	8,671	15,480
Pro forma net earnings	5,108	9,075
Pro forma diluted earnings per share	0.08	0.15

The pro forma results above exclude non-recurring charges recorded by CHI that were directly related to the acquisition by the Company. Combined results for Air Transport Services Group, Inc. and CHI for the quarter ended June 30, 2007 were adjusted for the following to present the unaudited pro forma results in the table above:

Adjustment to reflect additional intangible asset amortization expense of $0.7 million and $1.3 million for the three and six month periods ended June 30, 2007, respectively, resulting from the fair value adjustments to CHI s intangible assets.

Adjustment to reflect additional depreciation expense of $0.8 million and $1.6 million for the three and six month periods ended June 30, 2007, respectively, resulting from the fair value adjustments to CHI s aircraft and aircraft related parts.

Adjustment to reflect additional interest expense and amortization of debt issuance costs for the three and six month periods ended June 30, 2007 related to the $270.0 million unsubordinated term loan using an average prevailing interest rate of 8.36%.

Use of Estimates

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

Cash and Cash Equivalents

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

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Inventory

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

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

Marketable Securities

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

Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standard (SFAS) No. 142, Accounting for Goodwill and Other Intangible Assets, the Company will assess on an annual basis whether goodwill acquired in the acquisition of CHI is impaired. Additional impairment assessments may be performed on an interim basis if the Company finds it necessary. Finite-lived intangible assets are amortized over their estimated useful economic lives and are periodically reviewed for impairment. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually.

Property and Equipment

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

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

Aircraft and flight equipment	5 to 20 years
Package handling and ground support equipment	5 to 10 years
Vehicles and other equipment	5 to 8 years

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

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

Aircraft engines for the airlines Boeing 767 aircraft are usually maintained under power by the hour agreements with engine maintenance providers. Under the power by the hour agreements, the engines are maintained by the service providers for a fixed fee per flight hour; accordingly, the cost of engine maintenance is generally expensed as flight hours occur. Maintenance for aircraft engines on the airlines Boeing 757, Boeing 727, DC-9 and DC-8 aircraft is typically contracted to service providers on a time and material basis.

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The Company s accounting policy for major airframe and engine maintenance varies by subsidiary. ATI, CCIA and CAM capitalize the cost of major maintenance and amortize the costs over the useful life of the overhaul. ABX expenses the cost of airframe and engine overhauls as incurred.

Capitalized Interest

Interest costs incurred while aircraft are being modified are capitalized as an additional cost of the aircraft until the date the asset is placed in service. Capitalized interest was $1.9 million and $0.9 million for the quarters ended June 30, 2008 and 2007, respectively.

Exit Activities

The Company accounts for the costs associated with exit activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. One-time, involuntary employee termination benefits are generally expensed when the Company communicates the benefit arrangement to the employee, and it requires no significant future services, other than a minimum retention period, from the employee to earn the termination benefits. Liabilities for contract termination costs associated with exit activities are recognized in the period incurred and measured initially at fair value. Pension obligations are accounted for in accordance with SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, in the event that a significant number of employees are terminated or a pension plan is suspended.

Fair Value

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These non-financial items include assets and liabilities, such as reporting units measured at fair value in a goodwill impairment test, and non-financial assets acquired and liabilities assumed in a business combination.

The amounts included on the Company s consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The Company s short-term available-for-sale securities and derivative financial instruments are reported at fair value on the Company s consolidated balance sheet. The fair value of the Company s short-term available-for-sale securities and derivative financial instruments are based on quoted prices in active markets for identical assets (Level 1). The fair value of the Company s derivative financial instruments are based on other observable inputs (Level 2). The use of significant unobservable inputs (Level 3) was not necessary in determining the fair value of the Company s financial assets and liabilities.

For the Company, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159) became effective January 1, 2008. This new standard allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, nor does it eliminate disclosure requirements included under existing pronouncements. The Company did not elect to report any additional assets or liabilities at fair value that were not already being reported at fair value.

Income Taxes

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

Comprehensive Income (Loss)

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

Revenue Recognition

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

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

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

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141R). SFAS 141R amends SFAS 141 and provides guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will be effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively.

In December 2007, the FASB issued SFAS No. 160, Non-Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled and presented in the consolidated financial statements. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. The Company currently has controlling interests in all subsidiaries; therefore, management expects this standard to have no impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that such company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows are

required. This statement retains the same scope as SFAS No. 133 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing implementation plans and does not expect the adoption of SFAS 161 to have a material impact, if any, on its consolidated financial statements.

