

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1998-03-27** | Period of Report: **1997-12-31**

SEC Accession No. [0000003000-98-000007](#)

([HTML Version](#) on [secdatabase.com](#))

FILER

AIRBORNE FREIGHT CORP /DE/

CIK:**3000** | IRS No.: **910837469** | State of Incorpor.:**DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **001-06512** | Film No.: **98576753**
SIC: **4513** Air courier services

Business Address
P O BOX 662
SEATTLE WA 98111
2062854600

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

<TABLE>

<S>	<C>
For the fiscal year ended	Commission file number
December 31, 1997	1-6512

</TABLE>

AIRBORNE FREIGHT CORPORATION
(Exact name of registrant as specified in its charter)

<TABLE>

<S>	<C>
Delaware	91-0837469
(State of Incorporation)	(I.R.S. Employer Identification No.)

</TABLE>

Airborne Freight Corporation
3101 Western Avenue
P.O. Box 662
Seattle, WA 98111
(Address of principal executive offices)

Registrant's telephone number including area code: 206-285-4600

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

<TABLE>

<S>	<C>
Title of each class	Name of each Exchange on which Registered
-----	-----
Common Stock, Par Value \$1.00 per share	New York Stock Exchange Pacific Stock Exchange
Rights to Purchase Series A Participating Cumulative Preferred Stock	New York Stock Exchange Pacific Stock Exchange

</TABLE>

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

NONE

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. (X)

As of February 23, 1998, 50,116,274 shares (net of 512,078 treasury shares) of the registrant's Common Stock were outstanding and the aggregate market value of the voting stock held by non-affiliates of the registrant (based on the closing price on that date on the New York Stock Exchange) was approximately \$1,873,316,338. (1)

Documents Incorporated by Reference

Portions of the 1997 Annual Report to Shareholders are incorporated by reference into Part I and Part II.

Portions of the Proxy Statement for the 1998 Annual Meeting of Shareholders to be held April 28, 1998 are incorporated by reference into Part III.

- (1) Excludes value of shares of Common Stock held of record by non-employee directors and executive officers at February 23, 1998. Includes shares held by certain depository organizations. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or is under common control with the registrant.

AIRBORNE FREIGHT CORPORATION
1997 FORM 10-K ANNUAL REPORT

Table of Contents

<TABLE>

<CAPTION>

	Page

<S>	<C>
	Part I
Item 1.	Business
Item 2.	Properties
Item 3.	Legal Proceedings
	1
	9
	9

Item 4.	Submission of Matters to a Vote of Security Holders	9
Item 4a.	Executive Officers of the Registrant	10

Part II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	11
Item 6.	Selected Financial Data	11
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 8.	Financial Statements and Supplementary Data	11
Item 9.	Changes in and disagreements with Accountants on Accounting and Financial Disclosure	11

Part III

Item 10.	Directors and Executive Officers of the Registrant	12
Item 11.	Executive Compensation	12
Item 12.	Security Ownership of Certain Beneficial Owners and Management	12
Item 13.	Certain Relationships and Related Transactions	12

Part IV

Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	13
----------	--	----

</TABLE>

PART I

ITEM 1. BUSINESS

a) General Development of Business

Airborne Freight Corporation (herein referred to as "Airborne Express" or the "Company", which reference shall include its subsidiaries and their assets and operations, unless the context clearly indicates otherwise) was incorporated in Delaware on May 10, 1968. The Company is an air express company and air freight forwarder that expedites shipments of all sizes to destinations throughout the United States and most foreign countries. The Company was formed in 1968 through the merger of two established freight forwarders, Airborne Freight Corporation and Pacific Air Freight.

The Company holds a certificate of registration issued by the United States Patent and Trademark Office for the service mark AIRBORNE EXPRESS.

Most public presentation of the Company carries this name. The purpose of using this trade name is to more clearly communicate to the market place the primary nature of the business of the Company.

ABX Air, Inc., the Company's principal wholly-owned subsidiary (herein referred to as "ABX"), was incorporated in Delaware on January 22, 1980. ABX provides domestic express cargo service and cargo service to Canada. The Company is the sole customer of ABX for this service. ABX also offers limited charter service.

b) Financial Information about Industry Segments

None

c) Narrative Description of Business

Airborne Express provides door-to-door express delivery of small packages and documents throughout the United States and to and from most foreign countries. The Company also acts as an international and domestic freight forwarder for shipments of any size. The Company's strategy is to be the low cost provider of express services for high volume corporate customers.

Domestic Operations

The Company's domestic operations, supported by approximately 285 facilities, primarily involve express door-to-door delivery of shipments weighing less than 100 pounds. Shipments consist primarily of business documents and other printed matter, electronic and computer parts, software, machine parts, health care items, films and videotapes, and other items for which speed and reliability of delivery are important.

The Company's primary service is its Overnight Express product. This product, which comprised approximately 58% of the Company's domestic shipments during 1997, generally provides for before noon delivery on the next business day to most metropolitan cities in the United States. The Company also provides Saturday and holiday pickup and delivery service for most cities.

The Company also offers two deferred service products, Next Afternoon Service (NAS) and Second Day Service (SDS). NAS is available for shipments weighing five pounds or less and SDS is offered for shipments of all weights. Deferred service shipments, which comprised approximately 42% of domestic shipments during 1997, are lower priced than the Overnight Express product reflecting the less time sensitive nature of the shipments. NAS rates are generally higher than SDS rates.

While the Company's domestic airline system is designed primarily to handle express shipments, any available capacity is also utilized to carry shipments which the Company would normally move on other carriers in its role as an air freight forwarder.

Communications System

FOCUS (Freight On-line Control and Update System) is a proprietary communications system which provides real time information for purposes of tracking and providing the status of customer shipments as well as monitoring the performance of the Company's operational systems. The Company's facilities and international agents are linked to FOCUS and provide information on the status and location of customer shipments 24 hours a day. Some information is provided to FOCUS through the use of hand-held scanners which read bar-codes on the shipping documents. FOCUS allows customers access to shipment information through either direct dial-in capabilities or through the Company's website on the Internet.

FOCUS provides the Company's personnel with important information for use in coordinating its operational activities. Information regarding Company-operated aircraft arrivals and departures, weather, and documentation requirements for shipments destined to foreign locations are several examples of the information maintained and provided by FOCUS.

Pickup and Delivery

The Company accomplishes its door-to-door pickup and delivery service using approximately 14,300 radio-dispatched delivery vans and trucks, of which approximately 5,700 are owned by the Company. Independent contractors under contract with the Company provide the balance of the pickup and delivery services.

Because convenience is an important factor in attracting business from less frequent shippers, the Company has an ongoing program to place drop boxes in convenient locations. The Company has approximately 12,600 boxes in service.

Sort Facilities

The Company's main sort center is located in Wilmington, Ohio. As express delivery volume has increased, the main sort center has been expanded. The sort center currently has the capacity to handle approximately 1,095,000 pieces during the primary 3 hour nightly sort operation. On average, approximately 972,000 pieces were sorted each weekday night at the sort center during the fourth quarter of 1997.

In addition to the main sort facility at Wilmington, nine regional hub facilities have been established primarily to sort shipments originating and having a destination within approximately a 300 mile radius of a regional hub.

The Company also conducts a day sort operation at Wilmington which services SDS shipments. The day sort generally receives SDS shipments

through a combination of flights and trucks originating from either regional hub or station facilities.

The operation of the Wilmington facility is critical to the Company's business. The inability to use the Wilmington airport, because of bad weather or other factors, would have a serious adverse effect on the Company's service. However, contingency plans, including landing at nearby airports and transporting packages to and from the sort center by truck, can be implemented to address, in part, temporary inaccessibility of the Wilmington airport.

In the fourth quarter of 1997, approximately 51% and 22% of total shipment weight was handled through the night sort and day sort operations at Wilmington, respectively, with the remaining 27% being handled exclusively by the regional hubs.

Shipment Routing

The logistics of moving a shipment from its origin to destination is determined by several factors. Shipments are routed differently depending on shipment product type, weight, geographic distances between origin and destination, and locations of Company stations relative to the locations of sort facilities. Shipments generally are moved between stations and sort facilities on either Company aircraft or contracted trucks. A limited number of shipments are transported airport-to-airport on commercial air carriers.

Overnight Express shipments and NAS shipments are picked up by local stations and generally consolidated with other stations' shipments at Company airport facilities. Shipments that are not serviced through regional hubs are loaded on Company aircraft departing each weekday evening from various points within the United States and Canada. These aircraft may stop at other airports to permit additional locations and feeder aircraft to consolidate their cargo onto the larger aircraft before completing the flight to the Wilmington hub. The aircraft are scheduled to arrive at Wilmington between approximately 11:30 p.m. and 3:00 a.m. at which time the shipments are sorted and reloaded. The aircraft are scheduled to depart before 6:00 a.m. and return to their applicable destinations in time to complete scheduled next business morning or deferred service commitments. The Wilmington hub also receives shipments via truck from selected stations in the vicinity of the Wilmington hub for integration with the nightly sort process.

The day sort operation for SDS shipments is supported by 12 aircraft that return to Wilmington from overnight service destinations on Tuesday through Thursday. These aircraft, and trucks from six regional hubs, arrive at Wilmington between 10:00 a.m. and 2:00 pm, at which time shipments are sorted and reloaded on the aircraft or trucks by 3:30 p.m. for departure and return to their respective destinations.

The Company also performs weekend sort operations at Wilmington to accommodate Saturday pickups and Monday deliveries of both Overnight Express and deferred service shipments. This sort is supported by 15 Company aircraft and by trucks.

Aircraft

The Company currently utilizes used aircraft manufactured in the late 1960s and early 1970s. Upon acquisition, the aircraft are modified by the Company. At the end of 1997, the Company's in-service fleet consisted of a total of 105 aircraft, including 36 McDonnell Douglas DC-8s (consisting of 13 series 61, 6 series 62 and 17 series 63) and 69 DC-9s (consisting of 2 series 10, 43 series 30 and 24 series 40). In 1997, the Company sold its 9 YS-11 turboprop aircraft which completed the planned phase out of this smaller aircraft. The Company owns the majority of the aircraft it operates, but in 1989 and 1990 completed sale-leaseback transactions with respect to six DC-8 and six DC-9 aircraft. In addition, approximately 70 smaller aircraft are chartered nightly to connect small cities with Company aircraft that then operate to and from Wilmington.

In late 1995, the Company agreed to purchase 12 used Boeing 767-200s between the years 1997 and 2000. The Company also plans to pursue the acquisition of 10 to 15 additional used 767-200's between the years 2000 and 2004. This newer generation of aircraft should increase operating efficiency and allow the Company to meet anticipated demand for additional lift capacity. There are no plans to retire any aircraft as a result of these acquisitions, although retirement is an option if shipment growth does not require the added capacity. The Company took delivery of 2 767's in 1997 and expects to take delivery of an additional 4 767's in 1998. In 1998, 5 of these aircraft are planned to be placed in service following completion of necessary modifications.

During 1997, the nightly lift capacity of the system was increased by approximately 38,000 pounds, reaching 3.8 million pounds at December 31, 1997. During 1997, the Company's average utilization of available lift capacity approximated 77%.

In response to increased public awareness regarding the operation of older aircraft, the Federal Aviation Administration ("FAA") periodically mandates additional maintenance requirements for certain aircraft, including the type operated by the Company. In recent years, the Company has completed, and continues to perform, a number of inspection and maintenance programs pertaining to various Airworthiness Directives issued

by the FAA. The FAA could, in the future, impose additional maintenance requirements for aircraft and engines of the type operated by the Company or interpret existing rules in a manner which could have a material effect on the Company's operations and financial position.

In accordance with federal law and FAA regulations, only subsonic turbojet aircraft classified as Stage 2 or 3 by the FAA may be operated in the United States. Generally, Stage 3 aircraft produce less noise than comparable Stage 2 aircraft.

In 1990, Congress passed the Airport Noise and Capacity Act of 1990 (the "Noise Act"). Among other things, the Noise Act generally requires turbojet aircraft weighing in excess of 75,000 pounds and operating in the United States (the type of DC-8 and DC-9 aircraft operated by the Company) to comply with Stage 3 noise emission standards on or before December 31, 1999. In accordance with the Noise Act, the FAA has issued regulations establishing interim compliance deadlines. These rules require air carriers to reduce the base level of Stage 2 aircraft they operate 75% by December 31, 1998. As of December 31, 1997, the Company had complied with interim compliance deadlines, and the Company expects to meet or exceed the December 31, 1998 interim compliance deadline. As of December 31, 1997, 71% of the Company's turbojet aircraft in service (27 DC-8 and 48 DC-9 aircraft) were Stage 3, the balance being Stage 2. The 767-200 aircraft meet Stage 3 requirements and will not require noise compliance modifications prior to being placed in service. In addition to FAA regulation, certain local airports also regulate noise compliance. See "Business - Regulation".

The Company, in conjunction with several other companies, has developed noise suppression technology known as hush kits for its DC-9 series aircraft which have been certified to meet FAA Stage 3 requirements. The capital cost for Stage 3 hush kits is approximately \$1.5 million for each DC-9 series aircraft. The Company has installed hush kits which satisfy Stage 3 compliance requirements on all of its DC-8-62 and DC-8-63 series aircraft and four of its 13 DC-8-61 series aircraft. The capital cost to modify the Company's remaining DC-8-61 aircraft to meet Stage 3 noise standards is approximately \$5.8 million per aircraft.

International Operations

The Company provides international express door-to-door delivery and a variety of freight services. These services are provided in most foreign countries on an inbound and outbound basis through a network of Airborne offices and independent agents. Most international deliveries are accomplished within 24 to 96 hours of pickup.

The Company's domestic stations are staffed and equipped to handle international shipments to or from almost anywhere in the world. In addition to its extensive domestic network, the Company operates its own offices in the Far East, Australia, New Zealand, and the United Kingdom. The Company's freight and express agents worldwide are connected to FOCUS, Airborne's on-line communication network, through which the Company can provide its customers with immediate access to the status of shipments

almost anywhere in the world.

The Company's international air express service is intended for the movement of non dutiable and certain dutiable shipments weighing less than 99 pounds. The Company's international air freight service handles heavier weight shipments on either an airport-to-airport, door-to-airport or door-to-door basis. The Company also offers ocean service capabilities for customers who want a lower cost shipping option.

4

The Company's strategy is to use a variable-cost approach in delivering and expanding international services to its customers. This strategy uses existing commercial airline lift capacity in connection with the Company's domestic network to move shipments to and from overseas destinations and origins. Additionally, service arrangements with independent freight and express agents have been entered into to accommodate shipments in locations not currently served by Company-owned operations. The Company currently believes there are no significant service advantages which would justify the operation of its own aircraft on international routes, or making significant investment in additional offshore facilities or ground operations. In order to expand its business at a reasonable cost, the Company continues to explore possible joint venture agreements which combine the Company's management expertise, domestic express system and information systems with local business knowledge and market reputation of suitable partners. Joint venture operations currently exist in Japan, Thailand, Malaysia, the Netherlands, and South Africa.

Customers and Marketing

The Company's primary domestic strategy focuses on express services for high volume corporate customers. Most high volume customers have entered into service agreements providing for specified rates or rate schedules for express deliveries. As of December 31, 1997, the Company serviced approximately 550,000 active customer shipping locations.

The Company determines prices for any particular domestic express customer based on competitive factors, anticipated costs, shipment volume and weight, and other considerations. The Company believes that it generally offers prices that are competitive with, or lower than, prices quoted by its principal competitors for comparable services.

Internationally, the Company's marketing strategy is to target the outbound express and freight shipments of U.S. corporate customers, and to sell the inbound service of the Company's distribution capabilities in the United States.

Both in the international and domestic markets, the Company believes

that its customers are most effectively reached by a direct sales force and, accordingly, does not currently engage in mass media advertising. Domestic sales representatives are responsible for selling both domestic and international express shipments. In addition, the International Division has its own dedicated direct sales organization for selling international freight service.

The Company's sales force currently consists of approximately 325 domestic representatives and approximately 80 international specialists. The Company's sales efforts are supported by the Marketing and International Divisions, based at the Company headquarters. Senior management is also active in marketing the Company's services to major accounts.

Value-added services continue to be important factors in attracting and retaining customers. Accordingly, the Company is automating more of its operations to make the service easier for customers to use and to provide them with valuable management information. The Company believes that it is generally competitive with other express carriers in terms of reliability, value-added services and convenience.

For many of its high volume customers, the Company offers a metering device, called LIBRA (SM), which is installed at the customer's place of business. With minimum data entry, the metering device weighs the package, calculates the shipping charges, generates the shipping labels, provides custom shipping reports, and enables the customer to track the exact status of shipments in Airborne's FOCUS shipping and tracking system. At year end 1997, the system was in use at approximately 10,800 domestic customer locations and 900 international customer locations. Use of LIBRA not only benefits the customer, but also lowers the Company's operating costs, since LIBRA shipment data is transferred into the Airborne FOCUS system automatically, thus avoiding duplicate data entry.

5

"Customer Linkage", an electronic data interchange ("EDI") program developed for Airborne's highest volume shippers, allows customers, with their computers, to create shipping documentation at the same time they are entering orders for their goods. At the end of each day, shipping activities are transmitted electronically to the Airborne FOCUS system where information is captured for shipment tracking and billing purposes. Customer Linkage benefits the customer by eliminating repetitive data entry and paperwork and also lowers the Company's operating costs by eliminating manual data entry. EDI also includes electronic invoicing and payment remittance processing. The Company also has available a software program known as QUICKLINK, which significantly reduces programming time required by customers to take advantage of linkage benefits.

The Company offers customers PC-based software designed to improve their productivity and provide convenient access to the Company's various services. LIGHTSHIPr TRACKER, the Company's first product, allows customers, working from their PCs, to view the status of and receive

information regarding their shipments.

In 1997, the Company released LIGHTSHIP SHIPPER which allows customers to obtain estimated shipping rates and delivery times, fill out and print shipping labels, schedule pickups, and track the status of their shipments. In 1998, the Company released LIGHTSHIP Shipping and Tracking Software for Windowsr which combines the benefits of previous LIGHTSHIP software and adds additional features designed to improve customer productivity.

The Company maintains an Internet website, www.airborne.com, which provides customers a global connection to Airborne's services. The website allows customers to track the status of their shipments, obtain information regarding the Company's service offerings and documentation requirements, in addition to providing other useful information about the Company.

The Company offers a number of special logistics programs to customers through Airborne Logistics Services ("ALS"), a division of ABX Air, Inc. ALS operates the Company's Stock Exchange and Hub Warehousing and other logistics programs. These programs provide customers the ability to maintain centralized inventories which can be managed either by Company or customer personnel. Items inventoried at Wilmington can be delivered utilizing either the Company's airline system or, if required, commercial airlines on a next-flight-out basis. ALS' Central Print program allows information to be sent electronically to customer computers located at Wilmington where Company personnel monitor printed output and ship the material according to customer instructions. ALS also provides international inventory and distribution logistic services through a logistics partner with bases in the Netherlands, Belgium, Germany, and England.

In addition, the Company's Sky Courier operation provides expedited next-flight-out service at premium prices. Sky Courier also offers a Field Stock Exchange program where customer inventories are managed at over 60 locations around the United States and Canada.

The Company has obtained ISO 9000 certification for its Chicago, Philadelphia and London stations and its Seattle Headquarters. ISO 9000 is a program developed by the International Standards Organization ("ISO"), based in Geneva, Switzerland. This organization provides a set of international standards on quality management and quality assurance presently recognized in over 90 countries. The certification is an asset in doing business worldwide and provides evidence of the Company's commitment to excellence and quality.

Competition

The market for the Company's services has been and is expected to remain highly competitive. The principal competitive factors in both domestic and international markets are price, the ability to provide reliable pickup and delivery, and value-added services.

Federal Express continues to be the dominant competitor in the domestic air express business, followed by United Parcel Service. Airborne Express ranks third in shipment volume behind these two companies in the domestic express business. Other domestic air express competitors include the U.S. Postal Service's Express Mail Service and several other transportation companies offering next morning or next-plane-out delivery service. The Company also competes to some extent with companies offering ground transportation services and with facsimile and other forms of electronic transmission.

The Company believes it is important to maintain an active capital expansion program to increase capacity, improve service and increase productivity as its volume of shipments increases. However, the Company has significantly less capital resources than its two primary competitors.

In the international markets, in addition to Federal Express and United Parcel Service, the Company competes with DHL, TNT, and air freight forwarders and carriers, and most commercial airlines.

Employees

As of December 31, 1997, the Company and its subsidiaries had approximately 13,500 full-time employees and 9,000 part-time and casual employees. Approximately 6,500 full-time employees (including the Company's 730 pilots) and 3,800 part-time and casual employees are employed under union contracts, primarily with locals of the International Brotherhood of Teamsters and Warehousemen.

Labor Agreements

Labor agreements covering approximately 70% of the Company's union ground personnel will expire in 1998, with the balance expiring in 1999. The Company's pilots are covered by a contract which becomes amendable on July 31, 2001. Although the Company has not experienced any significant disruption from labor disputes in the past, there can be no assurance that the labor agreements covering ground personnel will be renewed on favorable terms.

Subsidiaries

The Company has the following wholly-owned subsidiaries:

1. ABX Air, Inc., a Delaware corporation, is a certificated air carrier which owns and operates the Company's domestic express cargo service. Its wholly-owned subsidiaries with operating activities are as follows:

- a) Wilmington Air Park, Inc., an Ohio corporation, is the owner of the Wilmington airport property (Airborne Air Park).

- b) Airborne FTZ, Inc., an Ohio corporation, is the holder of a foreign trade zone certificate at the Wilmington airport property and owns and manages the Company's expendable aircraft parts inventory.
 - c) Aviation Fuel, Inc., an Ohio corporation, purchases and sells aviation and other fuels.
- 2. Airborne Forwarding Corporation, a Delaware corporation doing business as Sky Courier, provides expedited courier service.
 - 3. Airborne Freight Limited, a New Zealand corporation, provides air express and air freight services.

Regulation

The Company's operations are regulated by the United States Department of Transportation ("DOT"), the FAA, and various other federal, state, local and foreign authorities.

The DOT, under federal transportation statutes, grants air carriers the right to engage in domestic and international air transportation. The DOT issues certificates to engage in air transportation and has the authority to modify, suspend or revoke such certificates for cause, including failure to comply with federal law or the DOT regulations. The Company believes it possesses all necessary DOT-issued certificates to conduct its operations.

The FAA regulates aircraft safety and flight operations generally, including equipment, ground facilities, maintenance, flight dispatch, security procedures, training, communications, and other matters affecting air safety. The FAA issues operating certificates and operations specifications to carriers who possess the technical competence to conduct air carrier operations. In addition, the FAA issues certificates of airworthiness to each aircraft which meets the requirements for aircraft design and maintenance. The Company believes it holds all airworthiness and other FAA certificates required for the conduct of its business, although the FAA has the power to suspend or revoke such certificates for cause, including failure to comply with federal law.

The FAA has authority to issue maintenance directives and other mandatory orders relating to, among other things, inspection of aircraft

and replacement of parts that have failed or may fail in the future. For example, the FAA has commenced an inspection of DC-8 aircraft of the type operated by the Company to determine if certain of the aircraft structures which were originally designed for passenger carriage are adequate for the carriage of cargo. The DC-9 may in the future also be subject to FAA inspection. If the FAA were to determine the aircraft structures are not adequate it could order operators to either reduce cargo loads or otherwise strengthen any structure shown to be inadequate.

In addition to the issuance of mandatory directives, the FAA from time to time may amend its regulations thereby increasing regulatory burdens on air carriers. For example, the FAA can order the installation or enhancement of safety related aircraft equipment.

Depending on the scope of the FAA's orders or amended regulations, these requirements may cause the Company to incur substantial, unanticipated expenses.