In May 2008, FSAB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 mandates the GAAP hierarchy resides in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. This pronouncement will become effective 60 days following SEC approval. The Company does not believe this pronouncement will impact its financial statements.

In May 2008, FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60 (SFAS 163). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The Company does not believe this pronouncement will impact its financial statements.

NOTE B SIGNIFICANT CUSTOMERS

DHL

On May 28, 2008, DHL announced its plan to restructure its U.S. operations and to complete its negotiations to outsource its domestic air network to United Parcel Service (UPS). The negotiations could lead to the transition of substantially all of the services that ABX currently provides to DHL by the end of 2009 or sooner. Under the plan, DHL s air express services would be moved through the UPS system and air network. DHL would not need the airlift supplied by ABX, and the nighttime sort managed by ABX at DHL s central hub in Wilmington, Ohio would be discontinued. As a result, approximately 6,000 ABX employees would be terminated. Additionally, under the plan, DHL would take over management of the regional hubs currently managed by ABX throughout the U.S.

Phase one of DHL s plan involves cost restructuring as a result of increasing aviation fuel prices and declining piece volumes. By June 30, 2009, DHL plans to remove from service all 55 of the DC-9 aircraft ABX has dedicated to DHL. On June 26, 2008, ABX received formal notification from DHL on the release of 23 of the 55 DC-9 aircraft starting June 30, 2008 and running through December 31, 2008. Under provisions of the ACMI agreement, ABX has an option to sell the aircraft removed from the DHL network to DHL at the lower of book or fair market value. ABX is exercising its option to sell 22 of the 23 DC-9 aircraft to DHL for approximately $5.8 million.

A timetable to transition the air network and discontinue the Wilmington central hub is contingent on the completion of DHL-UPS negotiations, which are currently underway. DHL has not communicated a timetable to transition the regional hubs.

The Company has attempted to present its own revised U.S. network plan to DHL, containing significant cost savings. However, DHL has indicated that it is unable to discuss the plan with ABX while DHL is in negotiations with UPS. ABX cannot reasonably predict how long negotiations between UPS and DHL may last, to what extent they may reach an outsourcing agreement or a transition timetable. ABX has begun to negotiate termination and wind-down costs with DHL, including employee severance and retention arrangements, in the event an agreement is reached.

ABX management is escalating diversification plans and developing contingency business strategies. In the absence of operating such a large aircraft fleet for DHL, management anticipates that it will put nearly all of the remaining DC-9 aircraft to DHL as they are removed from service. Additionally, management may put several Boeing 767 aircraft having passenger door, loading systems to DHL and using the proceeds to help finance the modification of the remaining Boeing 767s to standard freighter configuration. Business development opportunities for ABX include expanded aircraft maintenance and repair operations, aircraft dry leasing, ACMI contracts outside of the domestic U.S. market and additional mail sorting and mail transport contracts with the USPS. If DHL completes its plan with UPS, significant restructuring, downsizing and wage concessions will be required to position ABX to competitively pursue new business development.

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The Company s financial condition will be impacted by uncertainties stemming from DHL s plan. These uncertainties include the following:

Timing of transitional activities if an agreement between UPS and DHL is finalized.

ATSG s ability to remain in compliance with its credit agreement and access to liquidity as it attempts to replace cash flows lost by DHL s transition to UPS.

ABX s ability to redeploy aircraft under other customer contracts.

ABX cost restructuring initiatives including the collective bargaining agreement with flight crews.

Recovery of contract termination costs, including pension funding and other wind-down expenditures, from DHL.

Continued access to the airport, hangar and office facilities in Wilmington, Ohio.

The level of DHL piece volumes.

Timetable to transition regional hubs to DHL management.

Revenues from services performed for DHL were approximately 71% and 92% for the three month periods ended June 30, 2008 and 2007, respectively, and 73% and 93% of consolidated revenues for the six month periods ended June 30, 2008 and 2007, respectively.

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

	June 30, 2008	December 31, 2007
Assets (Liabilities):		
Accounts receivable	$ 15,923	$ 25,268
Accounts payable	(379)	(392)
Unearned revenue	(22,677)	(19,712)
Net asset (liability)	$ (7,133)	$ 5,164

The ACMI agreement has a term of seven years, expiring in August 2010 and automatically renews for an additional three years unless a one-year notice of non-renewal is given. The Hub Services agreement automatically renewed in August 2008 for a one-year period, with automatic annual renewals, unless a ninety-day notice of non-renewal is given.