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 Noise Act provides that in the case of Stage 2 aircraft restrictions, the airport operator must notify air carriers of its intention to propose rules and satisfy the requirements of federal statutes before implementation of the rules or in the case of Stage 3 aircraft, the airport operator must obtain the carriers' or the governments' approval of the rule prior to its adoption. The Company believes the operation of its aircraft either complies with or is exempt from compliance with currently applicable local airport rules. However, if more stringent aircraft operating regulations were adopted on a widespread basis, the Company might be required to expend substantial sums, make schedule changes or take other actions.

The Company's aircraft currently meet all known requirements for emission levels. However, under the Clean Air Act, individual states or the Federal Environmental Protection Agency (the "EPA") may adopt regulations requiring the reduction in emissions for one or more localities based on the measured air quality at such localities. The EPA has in the past proposed but not adopted regulations for portions of California calling for emission reductions through 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 the Company.

Under currently applicable federal aviation law, the Company's airline subsidiary could cease to be eligible to operate as an all-cargo carrier if more than 25% of the voting stock of the Company were owned or controlled by non-U.S. citizens or the airline were not effectively controlled by U.S. citizens. Moreover, in order to hold an all-cargo air carrier certificate, the president and at least two-thirds of the directors and officers of an

air carrier must be U.S. citizens. To the best of the Company's knowledge, foreign stockholders do not control more than 25% of the outstanding voting stock. Two of the Company's 43 officers are not U.S. citizens.

The Company believes that its current operations are substantially in compliance with the numerous regulations to which its business is subject; however, various regulatory authorities have jurisdiction over significant aspects of the Company's 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 the Company's operations.

Financial Information Regarding International and Domestic Operations

Financial information relating to foreign and domestic operations for each of the three years in the period ended December 31, 1997 is presented in Note L (Segment Information) of the Notes to Consolidated Financial Statements appearing in the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 2. PROPERTIES

The Company leases general and administrative office facilities located in Seattle, Washington.

At year end the Company maintained approximately 285 domestic and 40 foreign stations, most of which are leased. The majority of the facilities are located at or near airports.

The Company owns the airport at the Airborne Air Park, in Wilmington, Ohio. The airport currently consists of two runways, taxi-ways, aprons, buildings serving as aircraft and equipment maintenance facilities, sort facilities, storage facilities, a training center, and operations and administrative offices.

The Company believes its existing facilities are adequate to meet current needs.

Information regarding collateralization of certain property and lease commitments of the Company is set forth in Notes F and G of the Notes to Consolidated Financial Statements appearing in the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 4a. EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>

<CAPTION>

Name	Age	Positions and Offices Presently Held and Business Experience
----	---	-----
<S>	<C>	<C>
Robert S. Cline	60	Chairman and Chief Executive Officer (1984 to date); Vice Chairman and Chief Financial Officer (1978 to 1984); Executive Vice President and Chief Financial Officer (1973 to 1978); Senior Vice President, Finance (1970 to 1973); Vice President, Finance (1968 to 1970); Vice President, Finance, Pacific Air Freight, Inc. (1966 to 1968)
Robert G. Brazier	60	President and Chief Operating Officer (1978 to date); Executive Vice President and Chief Operating Officer (1973 to 1978); Senior Vice President, Operations (1970 to 1973); Vice President, Operations (1968 to 1970); Vice President, Sales and Operations, Pacific Air Freight, Inc. (1964 to 1968)
Roy C. Liljebeck	60	Chief Financial Officer (1984 to date); Executive Vice President, Finance Division (1979 to date); Senior Vice President (1973 to 1979); Treasurer (1968 to 1988)
Kent W. Freudenberger	57	Executive Vice President, Marketing Division (1980 to date); Senior Vice President (1978 to 1980); Vice President (1973 to 1978)
Raymond T. Van Bruwaene	59	Executive Vice President, Field Services Division (1980 to date); Senior Vice

President (1978 to 1980); Vice President
(1973 to 1978)

John J. Cella	57	Executive Vice President, International Division (1985 to date); Senior Vice President, International Division (1982 to 1985); Vice President, International Division (1981 to 1982); Vice President, Far East (1971 to 1981)
Carl D. Donaway	46	President and Chief Executive Officer, ABX Air, Inc. (1992 to date); offices held in the Company: Vice President, Business Analysis (1992); Vice President, Customer Support (1990 to 1992)

</TABLE>

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED ----- STOCKHOLDERS MATTERS -----

The response to this Item is contained in the 1997 Annual Report to Shareholders and the information contained therein is incorporated by reference.

On February 23, 1998 there were 1,184 shareholders of record of the Common Stock of the Company based on information provided by the Company's transfer agent.

ITEM 6. SELECTED FINANCIAL DATA -----

The response to this Item is contained in the 1997 Annual Report to Shareholders and the information contained therein is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND ----- RESULTS OF OPERATIONS -----

The response to this Item is contained in the 1997 Annual Report to Shareholders and the information contained therein is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item is contained in the 1997 Annual Report to Shareholders and the information contained therein is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

None

11

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this Item is contained in part in the Proxy Statement for the 1998 Annual Meeting of Shareholders under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" and the information contained therein is incorporated herein by reference.

The executive officers of the Company are elected annually at the Board of Directors meeting held in conjunction with the annual meeting of shareholders. There are no family relationships between any directors or executive officers of the Company. Additional information regarding executive officers is set forth in Part I, Item 4a.

ITEM 11. EXECUTIVE COMPENSATION

The response to this Item is contained in the Proxy Statement for the 1998 Annual Meeting of Shareholders under the caption "Executive Compensation" and the information contained therein is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this Item is contained in the Proxy Statement for the 1998 Annual Meeting of Shareholders under the captions "Voting at the Meeting" and "Stock Ownership of Management" and the information contained therein is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

12

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)1. Financial Statements

The following consolidated financial statements of Airborne Freight Corporation and its subsidiaries as contained in its 1997 Annual Report to Shareholders are incorporated by reference in Part II, Item 8:

Consolidated Statements of Net Earnings

Consolidated Balance Sheets

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a)2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

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

(a)3. Exhibits

The following exhibits are filed with this report:

EXHIBIT NO. 3 Articles of Incorporation and By-laws

3(a) The Restated Certificate of Incorporation of the Company, dated as of August 4, 1987 (incorporated by reference from Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 1987).

3(b) The By-laws of the Company as amended to February 4, 1997 (incorporated by reference from Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 1996).

EXHIBIT NO. 4 Instruments Defining the Rights of Security Holders

Including Indentures

4(a) Indenture dated as of December 3, 1992, between the Company and The Bank of New York, as trustee, relating to the Company's 8-7/8% Notes due 2002 (incorporated by reference from Exhibit 4(a) to Amendment No. 1 to the Company's Registration Statement on Form S-3, No. 33-54560 filed with

the Securities and Exchange Commission on December 4, 1992).

4(b) First Supplemental Indenture dated as of September 15, 1995, between the Company and The Bank of New York, as trustee, relating to the Company's 7.35% Notes due 2005 (incorporated by reference from Exhibit 4(b) to Amendment No. 1 to the Company's Registration Statement on Form S-3, No. 33-61329, filed with the Securities and Exchange Commission on September 5, 1995).

13

4(c) Second Supplemental Indenture dated as of February 12, 1997 between the Company and The Bank of New York, as trustee, relating to the Company's 8-7/8% Notes due 2002 (incorporated by reference from Exhibit 4(e) to the Company's Form 10-K for the year ended December 31, 1996).

4(d) Rights Agreement, dated as of February 14, 1997 between the Company and The Bank of New York, as Rights Agent (incorporated by reference from Exhibit 1 to the Company's Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on February 12, 1997).

4(e) Certificate of the Voting Powers, Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations or Restrictions of Series A Participating Cumulative Preferred Stock of Airborne Freight Corporation (incorporated by reference from Exhibits 1 and 2 to the Company's Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on February 12, 1997.)

4(f) Form of Right Certificate relating to the Rights Agreement (see 4(d) above, incorporated by reference from Exhibits 2 and 3 to the Company's Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on February 12, 1997.)

EXHIBIT NO. 10 Material Contracts

----- Executive Compensation Plans and Agreements -----

10(a) 1983 Airborne Freight Corporation Key Employee Stock Option and Stock Appreciation Rights Plan, as amended through February 2, 1987 (incorporated by reference from Exhibit 10(c)

to the Company's Form 10-K for the year ended December 31, 1986).

10(b) 1989 Airborne Freight Corporation Key Employee Stock Option and Stock Appreciation Rights Plan (incorporated by reference from Exhibit 10(d) to the Company's Form 10-K for the year ended December 31, 1989).

10(c) 1994 Airborne Freight Corporation Key Employee Stock Option and Stock Appreciation Rights Plan (incorporated by reference from the Addendum to the Company's Proxy Statement for the 1994 Annual Meeting of Shareholders).

10(d) Airborne Freight Corporation 1998 Key Employee Stock Option Plan (incorporated by reference from the Addendum to the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders).

10(e) Airborne Freight Corporations Directors Stock Option Plan (incorporated by reference from the Addendum to the Company's Proxy Statement for the 1991 Annual Meeting of Shareholders).

10(f) Airborne Freight Corporation Director Stock Bonus Plan dated April 23, 1996 (incorporated by reference from Exhibit 10(a) to the Company's Form 10-Q for the quarter ended June 30, 1996).

14

10(g) Airborne Express Executive Deferral Plan dated January 1, 1992 (incorporated by reference from Exhibit 10(b) to the Company's Form 10-K for the year ended December 31, 1991).

10(h) Airborne Express Supplemental Executive Retirement Plan dated January 1, 1992 (incorporated by reference from Exhibit 10(c) to the Company's Form 10-K for the year ended December 31, 1991).

10(i) Airborne Express 1995-1999 Executive Incentive Compensation Plan, amended as of January 1, 1997 (incorporated by reference from Exhibit 10(h) to the Company's Form 10-K for the year ended December 31, 1996).

10(j) Airborne Express 1997-1999 Executive Group Incentive Compensation Plan as of January 1, 1997 (incorporated by reference from Exhibit 10(i) to the Company's Form 10-K for the year ended December 31, 1996).

10(k) Employment Agreement dated December 15, 1983, as amended November 20, 1986, between the Company and Mr. Robert

G. Brazier, President and Chief Operating Officer (incorporated by reference from Exhibit 10(a) to the Company's Form 10-K for the year ended December 31, 1986). Substantially identical agreements exist between the Company and the other six executive officers.

10(l) Employment Agreement dated November 20, 1986 between the Company and Mr. Lanny H. Michael, then Vice President, Treasurer and Controller (incorporated by reference from Exhibit 10(b) to the Company's Form 10-K for the year ended December 31, 1986). The Company and its principal subsidiary, ABX Air, Inc., have entered into substantially identical agreements with most of their officers.

Other Material Contracts

10(m) \$240,000,000 Revolving Loan Facility dated as of November 19, 1993 among the Company, as borrower, and Wachovia Bank of Georgia, N.A., as agent, and Wachovia Bank of Georgia, N.A., ABN AMRO Bank N.V., United States National Bank of Oregon, Seattle-First National Bank, CIBC, Inc., Continental Bank N.A., Bank of America National Trust and Savings Association, The Bank of New York and NBD Bank, N.A., as banks (incorporated by reference from Exhibit 10(k) to the Company's Form 10-K for the year ended December 31, 1993).

10(n) First Amendment to Revolving Loan Facility dated as of March 31, 1995 among the Company, as borrower, and Wachovia Bank of Georgia, N.A., as Agent, and Wachovia Bank of Georgia, N.A., ABN AMRO Bank N.V., United States National Bank of Oregon, Seattle-First National Bank, CIBC, Inc., National City Bank, Columbus, Bank of America National Trust and Savings Association, The Bank of New York, and NBD Bank, N.A., as banks (incorporated by reference from Exhibit 10(a) to the Company's Form 10-Q for the quarter ended March 31, 1995).

10(o) Second Amendment to Credit Agreement dated May 1, 1996 among the Company, as borrower, and Wachovia Bank of Georgia, N.A., as Agent, and Wachovia Bank of Georgia, N.A., ABN AMRO Bank N.V., United States National Bank of Oregon, Bank of America NW, N.A., CIBC, Inc., National City Bank, Columbus, as assignee of Continental Bank N.A., Bank of America National Trust and Savings Association, The Bank of New York and NBD Bank, N.A., as banks (incorporated by reference from Exhibit 10(b) to the Company's Form 10-Q for the quarter ended June 30, 1996).

10(p) Used Aircraft Sales Agreement entered into as of December 22, 1995 between ABX Air, Inc. and KC-One, Inc; KC-Two, Inc.; and KC-Three, Inc. (incorporated by reference from Exhibit 10(n) to the Company's Form 10-K for the year ended December 31, 1996). Confidential treatment has been granted for confidential commercial and financial information,

EXHIBIT NO. 12 Statements Re Computation of Ratios

12 Statement re computation of ratio of total long-term debt
to total capitalization

EXHIBIT NO. 13 Annual Report to Security Holders

13 Portions of the 1997 Annual Report to Shareholders of
Airborne Freight Corporation

EXHIBIT NO. 21 Subsidiaries of the Registrant

21 The subsidiaries of the Company are listed in Part I of
this report on Form 10-K for the year ended December 31, 1997.

EXHIBIT NO. 23 Consents of Experts and Counsel

23 Independent Auditors' Consent

EXHIBIT NO. 27 Financial Data Schedule

27.1 Financial Data Schedule

27.2 Financial Data Schedule

27.3 Financial Data Schedule

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

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AIRBORNE FREIGHT CORPORATION

By /s/ Robert S. Cline

Robert S. Cline
Chief Executive Officer

By /s/ Robert G. Brazier

Robert G. Brazier
Chief Operating Officer

By /s/ Roy C. Liljebeck

Roy C. Liljebeck
Chief Financial Officer

By /s/ Lanny H. Michael

Lanny H. Michael
Treasurer and Controller

Date: March 27, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ Robert G. Brazier

Robert G. Brazier (Director)

/s/ Richard M. Rosenberg

Richard M. Rosenberg (Director)

/s/ Robert S. Cline

Robert S. Cline (Director)

/s/ William Swindells

William Swindells (Director)

/s/ Mary A. Wilderotter

Mary A. Wilderotter (Director)

(In thousands)

<TABLE>

<CAPTION>

Column A -----	Column B -----	Column C -----	Column D -----	Column E -----
Description -----	Balance at Beginning of Period -----	Additions Charged to Costs and Expenses -----	Deductions -----	Balance at End of Period -----
<S>	<C>	<C>	<C>	<C>
DEDUCTED FROM ASSETS TO WHICH THEY APPLY:				
1. Allowance for doubtful accounts -				
Year Ended December 31, 1997	\$8,345	\$21,638	\$19,693	\$10,290
Year Ended December 31, 1996	\$7,750	\$16,157	\$15,562	\$ 8,345
Year Ended December 31, 1995	\$7,500	\$13,309	\$13,059	\$ 7,750

</TABLE>

18

EXHIBIT INDEX

Exhibit Number -----	Description -----
----------------------------	----------------------

EXHIBIT NO. 12 Statements Re Computation of Ratios -----

- 12 Statement re computation of ratio of total long-term debt
to total capitalization

EXHIBIT NO. 13 Annual Report to Security Holders -----

- 13 Portions of the 1997 Annual Report to Shareholders of
Airborne Freight Corporation

EXHIBIT NO. 21 Subsidiaries of the Registrant -----

- 21 The subsidiaries of the Company are listed in Part I of
this report on Form 10-K for the year ended December 31,
1997.

EXHIBIT NO. 23 Consents of Experts and Counsel

23 Independent Auditors' Consent

EXHIBIT NO. 27 Financial Data Schedule

27.1 Financial Data Schedule

27.2 Financial Data Schedule

27.3 Financial Data Schedule

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES

RATIO OF TOTAL LONG-TERM

DEBT TO TOTAL CAPITALIZATION

<TABLE>

<CAPTION>

DECEMBER 31, 1997

(Dollars in thousands)

<S>	<C>
LONG-TERM DEBT:	
Revolving Credit Agreement	\$ --
Money Market Lines of Credit	30,000
Senior Notes	200,000
Refunding Revenue Bonds	13,200
Other	7,740

	250,940
Less Current Portion	381

Total Long-term Debt	\$ 250,559
	=====
TOTAL CAPITALIZATION:	
Long-term Debt	\$ 250,559
Deferred Income Taxes	65,322
Shareholders Equity, Net	670,915

Total Capitalization	\$ 986,796
	=====
RATIO OF TOTAL LONG-TERM DEBT TO TOTAL CAPITALIZATION	25.4%
	=====

</TABLE>

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES
COMMON STOCK AND DIVIDEND INFORMATION

<TABLE>

The Company's common stock is traded on the New York Stock Exchange and the Pacific Stock Exchange under the symbol ABF. The following is a summary of the cash dividends paid and the quarterly trading price ranges of Airborne common stock on the New York Stock Exchange for 1997 and 1996:

<CAPTION>

Quarter -----	High ----	Low ---	Dividend -----
<S>	<C>	<C>	<C>
1997: *			
Fourth	\$37.219	\$25.875	\$.0375
Third	31.219	20.781	.0375
Second	20.938	14.938	.0375
First	15.625	11.375	.0375
1996: *			
Fourth	\$11.688	\$ 9.750	\$.0375
Third	13.438	9.938	.0375
Second	13.750	11.750	.0375
First	14.188	12.500	.0375

</TABLE>

- * References to earnings and dividends per common share, average shares outstanding and trading price information have been restated to reflect the two-for-one stock split of common stock in February 1998.

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

<TABLE>

<CAPTION>

	1997 ----	1996 ----	1995 ----	1994 ----	1993 ----
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING RESULTS:					
Revenues					
Domestic	\$2,514,737	\$2,108,670	\$1,871,163	\$1,660,003	\$1,484,787
International	397,672	375,636	368,188	310,756	235,194
Total	2,912,409	2,484,306	2,239,351	1,970,759	1,719,981
Operating Expenses	2,687,154	2,405,125	2,170,370	1,881,821	1,636,861
Earnings From Operations	225,255	79,181	68,981	88,938	83,120
Interest, Net	27,790	33,236	29,347	24,663	24,093
Earnings Before Income Taxes	197,465	45,945	39,634	64,275	59,027
Income Taxes	77,393	18,500	15,814	25,440	23,738

Net Earnings Before	120,072	27,445	23,820	38,835	35,289
Changes in Accounting					
Cumulative Effect of	--	--	--	--	3,828
Changes in Accounting	-----	-----	-----	-----	-----
Net Earnings	120,072	27,445	23,820	38,835	39,117
Preferred Stock Dividends	--	271	276	894	2,760
	-----	-----	-----	-----	-----
Net Earnings Available	\$ 120,072	\$ 27,174	\$ 23,544	\$ 37,941	\$ 36,357
to Common Shareholders	=====	=====	=====	=====	=====

2

Net Earnings Per Common Share 1					
Basic 2	\$ 2.68	\$.64	\$.56	\$.92	\$.84
	=====	=====	=====	=====	=====
Diluted 2	\$ 2.44	\$.64	\$.55	\$.87	\$.83
	=====	=====	=====	=====	=====
Dividends Per Common Share 1	\$.15	\$.15	\$.15	\$.15	\$.15
	=====	=====	=====	=====	=====
Weighted Average	44,883	42,266	42,100	41,289	38,511
Shares Outstanding 1	=====	=====	=====	=====	=====

FINANCIAL STRUCTURE:

Working Capital	\$ 96,485	\$ 141,457	\$ 91,599	\$ 66,871	\$ 56,521
Property and Equipment	916,331	866,627	842,703	766,346	733,963
Total Assets	1,365,973	1,307,422	1,217,384	1,078,506	1,002,866
Long-term Debt	250,559	409,440	364,621	279,422	269,250
Subordinated Debt	--	115,000	115,000	118,580	122,150
Redeemable Preferred Stock	--	--	3,948	5,000	40,000
Shareholders' Equity	670,915	431,830	406,315	387,398	318,824

NUMBER OF SHIPMENTS:

Domestic	297,032	254,234	225,553	187,460	160,568
International	5,699	5,036	4,592	3,954	3,545
	-----	-----	-----	-----	-----
Total	302,731	259,270	230,145	191,414	164,113
	=====	=====	=====	=====	=====

</TABLE>

1 Per share amounts and average shares outstanding have been restated to reflect a two-for-one stock split completed in February 1998.

2 For 1993, net earnings per common share is shown exclusive of the cumulative effect of adopting accounting standards for income taxes and postretirement benefits. Basic and diluted earnings per share inclusive of the changes were \$.94 and \$.92, respectively.

3

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS:

The Company achieved record operating performance for 1997 as revenues, operating income, and net earnings all attained record levels.

Yield enhancement strategies implemented over the past two years, a more stable pricing environment, and significant productivity improvements were positive factors impacting 1997 operating results.

Net earnings available to common shareholders in 1997 increased to \$120.1 million, or \$2.44 per share on a diluted basis, compared to \$27.2 million, or \$.64 per share in 1996. (All references to earnings per share reflect a two-for-one stock split declared and issued in February 1998 and reflect diluted earnings per share unless otherwise noted.) The 1996 results include a non-recurring charge related to the loss of an aircraft of \$3.7 million, or \$2.2 million on an after-tax basis and \$.05 on a per share basis. Basic earnings per share for 1997 were \$2.68 compared to \$.64 for 1996.

4

<TABLE>

The following table is an overview of the Company's shipments, revenue and weight trends for the last three years:

<CAPTION>

	1997 ----	1996 ----	1995 ----
<S>	<C>	<C>	<C>
Number of Shipments (in thousands):			
Domestic			
Overnight	172,782	146,458	131,037
Next Afternoon Service	53,773	27,937	--
Second Day Service	70,138	79,541	94,199
100 lbs. and Over	339	298	317
	-----	-----	-----
Total Domestic	297,032	254,234	225,553
	-----	-----	-----
International			
Express	5,223	4,500	4,035
Freight	476	536	557
	-----	-----	-----
Total International	5,699	5,036	4,592
	-----	-----	-----
Total Shipments	302,731	259,270	230,145
	=====	=====	=====
Average Pounds Per Shipment:			
Domestic	4.5	4.5	4.6
International	51.2	54.6	62.9
Average Revenue Per Pound:			
Domestic	\$ 1.89	\$ 1.83	\$ 1.80
International	\$ 1.35	\$ 1.34	\$ 1.28
Average Revenue Per Shipment:			
Domestic	\$ 8.45	\$ 8.25	\$ 8.24
International	\$ 69.78	\$ 74.59	\$ 80.18

</TABLE>

5

During 1997, various events occurred in the first three quarters that enhanced operating results. The Company's operating results in the third quarter of 1997 were positively impacted by the additional shipment volume handled as the result of a strike at United Parcel Service (UPS) during August. The Company estimates the incremental revenues realized were \$50 to \$55 million, and that the impact on earnings per share was in the range of \$.28 to \$.30. These are estimates that can only be arrived at by assuming what level of business the Company would have handled had there been no strike at UPS. Domestic revenues in 1997 included \$15.5 million of fuel surcharge revenue realized as the result of a surcharge that was effective from mid-February until July 1. This surcharge revenue accounted for approximately \$.15 per share in 1997. Also, the absence of the Federal Aviation Excise Tax, which was not in effect from January 1 through March 6, 1997, had a beneficial impact on earnings per share of \$.05. The cumulative effect of these items is estimated to have added \$.47 to \$.50 to annual earnings per share. However, even without the benefit of these items, the Company experienced a record year. The operating results and trends discussed below include the impacts related to the strike, fuel surcharge, and excise tax matters.

Total revenues increased 17.2% in 1997, 10.9% in 1996, and 13.6% in 1995. Shipment volume grew to 303 million units in 1997 increasing 16.8%, compared to a 12.7% increase in 1996 and 20.2% in 1995.