Arbitration

In November 2007, ABX and DHL agreed to arbitrate provisions of their ACMI and Hub Services commercial agreements that cover the allocation of ABX s overhead expenses between DHL and ABX s non-DHL operations. The dispute centered on a claim by DHL that ABX overhead expenses, beginning in the second quarter of 2007, were no longer eligible for reimbursement in full by DHL, because ABX s revenues from other customers exceeded a 10% threshold of its total revenues, triggering an allocation of overhead expenses as required by the commercial agreements. DHL also claimed that ABX s costs in maintaining its public company status and certain professional fees incurred by ABX with respect to an unsolicited indication of interest by ASTAR Air Cargo Holdings, LLC (ASTAR), were not recoverable under the agreements.

ABX pursued its position through arbitration. In February 2008, a three-judge arbitration panel was selected and in July the panel issued its decision. The arbitrators ruled that ABX was entitled to full reimbursement of its general overhead expenses from DHL for the 2007 fiscal year. As a result, there was no requirement for ABX to allocate a portion of its overhead expenses to its non-DHL businesses during 2007. Additionally, the arbitrators ruled that costs required to maintain public-company status are reimbursable by DHL under the agreements, except to the extent such costs are allocable to non-DHL business. However, the arbitrators ruled that ABX is solely responsible for expenses it incurred to consider and analyze an expression of interest from ASTAR. Further, the arbitrators ruled that ABX reached the 10% threshold of its total revenues from non-DHL customers effective as of January 1, 2008, after considering the acquisition of CHI. The arbitrators directed DHL and ABX to commence negotiating in good faith to determine a reasonable allocation of ABX Air s overhead expenses related to its provision of non-DHL services. The arbitrators also determined that DHL s withholding of $8.8 million in payments to ABX for ten days in November 2007 was not a material default under the agreements.

In accordance with the arbitrators decision the Company recorded a $2.5 million charge to the second quarter 2008 pre-tax earnings associated with the ASTAR indication of interest and issued a corresponding expense credit to DHL. Additionally, to allocate overhead cost, the Company recorded a credit of $1.6 million to expense subject to mark-up, thus reducing revenue from DHL and increasing non-DHL expenses for the first six months of 2008.

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DHL has asserted that ABX is responsible for its own cost of arbitration, which is approximately $2.2 million. The Company s position is that ABX is entitled to reimbursement of the expenses for arbitration under the terms of the ACMI and Hub Services agreements with DHL. However, the results of dispute resolution, which may involve arbitration, are difficult to predict for this matter. As a result, the Company reduced its 2008 revenues $2.2 million to reserve DHL s reimbursement of arbitration expenses.

DHL has also asserted that the arbitrators July 15, 2008 ruling allows DHL to reexamine ABX s accounting for all costs that were charged to DHL relating to non-DHL services since August 15, 2003, and negotiate a settlement of any findings, presumably for mis-assignment of direct, non-DHL costs. However, management and its legal advisors have determined that the arbitrators ruling does not provide such an award. Instead, the ruling merely calls for an examination of such costs charged to DHL since August 2003 to be used as a guide for prospective allocations of overhead after the threshold for allocating overhead is reached. If DHL persists in its position, the matter may require arbitration or litigation to resolve.

BAX Global

A substantial portion of the Company s revenues, cash flows and liquid resources are also dependent on BAX. Revenues from services performed for BAX were approximately 16% and 15% of consolidated revenues for the three and six month periods ending June 30, 2008, respectively.

The Company s balance sheets include the following balances related to revenue transactions with BAX (in thousands):

	June 30, 2008	December 31, 2007
Assets (Liabilities):		
Accounts receivable	$ 2,515	$ 3,446
Accounts payable	(900)	
Unearned revenue	(15)	
Net asset	$ 1,600	$ 3,446

In March 2008, ATI and CCIA renewed their ACMI agreement with BAX to set prices through February 28, 2009. Under its agreement with BAX, CHI has the right to be the exclusive provider of main deck freighter lift in the BAX U.S. network through December 31, 2011. BAX has the option to buy-out CHI s exclusive rights.