Domestic revenue increased 19.3% in 1997 on shipment growth of 16.8%, compared to revenue growth of 12.7% in both 1996 and 1995, and shipment growth of 12.7% and 20.3% in 1996 and 1995, respectively. Domestic revenue growth for 1997 continued to be positively impacted by strong growth in higher yielding overnight shipments, the continued focus on yield enhancement, and a stable pricing environment. As a result, the percentage growth in domestic revenues exceeded the percentage growth in domestic shipments, and the average revenue per domestic shipment increased 2.4% to \$8.45 for 1997. Also, the average weight per domestic shipment for 1997 of 4.5 pounds was, except for the UPS strike period, stable for each quarter of the year and comparable to the average weight achieved in 1996.

Overnight shipments accounted for over 58.2% of total domestic shipments in 1997 compared to 57.6% in 1996 and 58.1% in 1995. The higher yielding overnight shipments increased 18.0% in 1997 compared to 11.8% in 1996. The strong growth in the overnight product had a positive impact on domestic revenue growth. The Company's deferred service products increased 15.3% on a combined basis in 1997 compared to 14.1% in 1996. Beginning in 1995 and continuing into 1996, the Company redefined its deferred service product through the creation of two distinct levels of service, Next Afternoon Service (NAS) and Second Day Service (SDS), replacing the Select Delivery Service category. This redefinition was not completed until late 1996, which makes comparison of separate NAS and SDS results for 1997 to 1996 not meaningful.

International revenue increased 5.9% in 1997 on shipment growth of 13.2% compared to revenue growth of 2.0% and 18.5% and shipment growth of 9.7% and 16.1% in 1996 and 1995, respectively. International revenue per shipment and weight per shipment in 1997 decreased compared to last year as a result of the continued decrease in higher yielding freight shipments in 1997 compared to 1996. The international contribution to earnings from operations were \$5.6 million in 1997 compared to \$7.4 million in 1996, and \$1.2 million in 1995.

OPERATING EXPENSES are affected by shipment volume, productivity improvements, costs incurred to increase capacity and expand service, fuel price volatility and discretionary items such as the level of marketing expenditures. Operating expenses as a percentage of revenues were 92.3% in

1997 compared to 96.8% in 1996 and 96.9% in 1995. Measuring cost performance on a per shipment basis, total operating expenses per shipment declined 4.3% in 1997 to \$8.88, compared to \$9.28 in 1996 and \$9.43 in 1995. The Company achieved a 10.2% improvement in productivity in 1997, as measured by shipments handled per paid employee hour, compared to 1.9% improvement in 1996 and 7.3% in 1995. A strong focus on cost control, productivity improvements, quality improvement programs, along with the added volume from the UPS strike, were significant factors having an impact on 1997 operating costs.

Transportation purchased decreased as a percentage of revenues to 31.7% in 1997 compared to 33.3% in 1996 and 35.2% in 1995. This expense category consists primarily of commercial airline costs, cartage costs related to contracted pick-up and delivery, and trucking costs. The decrease in 1997 is primarily due to two factors. Commercial airline costs were lower as a percentage of total revenues due to the decline in international freight shipments and cartage costs were lower as a percentage of revenue due to strong cost per unit improvement. Also, the Federal Aviation Excise Tax was suspended on January 1, 1996 and re-implemented effective August 27, 1996. The tax then expired on December 31, 1996 until it was reinstated March 7, 1997. This resulted in the avoidance of cost associated with the tax of \$14.7 million dollars during the first eight months of 1996 and \$4.3 million during the first three months of 1997.

Station and ground expense as a percentage of revenues was 29.5% in 1997 compared to 31.5% in 1996 and 31.0% in 1995. Productivity gains in pick-up and delivery, customer service and terminal operations have been instrumental in partially offsetting the effect of increased costs incurred to accommodate the growth in shipments and expand service while maintaining service integrity.

Flight operations and maintenance expense as a percentage of revenues was 14.8% in 1997 compared to 15.6% in 1996 and 14.6% in 1995. The average aviation fuel price in 1997 was \$.73 per gallon, compared to \$.75 per gallon in 1996, and \$.62 per gallon in 1995. The average price above includes the effect of a 4.3 cent per gallon excise tax on jet fuel that became effective October 1, 1995. Aviation fuel consumption increased 5.7% to 169.8 million gallons in 1997 compared to a 13.0% increase in consumption in 1996 over 1995. The increased consumption year over year is a result of additional Company operated aircraft placed in service during each year to accommodate the growth in business. As a result of fuel hedging contracts, the Company was able to mitigate \$1.7 million and \$3.0 million of the increase in fuel costs in 1997 and 1996, respectively.

General and administrative expense as a percentage of revenues increased to 8.0% in 1997 compared to 7.3% in 1996 and 7.0% in 1995. This increase was primarily due to approximately \$30.0 million of incremental profit sharing and management incentive compensation costs as a result of the significant improvement in operating results for 1997.

Sales and marketing costs were 2.4% of revenues in 1997 compared to 2.4% in 1996 and 2.7% in 1995. Productivity gains and controls on discretionary spending in General and Administrative and Sales and Marketing expense categories have been instrumental in offsetting most of the effect of increased costs incurred to accommodate shipment growth and expand service.

Depreciation and amortization expense as a percentage of revenues decreased to 5.8% in 1997 compared to 6.6% in 1996 and 6.4% in 1995. The total dollar amount of depreciation and amortization has continued to

increase over the last three years as a result of capital expenditures incurred primarily to expand the airline operations.

Operating expense in 1996 included a non-recurring charge of \$3.7 million related to the loss of a DC-8-63 aircraft destroyed in an accident in December 1996.

INTEREST EXPENSE decreased 16.4% in 1997 compared to 1996, primarily as the result of the significantly lower level of average outstanding borrowings during 1997. Interest capitalized in 1997 of \$1.9 million was primarily related to the acquisition and modification of aircraft and the airport expansion and compares to capitalized interest of \$1.7 million in 1996 and \$3.7 million in 1995.

INCOME TAXES for 1997 resulted in an effective tax rate of 39.2% compared to 40.3% in 1996 and 39.9% in 1995. The Company anticipates that the effective tax rate for 1998 will be in the 39% to 40% range.

Looking ahead, the Company's focus will continue to be on managing yields and lowering cost per shipment to improve margins. The strength of the U.S. and global economies will have an impact on the results of operations in 1998 and beyond.

The Company is in the process of updating its computer systems to be capable of meeting necessary year 2000 requirements. This process is not expected to have a material cost consequence or create operational uncertainties which would impact the Company's prospective operating results or financial condition.

FINANCIAL CONDITION:

CAPITAL EXPENDITURES and financing associated with those expenditures have been primary factors affecting the financial condition of the Company over the last three years. Total capital expenditures net of dispositions were \$207 million in 1997 compared to \$193 million in 1996 and \$214 million in 1995. A significant portion of these expenditures has been related to the acquisition and modification of aircraft and related flight equipment. Included in capital expenditures in 1996 was \$21 million related to a DC-8-63 aircraft that was destroyed in an accident in December 1996. The Company realized insurance proceeds of \$18 million in January 1997 for this property loss.

The Company acquired 2 McDonnell Douglas DC-9 aircraft, 1 DC-8 aircraft, and 2 Boeing 767-200 aircraft in 1997. A total of 5 Company-owned aircraft were placed into service during the year; made up of 4 DC-9's and 1 DC-8. Also, the company retired and sold all remaining YS-11 aircraft in mid 1997. At the end of 1997, there were 105 aircraft in service, consisting of 36 DC-8's and 69 DC-9's. In addition, there were 4 aircraft in modification status including the 2 recently acquired 767 aircraft. Other capital expenditures in 1997 included vehicles for expansion and replacement, facilities and package handling equipment related to servicing the increased shipment volume, leasehold improvements for new or expanded facilities and for computer equipment.

Capital expenditures will continue to be a significant factor affecting financial condition in 1998. The Company anticipates 1998 capital expenditures of approximately \$274 million. A significant portion of the 1998 capital investment is for the acquisition of 4 additional 767 aircraft, the modification of aircraft to be placed in service, the retrofitting of aircraft with Stage III hush kits, and the continued

expansion of the central airport and sort facilities. A total of 7 aircraft, 5 767's and 2 DC-9's, are expected to be placed in service in 1998.

The Company has commitments to purchase 10 additional used Boeing 767-200's, including the 4 which will be delivered in 1998, with the remaining 6 aircraft delivered between the years 1999 and 2000. These acquisitions are not expected to significantly increase capital spending. Instead, this newer generation aircraft should improve operating efficiency

while capital requirements will remain relatively in line with internally generated cash flow.

LIQUIDITY AND CAPITAL RESOURCES: Liquidity for financing capital expenditures in 1997 came primarily from internally generated cash provided by operations which increased significantly in 1997 to approximately \$328 million compared to \$207 million in 1996 and \$170 million in 1995. Additional liquidity during the year was provided by the revolving bank credit agreement.

In 1997, the Company's strong operating cash flow became the major source of liquidity, whereas, the Company's \$250 million unsecured revolving bank credit agreement had traditionally been used as the major source of liquidity for periods between other financing transactions. The Company also has available \$50 million under unsecured uncommitted money market lines of credit with several banks, used in conjunction with the revolving credit agreement to facilitate settlement and accommodate short-term borrowing fluctuations. Reliance on the bank facilities decreased significantly during 1997. At December 31, 1997, a total of \$30.0 million was owing under the revolving bank credit and money market agreements compared to \$188.5 million outstanding at December 31, 1996.

In August 1997, the Company called for the redemption of its 6-3/4% convertible subordinated debentures due 2001, of which \$114.9 million was outstanding. Substantially all of the debenture holders elected conversion to common stock rather than redemption. This resulted in the issuance, on a pre-split stock basis, of approximately 3.3 million shares of common stock in September 1997.

The Company's ratio of total long-term debt to total capitalization was 25.4% at December 31, 1997, a significant improvement over the 52.6% at December 31, 1996. The debt-to-capitalization ratio is not expected to change significantly during 1998 as anticipated cash flow from operations should provide the majority of the liquidity for projected 1998 capital expenditures.

In management's opinion, the available capacity under the bank credit agreements coupled with anticipated internally generated cash flow from 1998 operations should provide adequate flexibility for financing future growth.

INFLATION:

The rate of inflation has been relatively constant over the past several years, and so has the impact of inflation on the Company's results of operations and financial condition. The effects of inflation have been considered in management's discussion where considered pertinent.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Airborne Freight Corporation
Seattle, Washington

We have audited the accompanying consolidated balance sheets of Airborne Freight Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of net earnings and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Airborne Freight Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP
February 13, 1998
Seattle, Washington

10

<TABLE>

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF NET EARNINGS

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
	(In thousands except per share data)		
<S>	<C>	<C>	<C>
REVENUES:			
Domestic	\$2,514,737	\$2,108,670	\$1,871,163
International	397,672	375,636	368,188
	-----	-----	-----

	2,912,409	2,484,306	2,239,351
OPERATING EXPENSES:			
Transportation purchased	922,885	827,997	788,040
Station and ground operations	858,238	781,867	693,371
Flight operations and maintenance	431,474	386,961	327,838
General and administrative	234,366	181,353	156,501
Sales and marketing	70,346	59,565	60,258
Depreciation and amortization	169,845	163,645	144,362
Loss related to aircraft accident	--	3,737	--
	-----	-----	-----
	2,687,154	2,405,125	2,170,370
	-----	-----	-----
EARNINGS FROM OPERATIONS	225,255	79,181	68,981
INTEREST, NET	27,790	33,236	29,347
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES	197,465	45,945	39,634
INCOME TAXES	77,393	18,500	15,814
	-----	-----	-----
NET EARNINGS	120,072	27,445	23,820
PREFERRED STOCK DIVIDENDS	--	271	276
	-----	-----	-----
NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS	\$ 120,072	\$ 27,174	\$ 23,544
	=====	=====	=====
NET EARNINGS PER COMMON SHARE:			
Basic	\$ 2.68	\$.64	\$.56
	=====	=====	=====
Diluted	\$ 2.44	\$.64	\$.55
	=====	=====	=====
DIVIDENDS PER COMMON SHARE	\$.15	\$.15	\$.15
	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

<TABLE>

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<CAPTION>

December 31

1997

1996

(In thousands)

<S>

<C>

<C>

ASSETS

CURRENT ASSETS:

Cash	\$ 25,525	\$ 35,816
Trade accounts receivable, less allowance of \$10,290,000 and \$8,345,000	322,549	287,515
Spare parts and fuel inventory	37,966	34,761
Deferred income tax assets	14,530	15,012
Prepaid expenses and other	25,982	42,118
	-----	-----

TOTAL CURRENT ASSETS	426,552	415,222
PROPERTY AND EQUIPMENT, NET	916,331	866,627
EQUIPMENT DEPOSITS and OTHER ASSETS	23,090	25,573
	-----	-----
TOTAL ASSETS	\$1,365,973	\$1,307,422
	=====	=====

12

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 143,966	\$ 139,036
Salaries, wages and related taxes	80,154	63,835
Accrued expenses	100,126	68,759
Income taxes payable	5,440	1,782
Current portion of debt	381	353
	-----	-----
TOTAL CURRENT LIABILITIES	330,067	273,765

LONG-TERM DEBT	250,559	409,440
SUBORDINATED DEBT	--	115,000
DEFERRED INCOME TAX LIABILITIES	65,322	40,816
OTHER LIABILITIES	49,110	36,571

SHAREHOLDERS' EQUITY:

Preferred stock, without par value -		
Authorized 5,200,000 shares, no shares issued		
Common stock, par value \$1 per share -		
Authorized 60,000,000 shares		
Issued 50,428,548 and 43,243,192	50,428	43,243
Additional paid-in capital	287,209	168,784
Retained earnings	334,083	220,774
	-----	-----
Treasury stock, 522,300 and	671,720	432,801
630,300 shares, at cost	(805)	(971)
	-----	-----
	670,915	431,830
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,365,973	\$1,307,422
	=====	=====

</TABLE>

See notes to consolidated financial statements.