NOTE C MARKETABLE SECURITIES

The marketable securities held by the Company consist of debt securities, which are classified as available-for-sale. As of June 30, 2008 and December 31, 2007, no marketable securities held by the Company have an expected life of over one year. Expected maturities may differ from contractual maturities because the issuers of certain securities may have the right to prepay the obligations without prepayment penalties. At December 31, 2007, the Company held auction-rate securities that it acquired in the CHI acquisition. These securities were redeemed at par in January 2008.

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

	Estimated Fair Market Value	
	June 30, 2008	December 31, 2007
Obligations of U.S. Corporations	$ 1,247	$ 7,893
Obligations of U.S. Government Agencies		3,595
Student Loan Auction-Rate Securities		38,148
Total marketable securities	$ 1,247	$ 49,636

NOTE D INCOME TAXES

The provision for income taxes for interim periods is based on management s best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through June 30, 2008 have been estimated utilizing a 39.5% rate based on year-to-date income and projected results for the full year. The final effective tax rate to be applied to 2008 will depend on the actual amount of pretax book income generated by the Company for the full year.

Due to the unsettled circumstances in the contract between ABX and DHL, the Company is placing a valuation allowance against state net operating loss deferred tax assets (NOL) of $0.6 million. Should DHL move their air transportation to UPS, it is unlikely that ABX would continue to fly to all the states represented by the State NOL deferred tax assets, thus limiting our ability to fully utilize them. As part of this analysis, it was determined that additional State NOL s existed of $0.2 million. These two items are discrete items having a net tax expense of $0.4 million, and decreased the overall effective tax rate for the three months ended June 30, 2008 from 15.4% (308.2%) and increased the effective tax rate for the six months ended June 30, 2008 from 39.5% to 46.3%.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The returns may be subject to examination by the Internal Revenue Service (IRS) and other jurisdictional authorities for years ended December 31, 2003 through 2006. The IRS has concluded its examinations of ABX Air, Inc. s 2003 through 2006 federal income tax returns. The proposed examination results indicate no changes to the taxable income reported on these returns. Federal and state income tax returns of the Company s former parent, Airborne, Inc., are closed through 2002. As part of the separation agreement between ABX and Airborne, Inc., all tax liabilities resulting from returns prior to the August 15, 2003 separation date are the responsibility of Airborne, Inc. or its successors. Any adjustments to these returns could potentially increase or decrease deferred tax assets and liabilities carried over from the separation. The IRS recently notified us that they intend to begin an examination of Cargo Holdings International, Inc. for the tax year ended December 31, 2006.

Under FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) the Company recognizes the impact of a tax position taken on a tax return, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. An uncertain income tax provision is not recognized if it has a less than a 50% likelihood of being sustained. The Company recognizes interest and penalties accrued related to uncertain tax positions in operating expense. During the six months ended June 30, the company reduced its reserve for FIN 48 items included through the CHI acquisition. These changes resulted in a $2.8 million reduction to goodwill and FIN 48 payable. This adjustment included a decrease in accrued interest and penalties of $1.4 million. No other changes have occurred to the balance of unrecognized tax benefits since December 31, 2007, however the Company anticipates completion of the ongoing IRS audits during the next 12 months which will resolve some of the outstanding FIN 48 contingencies.

NOTE E PROPERTY AND EQUIPMENT

At June 30, 2008, the Company s subsidiaries operated 121 aircraft, consisting of 41 Boeing 767, one Boeing 757, 14 Boeing 727, 49 McDonnell Douglas DC-9 and 16 McDonnell Douglas DC-8 aircraft.

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

	June 30, 2008	December 31, 2007
Aircraft and flight equipment	$ 945,225	$ 926,869
Support equipment	50,666	53,450
Vehicles and other equipment	1,859	2,668
Leasehold improvements	1,265	1,230
	999,015	984,217
Accumulated depreciation	(306,782)	(293,404)
Property and equipment, net	$ 692,233	$ 690,813

Property and equipment included $52.1 million of property held under capitalized leases as of June 30, 2008 and $57.8 million as of December 31, 2007. Accumulated depreciation included $14.4 million as of June 30, 2008 and $11.4 million as of December 31, 2007 for capital leases. At June 30, 2008, the Company was marketing to part dealers and operators aircraft and engines totaling $3.8 million, which have been removed from service.