13

<TABLE>

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

Year Ended December 31 -----	1997 ----	1996 ----	1995 ----
	(In thousands)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net earnings	\$120,072	\$ 27,445	\$ 23,820
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	156,233	151,538	133,931
Provision for aircraft engine overhauls	13,612	12,107	10,431
Deferred income taxes	24,988	3,697	4,163
Loss related to aircraft accident	--	3,737	--
Other	13,076	8,027	(2,351)
	-----	-----	-----
CASH PROVIDED BY OPERATIONS	327,981	206,551	169,994
Change in:			
Receivables	(35,035)	(28,107)	(37,620)
Inventories and prepaid expenses	(5,069)	(200)	(9,907)
Accounts payable	4,930	2,049	19,793
Accrued expenses, salaries and taxes payable	52,444	16,118	14,499
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	345,252	196,411	156,759
INVESTING ACTIVITIES:			
Additions to property and equipment	(211,758)	(173,157)	(215,958)
Proceeds from insurance on aircraft accident	18,000	--	--
Investment in aircraft destroyed in accident	--	(21,232)	--
Disposition of property and equipment	4,451	694	2,079
Expenditures for engine overhauls	(10,614)	(15,000)	(10,039)
Other	(27)	(3,309)	378
	-----	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(199,948)	(212,004)	(223,540)
14			
FINANCING ACTIVITIES:			
Proceeds (payments) on bank notes, net	(158,500)	45,200	(8,700)
Principal payments on debt	(436)	(5,818)	(18,434)
Proceeds from common stock issuance	10,104	734	638
Dividends paid	(6,763)	(6,613)	(6,596)
Proceeds from debt issuance	--	--	107,461
	-----	-----	-----
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(155,595)	33,503	74,369
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH	(10,291)	17,910	7,588
CASH AT BEGINNING OF YEAR	35,816	17,906	10,318
	-----	-----	-----
CASH AT END OF YEAR	\$ 25,525	\$ 35,816	\$ 17,906
	=====	=====	=====

</TABLE>

<TABLE>

<CAPTION>

SUPPLEMENTAL CASH FLOW INFORMATION:

<S>	<C>	<C>	<C>
Cash paid during the year -			
Interest, net of amount capitalized	\$ 32,768	\$ 33,234	\$ 28,085
Income taxes	46,641	16,674	10,457
Non-cash financing activities -			
Conversion of subordinated debentures	114,572	--	--
Contribution of treasury stock to profit sharing plans	1,100	--	--
Conversion of redeemable preferred stock	--	3,948	1,052

</TABLE>

See notes to consolidated financial statements.

AIRBORNE FREIGHT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Years Ended December 31, 1997

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

NATURE OF OPERATIONS

The Company's revenues are derived from domestic and international transportation of shipments. The Company provides door-to-door express delivery of small packages and documents throughout the United States and to most foreign countries. The Company also acts as an international and domestic freight forwarder for shipments of any size. Most domestic shipments are transported on the Company's own airline and a fleet of ground transportation vehicles through its Company-owned airport and central sorting facilities, or one of nine regional hubs. International shipments are transported utilizing a combination of the Company's domestic network, commercial airline lift capacity, and through a network of offshore Company offices and independent agents.

The Company is subject to certain business risks which could affect future operations and financial performance. These risks include weather and natural disaster related disruptions, collective bargaining labor disputes, fuel price volatility, regulatory compliance concerning the operation or maintenance of aircraft, and aggressive competitor pricing.

As of December 31, 1997, the Company had approximately 10,300 employees (46% of total employees), including approximately 730 pilots, employed under collective bargaining agreements with various locals of the International Brotherhood of Teamsters and Warehousemen. The pilots are covered by an agreement which expires on July 31, 2001. Most labor agreements covering the Company's ground personnel will expire in 1998. The Company has not experienced any significant disruptions from labor disputes in the past.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions may have a material impact on the financial statements. The Company has used estimates in determining certain provisions and reserves including those for engine overhaul costs, useful lives for fixed assets, insurance claims, uncollectible trade accounts receivable, and tax liabilities.

16

CASH

The Company has a cash management system under which a cash overdraft exists for uncleared checks in the Company's primary disbursement accounts. The cash amount in the accompanying financial statements represents balances in other accounts prior to being transferred to the primary disbursement accounts. Uncleared checks of \$29,311,000 and \$28,059,000 are included in accounts payable at December 31, 1997 and 1996, respectively.

SPARE PARTS AND FUEL INVENTORY

Spare parts are stated at average cost and fuel inventory is stated at cost on a first-in, first-out basis.

PROPERTY AND EQUIPMENT

Property and equipment, including rotatable aircraft parts, are stated at cost. The cost and accumulated depreciation of property and equipment disposed of are removed from the accounts with any related gain or loss reflected in earnings from operations.

<TABLE>

For financial reporting purposes, depreciation of property and equipment is provided on a straight-line basis over the asset's useful life or lease term as follows:

<CAPTION>

<S>

<C>

Flight equipment	7 to 18 years
Buildings, runways, and leasehold improvements	5 to 30 years
Package handling and ground support equipment	3 to 8 years
Vehicles and other equipment	3 to 8 years

</TABLE>

DC-8 and DC-9 aircraft generally carry residual values of 10% and 15% of asset cost, respectively. All other property and equipment have no assigned residual values.

Major engine overhauls for DC-9 aircraft are accrued in advance of the next scheduled overhaul based upon engine usage and estimates of overhaul costs. Provision for engine overhauls is included in depreciation and amortization expense. Major engine overhauls as well as ordinary engine maintenance and repairs for DC-8 and 767 aircraft are performed by third-party service providers under long-term contracts. Service costs under the contracts are based upon hourly rates for engine usage and are charged to expense in the period utilization occurs.

CAPITALIZED INTEREST

Interest incurred during the construction period of certain facilities and on aircraft purchase and modification costs are capitalized as an additional cost of the asset until the date the asset is placed in service. Capitalized interest was \$1,869,000, \$1,728,000, and \$3,741,000 for 1997, 1996 and 1995, respectively.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for temporary differences between the timing of reporting certain revenues and expenses for financial versus tax purposes. Deferred taxes are measured using provisions of currently enacted tax laws. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

EARNINGS PER SHARE

17

The Company has adopted the provisions of Statement of Financial Standards No. 128, Earnings Per Share effective December 31, 1997. The statement requires the calculation and disclosure of basic and diluted earnings per share as opposed to primary and fully diluted calculations required under Accounting Principles Board Opinion No. 15, Earnings Per Share and related pronouncements. All prior period earnings per share and average shares outstanding data has been restated to reflect the adoption of this statement.

STOCK SPLIT

On February 3, 1998, the Company's board of directors authorized a two-for-one stock split effected in the form of a stock dividend issued to shareholders of record on February 9, 1998. An amount equal to the par value of the common stock issued was transferred from additional paid-in capital to the common stock account and has been reflected in shareholders' equity, at the earliest date presented herein, January 1, 1995. All references in the consolidated financial statements to shares, (except shares authorized), per share and price information, and stock option plan data have been restated to reflect the split.

FUEL CONTRACTS

The Company has entered into contracts with financial institutions to limit its exposure to volatility in jet fuel prices. Under terms of the contracts, the Company either makes or receives payments if the market price of heating oil, as determined by an index of the monthly NYMEX Heating Oil futures contracts, is lower than or exceeds certain prices agreed to between the Company and the financial institutions. The contracts, which have no cost basis, are accounted for as hedges since there has historically existed a high correlation between the changes in the NYMEX index and the price of jet fuel. Settlements are made in cash and are recorded in the period of settlement as either an increase or decrease to fuel expense.

REVENUE RECOGNITION

Domestic revenues and most domestic operating expenses are recognized when shipments are picked up from the customer. International revenues and direct air carrier expenses are recognized in the period when shipments are tendered to a carrier for transport to a foreign destination. Domestic and international delivery costs are recognized in the period incurred. The net revenue resulting from existing recognition policies does not materially differ from that which would be recognized on a delivery date

basis.

RECLASSIFICATIONS

Certain amounts for prior years have been reclassified in the consolidated financial statements to conform to the classification used in 1997.

NOTE B - FAIR VALUE INFORMATION

<TABLE>

The carrying amounts and related fair values of the Company's financial instruments are as follows (in thousands):

<CAPTION>

December 31	1997		1996	
-----	-----	-----	-----	-----
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Long-term debt	\$250,559	\$262,233	\$409,440	\$419,050
Subordinated debt	--	--	115,000	115,288
Off-balance sheet derivative:				
Fuel contracts	--	(1,060)	--	3,798

</TABLE>

Discussion regarding the fair value of the above financial instruments is disclosed in the respective notes to the consolidated financial statements. Carrying amounts for cash, trade accounts receivable, and current liabilities approximate fair value.