On June 28, 2008, one of ABX s Boeing 767 s experienced a fire prior to engine start. The incident is subject to a National Transportation Safety Board investigation. The cause of the fire is unknown pending results of the investigation. The aircraft is fully insured and the Company is awaiting results of the investigation.

NOTE F GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the six month period ended June 30, 2008, by operating segment, are as follows:

(in thousands)	ACMI	CAM	Total
Balance as of December 31, 2007	$ 142,806	$ 35,848	$ 178,654

Purchase price adjustment	(452)	(113)	(565)
Deferred tax adjustment	(1,520)	(1,373)	(2,893)
Professional fees	134	33	167
Balance as of June 30, 2008	$ 140,968	$ 34,395	$ 175,363

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Information regarding our other intangible assets is as follows:

	As of June 30, 2008			As of December 31, 2007		
(in thousands)	**Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Customer Relationships	$ 27,700	$ 1,318	$ 26,382	$ 27,700	$	$ 27,700
Certificates	4,000		4,000	4,000		4,000
Total	$ 31,700	$ 1,318	$ 30,382	$ 31,700	$	$ 31,700

Intangible assets consisted of $27.7 million for customer relationships and $4.0 million for airline certificates. The customer relationship intangibles amortize over twenty years using an accelerated method while the airline certificates have indefinite lives and therefore are not amortized. Estimated amortization of the customer relationship intangibles for the next five years (in thousands) is $2,637 for 2008, $2,547 for 2009, $2,457 for 2010, $2,357 for 2011 and $2,100 for 2012.

NOTE G LONG TERM OBLIGATIONS

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

	June 30 2008	**December 31 2007**
Unsubordinated term loan	$ 270,000	$ 270,000
Revolving credit facility		26,500
Aircraft loans	110,329	113,543
Capital lease obligations-Boeing 767	58,014	62,967
Capital lease obligations-Boeing 727	21,616	24,492
Promissory note due to DHL	92,276	92,276
Other	899	1,024
Total long-term obligations	553,134	590,802
Less: current portion	(37,235)	(22,815)
Total long-term obligations, net	$ 515,899	$ 567,987

Under a Credit Agreement, the Company has a syndicated, unsubordinated term loan and a revolving credit facility that are collateralized by substantially all the aircraft, property and equipment owned by the Company that are not separately collateralized under aircraft loans or capital leases. Under the Credit Agreement, interest rates are adjusted quarterly based on the Company s earnings before interest, taxes depreciation and amortization and on prevailing LIBOR or prime rates. At June 30, 2008, the unsubordinated term loan bears a variable interest rate of LIBOR (90-day) plus 2.625% (5.408% at June 30, 2008) (see Note K for disclosures of derivative instruments for LIBOR based interest payments). At June 30, 2008, the Company had no outstanding borrowings on the revolving credit facility. The agreement provides for the issuance of letters of credit on the Company s behalf. As of June 30, 2008, the unused revolving credit facility totaled $55.6 million, net of outstanding letters of credit of $19.4 million.

The unsecured promissory note is due in 2028 and bears interest at 5.00% per annum payable semi-annually. Interest on the promissory note is reimbursable under the ACMI agreement without mark-up. The Boeing 767 capital lease obligations are for five Boeing 767 aircraft and consist of two different leases, both expiring in 2011 with options to extend into 2017. The capital lease terms for three of the five aircraft include quarterly principal payments and variable interest of LIBOR plus 2.50% (5.28% at June 30, 2008). The capital lease for the other two Boeing 767 aircraft is at an imputed interest rate of 8.55%. Capital lease obligations for seven Boeing 727 aircraft carry a fixed implicit rate of 6.50% and expire between 2010 and 2012. At the termination of the leases, the Company is subject to normal aircraft return provisions for maintenance of the aircraft. As of June 30, 2008, the aircraft loans are collateralized by seven financed aircraft, have amortizing maturities scheduled through 2018 and bear interest at rates from 6.74% to 7.36% per annum payable monthly.

Under the Credit Agreement, the Company is subject to other expenses, covenants and warranties that are usual and customary. The Credit Agreement contains covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, and the level of annual capital expenditures. The Credit Agreement stipulates events of default including unspecified events that may have material adverse effects on the Company. The conditions of the Credit Agreement and the aircraft loans cross-default.

In August 2008, a subsidiary of the Company invested in the Company s credit facility, effectively reducing the term loan by approximately $47.0 million. By reducing the lead banks unplaced balance of the term note, the escalation of interest rates that might otherwise be necessary to attract lenders to the credit facility, was avoided.

The $92.3 million unsecured promissory note includes certain events of default that would allow the note to be called by DHL. On January 14, 2008, the Company received from DHL a demand for payment in full of the unsecured promissory note. In its demand, DHL asserted 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 unsecured promissory note. The Company s management and legal advisors do not believe a change of control occurred in connection with the CHI acquisition and, accordingly, have disputed DHL s demand. The Company is prepared to litigate against DHL s argument for repayment if necessary. In the event that it should become necessary to repay the note before January 2009, the Company established replacement financing of $61.0 million with certain former shareholders of CHI. The replacement financing agreement expires in January 2009 and would become unavailable if the Company is in default of the Credit Agreement.

NOTE H COMMITMENTS AND CONTINGENCIES

Leases

The Company leases airport facilities and certain operating equipment under long-term operating lease agreements. ABX leases portions of the DHL Air Park and certain sorting equipment from DHL, and these payments are reimbursed to ABX by DHL without mark-up. The terms of such leases expire at the end of the transition period that would follow termination of the ACMI and Hub Services agreements.

Commitments

The Company has contracted with an aircraft maintenance and modification provider to convert aircraft from passenger to freighter configuration. At June 30, 2008, the Company owned three Boeing 767 aircraft that were in various stages of modification from passenger to standard freighter configuration. The Company anticipates costs of $17.7 million to complete the modification of these aircraft. Additionally, the Company is committed to purchase another Boeing 767 for approximately $23.5 million after the aircraft is completely modified to freighter configuration in 2009. The Company sold certain engines to a vendor for $4.3 million and has committed to lease engines from the vendor for $7.1 million over the next five to six years.

Guarantees and Indemnifications

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

Legal Proceedings

Arbitration under the ACMI Agreement and the 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 sought 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 ASTAR.

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

An arbitration hearing was held from May 19-23, 2008 and on June 13, 2008. Thereafter, on July 15, 2008, the arbitration panel issued an award holding that (i) DHL had failed to demonstrate that ABX had incorrectly treated the reimbursement for its fuel expenditures as revenue under Generally Accepted Accounting Principles, and therefore ABX s revenues from sources other than DHL did not exceed 10% of its total revenues during the second quarter of 2007, (ii) the costs incurred by ABX in maintaining its status as a public company are reimbursable under the Agreements, (iii) the 10% threshold had been crossed on January 1, 2008, in conjunction with the acquisition of CHI, and the parties are therefore required to begin negotiating in good faith a reasonable allocation of overhead costs attributable to ABX s third-party business, (iv) ABX is solely responsible for expenses it incurred to consider and analyze an expression of interest from ASTAR in acquiring ABX, and to prepare and complete the acquisition of CHI at year-end 2007, and (v) DHL s withholding of $8.8 million in payments to ABX for a 10-day period last November was not a material default under the Agreements. See Note B to the consolidated financial statements of this report for additional information.

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 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. While ABX believes it has adequately reserved for potential losses stemming from the investigation, it s possible that, in the event proceedings were initiated against ABX that resulted in an adverse finding, ABX could be subjected to a financial penalty that is materially greater than the amount it has accrued and restrictions on its ability to engage in business with agencies of the U.S. Government.

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 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, which was subsequently granted on March 25, 2008, with respect to DHL and ABX. On March 24, 2008, the total of three current and former executives and managers of ABX filed an answer denying the allegations in the complaint.

Other

In addition to the foregoing matters, the Company is also currently a party to legal proceedings in various federal and state jurisdictions arising out of the operation of their business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, the Company believes that their 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 their financial condition or results of operations.

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NOTE I COMPONENTS OF NET PERIODIC BENEFIT COST

ABX sponsors a qualified defined benefit pension plan for its flight crewmembers and a qualified defined benefit pension plan for its other employees that meet minimum eligibility requirements. ABX also sponsors non-qualified defined benefit pension plans for certain employees. These non-qualified plans are unfunded. ABX also sponsors a post-retirement healthcare plan, which is unfunded.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates on our post-retirement costs. The Company s net periodic benefit cost for its qualified defined benefit pensions and post-retirement healthcare plans are as follows (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	Pension Plans	Post-retirement Healthcare Plan	Pension Plans	Post-retirement Healthcare Plan