NOTE C - PROPERTY AND EQUIPMENT

<TABLE>

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

<CAPTION>

December 31	1997	1996
-----	----	----
<S>	<C>	<C>
Flight equipment	\$1,230,232	\$1,125,019
Land, buildings and leasehold improvements	226,628	215,795
Package handling and ground support equipment	133,624	124,689
Vehicles and other equipment	240,309	230,227
	-----	-----
	1,830,793	1,695,730
Accumulated depreciation and amortization	(914,462)	(829,103)
	-----	-----
	\$ 916,331	\$ 866,627
	=====	=====

</TABLE>

NOTE D - ACCRUED EXPENSES

<TABLE>

Accrued expenses consist of the following (in thousands):

<CAPTION>

December 31 -----	1997 ----	1996 ----
<S>	<C>	<C>
Profit sharing retirement plan	\$ 26,613	\$ 3,459
Insurance reserves	20,713	16,703
Unearned revenues	13,024	8,866
Aircraft leases	10,557	12,576
Other retirement plans	10,492	9,009
Property and other taxes	9,971	6,097
Interest	2,572	7,141
Other	6,184	4,908
	-----	-----
	\$ 100,126	\$ 68,759
	=====	=====

</TABLE>

NOTE E - INCOME TAXES

<TABLE>

Deferred income tax assets and liabilities consist of the following (in thousands):

<CAPTION>

December 31 -----	1997 ----	1996 ----
<S>	<C>	<C>
Insurance reserves	\$ 6,450	\$ 5,753
Employee benefits	2,573	3,317
Bad debts, sales reserves and other	5,507	5,942
	-----	-----
Current deferred income tax assets	14,530	15,012
	-----	-----
Depreciation and amortization	90,931	84,230
Alternative Minimum Tax credit	(11,761)	(33,178)
Insurance reserves	(10,832)	(8,187)
Aircraft engine overhaul accrual	(8,746)	(7,112)
Capitalized interest	6,584	5,982
Pension and other	(854)	(919)
	-----	-----
Noncurrent net deferred income tax liabilities	65,322	40,816
	-----	-----
Net deferred income tax liabilities	\$ 50,792	\$ 25,804
	=====	=====

</TABLE>

<TABLE>

Income taxes consist of the following (in thousands):

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Current:			
Federal	\$41,463	\$12,361	\$10,297
State	10,443	1,900	1,250
Foreign	499	542	104
	-----	-----	-----
	52,405	14,803	11,651
Deferred:			
Depreciation and amortization	6,701	9,955	11,040
Alternative Minimum Tax credit	21,417	(4,830)	(5,571)
Insurance reserves	(3,342)	(2,811)	(522)
Aircraft engine overhaul accrual	(1,634)	1,027	307
Employee benefits	(459)	(867)	(1,027)
Other	2,305	1,223	(64)
	-----	-----	-----
	24,988	3,697	4,163
	-----	-----	-----
	\$77,393	\$18,500	\$15,814
	=====	=====	=====

</TABLE>

<TABLE>

The following table summarizes the major differences between the actual income tax provision and taxes computed at the Federal statutory rate (in thousands):

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Taxes computed at statutory rate of 35%	\$69,113	\$16,081	\$13,872
State and foreign income taxes,			
net of Federal benefit	6,788	1,288	855
Tax effect of nondeductible expenses	1,549	1,185	1,146
Other	(57)	(54)	(59)
	-----	-----	-----
	\$77,393	\$18,500	\$15,814
	=====	=====	=====

</TABLE>

NOTE F - LONG-TERM AND SUBORDINATED DEBT

<TABLE>

Long-term and subordinated debt consist of the following:

<CAPTION>

December 31	1997	1996
-----	----	----

	(In thousands)	
<S>	<C>	<C>
LONG-TERM DEBT:		
Money market lines of credit, effective rate of 7.4% on December 31, 1997	\$ 30,000	\$ 43,500
Senior notes, 8.875%, due December, 2002	100,000	100,000
Senior notes, 7.35%, due September, 2005	100,000	100,000
Refunding revenue bonds, effective rate of 4.2% on December 31, 1997, due June 2011	13,200	13,200
Revolving credit notes payable to banks	--	145,000
Other	7,740	8,093
	-----	-----
	250,940	409,793
Less current portion	381	353
	-----	-----
	\$250,559	\$409,440
	=====	=====
SUBORDINATED DEBT:		
Convertible subordinated debentures	--	\$115,000
	=====	=====

</TABLE>

The Company has a revolving bank credit agreement providing for a total commitment of \$250,000,000. Interest rates for borrowings outstanding are generally determined by maturities selected and prevailing market conditions. The agreement expires May 31, 2001. The Company was in compliance with covenants of the revolving credit agreement during 1997, 1996, and 1995, including net worth restrictions which limit the payment of dividends (\$301,719,000 of retained earnings was not restricted at December 31, 1997).

The Company has available \$50,000,000 of financing under uncommitted money market lines of credit with several banks. These facilities bear interest at rates that vary with the banks' cost of funds and are typically less than the prevailing bank prime rate. The average interest rate on these borrowings was 5.9% for 1997. These credit lines are used in conjunction with the revolving credit agreement to facilitate settlement and accommodate short-term borrowing fluctuations.

The Company has classified the borrowings outstanding under the money market lines of credit as long-term. These amounts will be refinanced under the revolving credit agreement.

The Company's tax-exempt airport facilities refunding bonds carry no sinking fund requirements and bear interest at weekly adjustable rates. The average interest rate on these borrowings was 3.7% during 1997. Payment of principal and interest is secured by an irrevocable bank letter of credit that is collateralized by a mortgage on certain airport properties which have a net carrying value of \$51,763,000 at December 31, 1997.

In August 1997, the Company called for the redemption of its 6.75% convertible subordinated debentures due in 2001. This transaction resulted in the issuance of approximately 6,474,000 shares of common stock as substantially all debenture holders elected conversion rather than redemption.

The scheduled annual principal payments on long-term debt for the next five years are \$381,000, \$410,000, \$442,000, \$30,476,000, and \$100,513,000 for 1998 through 2002, respectively.

The fair value information shown in Note B reflects values for the

Company's senior notes and, for 1996, convertible subordinated debentures based on quoted market prices for the same issues. The carrying value of the Company's remaining long-term financial debt instruments approximate fair value primarily because of the repricing frequency of the instruments.

NOTE G - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company is obligated under various long-term operating lease agreements for certain equipment and for a substantial portion of its facilities. These leases expire at various dates through 2016. Rental expense for 1997, 1996, and 1995 was \$115,350,000, \$105,331,000, and \$97,461,000, respectively.

<TABLE>

Rental commitments under long-term operating leases at December 31, 1997 total \$439,895,000 and are payable as follows (in thousands):

<CAPTION>

	Facilities -----	Equipment -----
<S>	<C>	<C>
1998	\$ 65,492	\$25,692
1999	64,228	22,053
2000	56,568	8,742
2001	46,695	2,253
2002	39,153	706
2003 and beyond	107,813	500

</TABLE>

COMMITMENTS

The Company has entered into firm agreements to purchase 10 Boeing 767 and 3 McDonnell Douglas DC-9 aircraft at various dates through 2000. Additionally, the Company will exercise purchase options in 1998 on 3 leased DC-8 aircraft it currently operates. The Company also has commitments to purchase 16 Stage III hush kits for its DC-8 and DC-9 aircraft at various dates through 1999. At December 31, 1997, cash deposits of \$3,000,000 had been made toward these purchases. Additional deposits and payments for these acquisitions will approximate \$105,302,000, \$71,897,000, and \$53,800,000 for 1998 through 2000, respectively.

At December 31, 1997, the Company had fuel contracts, some extending through October 1998, covering a monthly notional sum of between 2.5 million to 10 million gallons, which represents between 15% and 70% of prospective average monthly consumption of jet fuel. Settlement payments of \$1,682,000 and \$3,016,000 related to these contracts were received during 1997 and 1996, respectively, with no payments being received in 1995. No settlement payments were made during 1997, 1996 or 1995. The fair market value of these contracts was a liability of approximately \$1,060,000 at December 31, 1997 and an asset of \$3,798,000 at December 31, 1996.

CONTINGENCIES

In the normal course of business, the Company has various legal claims and other contingent matters outstanding. Management believes that any ultimate liability arising from these actions would not have a material

adverse effect on the Company's financial condition or results of operations as of and for the year ended December 31, 1997.

NOTE H - POSTRETIREMENT PLANS

PENSIONS

The Company has trustee qualified retirement plans for all employees not covered by multi-employer plans to which the Company contributes under terms of various collective bargaining agreements. The Company's retirement plans consist of defined contribution profit sharing and capital accumulation plans and defined benefit minimum monthly retirement income plans.

The capital accumulation plans are funded by both voluntary employee salary deferrals of up to 16% of annual compensation and by employer matching contributions of 35% of employee salary deferrals up to 6% of annual compensation. The Company's matching contribution expense was \$5,499,000, \$4,987,000, and \$3,823,000 for 1997, 1996, and 1995, respectively.

Contributions to the profit sharing plans are made at the discretion of the Board of Directors. However, a basic formula has been followed for contributions of 7% of earnings before taxes up to a specific profit level plus 14% of earnings in excess of that level. The Company's profit sharing expense was \$26,613,000, \$3,459,000, and \$2,984,000 for 1997, 1996, and 1995, respectively. The profit sharing plans hold 970,052 shares of the Company's common stock at December 31, 1997, representing 1.9% of outstanding shares.

The profit sharing plans are intended to be a primary retirement benefit. The minimum monthly retirement income plans guarantee a minimum level of monthly pension income for those not accruing sufficient balances in the profit sharing plans. The Company's funding of the plans is within a range required by ERISA.

<TABLE>

Net minimum monthly plan pension expense included the following components (in thousands):

<CAPTION>			
Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Service cost benefits earned during the period	\$ 8,844	\$ 6,929	\$ 4,664
Interest cost on projected benefit obligation	5,747	4,166	3,017
Actual return on plan assets	(7,286)	(5,211)	(4,751)
Net amortization and deferral	5,153	4,213	4,036
	-----	-----	-----
Net pension expense	\$12,458	\$10,097	\$ 6,966
	=====	=====	=====

</TABLE>

<TABLE>

The following is a summary of the minimum monthly plan funded status (in thousands):

<CAPTION>

December 31 -----	1997 ----	1996 ----
<S>	<C>	<C>
Projected benefit obligation for service rendered to date	\$98,462	\$64,780
Plan assets at fair market value, primarily marketable securities	60,889	42,640
	-----	-----
Projected benefit obligation in excess of plan assets	37,573	22,140
Unrecognized prior service cost	1,802	(438)
Unrecognized net losses from past experience different from that assumed	(26,089)	(11,131)
Unrecognized net transition obligation	(89)	(118)
	-----	-----
Pension liability included in consolidated balance sheets	\$13,197	\$10,453
	=====	=====
Actuarial present value of accumulated benefit obligation, including vested benefits of \$54,370,000 and \$33,910,000, respectively	\$57,716	\$36,913
	=====	=====

</TABLE>

Effective January 1, 1997, the Company amended the minimum monthly income retirement plan covering a certain group of employees which improved retirement benefits primarily through a change in the benefit formula.

The Company also has non-qualified, unfunded supplemental retirement plans for certain employees and key executives which provides defined retirement benefits that supplement those provided by the Company's qualified retirement plans. Pension expense for these plans were \$2,588,000, \$1,825,000, and \$1,405,000 in 1997, 1996, and 1995, respectively. The plans' projected benefit obligations, accumulated benefit obligations and accrued pension liability was \$9,600,000, \$6,885,000, and \$8,008,000 at December 31, 1997 and \$6,500,000, \$3,455,000, and \$5,428,000 at December 31, 1996.

<TABLE>

Assumptions used in determining minimum monthly and supplemental retirement pension obligations were as follows:

<CAPTION>

	1997 ----	1996 ----	1995 ----
<S>	<C>	<C>	<C>
Discount rate	7.0%	7.5%	7.0%
Rate of compensation increase (pilots)	6.5%	6.5%	5.5%
Rate of compensation increase (non pilots)	5.0%	5.0%	5.0%
Long-term rate of return on assets	8.0%	8.0%	8.0%

</TABLE>

The Company additionally contributes to multi-employer defined benefit

pension plans for substantially all employees covered under collective bargaining agreements. Total expense of these plans was \$34,106,000, \$28,773,000, and \$24,278,000 for 1997, 1996, and 1995, respectively.

HEALTH CARE BENEFITS

The Company provides postretirement health care benefits for employees and qualifying dependents who have met certain eligibility requirements and who are not covered by other plans to which the Company contributes, such as collectively bargained plans. The Company's plan is currently unfunded.

The accumulated postretirement benefit obligation was \$7,189,000 and \$5,039,000 at December 31, 1997 and 1996, respectively, and \$6,545,000 and \$5,593,000 has been accrued in Other Liabilities in the Consolidated Balance Sheets. Postretirement benefit expense was \$1,080,000, \$1,066,000, and \$861,000, for 1997, 1996, and 1995, respectively.

The assumed health care cost trend rate used in measuring benefit costs was 8% for 1997, decreasing each successive year to a 5% annual growth rate in 2000, and thereafter. A 1% increase or decrease in the assumed health care cost trend rate for each year would not have a material effect on the accumulated postretirement benefit obligation or cost as of or for the year ended December 31, 1997. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.0% and 7.5% at December 31, 1997 and 1996, respectively.

The Company also contributes to multi-employer health and welfare plans for substantially all employees covered under collective bargaining agreements. Portions of the these contributions, which cannot be disaggregated, relate to postretirement benefits for plan participants. Total expense of these plans was \$38,499,000, \$34,474,000, and \$28,968,000 for 1997, 1996, and 1995, respectively.

NOTE I - SHAREHOLDERS' EQUITY

<TABLE>

Changes in shareholders' equity consist of the following (in thousands):

<CAPTION>

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
BALANCE at JANUARY 1, 1995	\$42,572	\$163,083	\$182,714	\$ (971)
Net earnings available to common shareholders			23,544	
Conversion of redeemable preferred stock	90	962		
Common stock dividends paid			(6,317)	
Exercise of stock options	134	504		
	-----	-----	-----	-----
BALANCE at DECEMBER 31, 1995	42,796	164,549	199,941	(971)
Net earnings available to common shareholders			27,174	
Conversion of redeemable preferred stock	337	3,610		
Common stock dividends paid			(6,341)	
Exercise of stock options	110	625		

BALANCE at DECEMBER 31, 1996	43,243	168,784	220,774	(971)
Net earnings available				
to common shareholders			120,072	
Conversion of subordinated				
debentures	6,474	108,099		
Common stock dividends paid			(6,763)	
Exercise of stock options	711	10,326		43
Contribution of treasury stock				
to profit sharing plans				123
BALANCE at DECEMBER 31, 1997	\$50,428	\$287,209	\$334,083	\$ (805)

</TABLE>

NOTE J - STOCK OPTIONS

The Company has three fixed option plans which reserve shares of the Company's common stock for issuance to officers, directors and key employees. Options granted under these shareholder approved plans are issued at the fair market value of the Company's stock on the date of grant and become exercisable over a period of six months to three years, expiring ten years from the date of grant. A total of 6,100,000 shares may be granted under these plans of which 3,042,106 is available for future grants at December 31, 1997. A summary of the Company's stock option activity and related information is as follows:

<TABLE>

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Outstanding at beginning of year	2,555,186	2,269,360	2,083,642
Granted	442,580	436,920	386,570
Exercised	(797,578)	(127,318)	(163,932)
Canceled	(11,174)	(23,776)	(36,920)
	-----	-----	-----
Outstanding at end of year	2,189,014	2,555,186	2,269,360
	=====	=====	=====
Exercisable at end of year	1,178,058	1,656,744	1,480,000
	=====	=====	=====

</TABLE>

<TABLE>

Weighted average option price information is as follows:

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Outstanding at beginning of year	\$11.61	\$11.06	\$10.55
Granted	13.63	13.00	11.57
Exercised	11.04	6.31	5.26
Canceled	12.94	13.34	14.09
Outstanding at end of year	12.22	11.61	11.06
Exercisable at end of year	11.53	10.73	9.62

</TABLE>

29

<TABLE>

Information related to the number of options outstanding, weighted average price per share and remaining life of significant option groups outstanding at December 31, 1997 is as follows:

<CAPTION>

Outstanding				Exercisable		
Price Range	Number	Price	Life in Years	Number	Price	Life in Years
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 3.31-\$ 9.25	324,452	\$ 6.50	1.2	324,452	\$ 6.50	1.2
\$11.06-\$14.25	1,694,642	12.64	7.0	683,686	12.10	5.0
\$18.06-\$18.88	169,920	18.84	6.1	169,920	18.84	6.1

</TABLE>

<TABLE>

The Company has elected to follow Accounting Principles Board Opinion No. 25, _Accounting for Stock Issued to Employees_ and related interpretations in accounting for its stock option plans and accordingly no compensation expense has been recognized in the Consolidated Statements of Net Earnings. Had compensation expense been measured under the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, _Accounting for Stock-Based Compensation_, the Company's Net Earnings Available to Common Shareholders and Earnings Per Share for 1997, 1996 and 1995 would have been reduced to the pro forma amounts shown below. In accordance with SFAS No. 123, pro forma information does not include compensation expense attributed to 1996 and 1995 from options granted prior to 1995.

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	
Net Income Available to Common Shareholders (in thousands):			
As reported	\$120,072	\$ 27,174	\$ 23,544
Pro forma	118,084	26,086	23,020
Diluted Net Earnings Per Common Share:			
As reported	\$2.44	\$.64	\$.55
Pro forma	2.40	.61	.54

</TABLE>

30

<TABLE>

The weighted average fair value for options granted in 1997, 1996 and 1995,

computed utilizing the Black-Scholes option-pricing model, was \$5.90, \$4.67 and \$4.17, respectively. Significant assumptions used in the estimation of fair value and compensation expense are as follows:

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
<S>	<C>	<C>	<C>
Weighted expected life (years)	6.7	6.6	6.1
Weighted risk free interest rate	6.3%	5.3%	7.4%
Weighted volatility	36.6%	36.9%	38.4%
Dividend yield	1.1%	1.2%	1.3%

</TABLE>

31

NOTE K - EARNINGS PER SHARE

<TABLE>

Net earnings and average shares used in basic and diluted earnings per share calculations were as follows:

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
	(In thousands except per share data)		
<S>	<C>	<C>	<C>
NET EARNINGS			
Net Earnings	\$120,072	\$ 27,445	\$ 23,820
Less preferred stock dividends	--	271	276
	-----	-----	-----
Basic net earnings available to common shareholders	120,072	27,174	23,544
Convertible subordinated debentures	2,969	--	--
	-----	-----	-----
Diluted net earnings available to common shareholders including assumed conversions	\$123,041	\$ 27,174	\$23,544
	=====	=====	=====
SHARES			
Basic weighted average shares outstanding	44,883	42,266	42,100
Stock options	939	307	333
Convertible subordinated debentures	4,517	--	--
	-----	-----	-----
Diluted weighted average shares outstanding	50,339	42,573	42,433
	=====	=====	=====
NET EARNINGS PER SHARE			
Basic	\$2.68	\$.64	\$.56
Diluted	\$2.44	\$.64	\$.55
	=====	=====	=====

</TABLE>

The above reconciliation of diluted earnings per share excludes certain common shares issuable under stock option plans because the options'

exercise price was greater than the average market price of the common shares. Also excluded are common shares issuable under convertible securities arrangements since assuming conversion would have had the effect of increasing earnings per share.

32

<TABLE>

The following is a summary of these excluded common shares (in thousands):

<CAPTION>

Year Ended December 31	1997	1996	1995
	----	----	----
	(In thousands except per share data)		
<S>	<C>	<C>	<C>
Stock options	--	910	534
Convertible securities -			
Subordinated debentures	--	6,479	6,479
Redeemable preferred stock	--	328	334
	-----	-----	-----
Excluded common shares	--	7,717	7,347
	=====	=====	=====

</TABLE>

33

NOTE L - SEGMENT INFORMATION

Substantially all of the Company's revenues are derived from domestic and international transportation and/or forwarding of air freight and express shipments. Domestic is defined as any shipment with an origin and destination within the U.S., Puerto Rico or Canada. A substantial portion of international revenue originates in the U.S. (\$279,532,000 in 1997, \$273,586,000 in 1996, and \$279,164,000 in 1995).

The determination of operating income of domestic and international operations requires that certain costs incurred in the U.S. be allocated to international operations

<TABLE>

<CAPTION>

Year Ended December 31	1997	1996	1995
-----	----	----	----
	(In thousands)		
<S>	<C>	<C>	<C>
Revenues:			
Domestic	\$2,514,737	\$2,108,670	\$1,871,163
International	397,672	375,636	368,188
	-----	-----	-----
	\$2,912,409	\$2,484,306	\$2,239,351
	=====	=====	=====
Earnings from Operations:			
Domestic	\$ 219,630	\$ 71,809	\$ 67,765
International	5,625	7,372	1,216
Interest, net	(27,790)	(33,236)	(29,347)

Earnings Before Income Taxes	----- \$ 197,465 =====	----- \$ 45,945 =====	----- \$ 39,634 =====
Identifiable Assets:			
Domestic	\$1,288,180	\$1,229,011	\$1,148,056
International	77,793	78,411	69,328
	----- \$1,365,973 =====	----- \$1,307,422 =====	----- \$1,217,384 =====

</TABLE>

NOTE M - LOSS RELATED TO AIRCRAFT ACCIDENT

In December 1996, the Company suffered the loss of a DC-8-63 aircraft during a routine maintenance check flight. There were no survivors among the six persons aboard. Costs associated with the accident were approximately \$3,737,000 and include certain amounts for self insured retention of workers' compensation, loss on the retirement of the aircraft (net of insurance recoveries), and other costs specific to the accident. Aircraft property insurance recoveries of \$18,000,000 were received in January 1997 and was classified with Prepaid Expenses and Other in the Consolidated Balance Sheet at December 31, 1996.

To date, no significant actions have occurred nor is management expecting or aware of any threatened litigation, claims, or other actions specific to the accident which could have a material adverse effect on the Company's financial condition or results of operations as of and for the year ended December 31, 1997.

NOTE N - SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the issuance of \$200,000,000 of Senior Notes (Notes) certain of the Company's subsidiaries (collectively, "Guarantors") have fully and unconditionally guaranteed, on a joint and several basis, the Company's obligations to pay principal, premium, if any, and interest with respect to the Notes. The Guarantors are ABX Air, Inc. (ABX) and Airborne Forwarding Corporation (AFC), which are wholly-owned by the Company, and Airborne FTZ, Inc. (FTZ) and Wilmington Air Park, Inc. (WAP), which are wholly-owned subsidiaries of ABX. Non-guarantor subsidiaries' assets, liabilities, revenues and net earnings are inconsequential both individually and on a combined basis in comparison to the Company's consolidated financial statement totals.

Management does not consider disclosure of separate subsidiary financial statements for each Guarantor to be material. Summarized financial information of the Guarantors on a combined basis is as follows (in thousands):

<TABLE>

<CAPTION>

Balance Sheet Information:

December 31 -----	1997 ----	1996 ----
<S>	<C>	<C>
Current assets	\$ 45,103	\$ 63,345
Property and equipment, net	784,555	739,470
Other noncurrent assets	7,487	11,469
Current liabilities	98,791	97,071
Long-term debt	20,559	20,940
Other noncurrent liabilities	94,424	87,284
Intercompany payable	377,019	426,878

<TABLE>

<CAPTION>

Earnings Statement Information:

Year Ended December 31 -----	1997 ----	1996 ----	1995 ----
<S>	<C>	<C>	<C>
Revenues - intercompany	\$900,428	\$767,972	\$668,592
Revenues - third-party	72,763	72,702	55,674
Operating expenses	873,213	778,392	662,632
Earnings from operations	99,978	62,282	61,634
Net earnings	64,239	27,229	28,704

</TABLE>

36

ABX is a certificated air carrier which owns and operates the domestic express cargo services for which the Company is the sole customer. ABX also offers air charter services on a limited basis to third-party customers. FTZ owns certain aircraft parts inventory which it sells primarily to ABX, with limited sales to third-party customers. FTZ is also the holder of a foreign trade zone certificate at Wilmington airport property. WAP is the owner of the Wilmington airport property which includes the Company's main sort facility, aircraft maintenance facilities, runways and related airport facilities and airline administrative and training facilities. ABX is the only occupant and customer of WAP. AFC, d.b.a. Sky Courier, provides expedited courier services and regional logistics warehousing primarily to third-party customers.

Investment balances and revenues between Guarantors have been eliminated for purposes of presenting the above summarized financial information.

Intercompany revenues and net earnings recorded by ABX, FTZ, and WAP are controlled by the Company and are based on various discretionary factors. Intercompany payable amounts represent net amounts due the Company by its Guarantors. The Company provides the Guarantors with a majority of the cash necessary to fund operating and capital expenditure requirements.

37

NOTE O - QUARTERLY RESULTS (Unaudited)

<TABLE>

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

<CAPTION>

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues	\$655,522	\$712,784	\$788,598	\$755,505
Earnings from Operations	32,321	54,970	83,911	54,053
Net Earnings Available to Common Shareholders	14,374	28,287	46,619	30,792
Net Earnings per Common Share				
Basic	\$.34	\$.66	\$ 1.05	\$.62
Diluted	\$.31	\$.59	\$.94	\$.60

1996

Revenues	\$597,909	\$622,398	\$612,027	\$651,972
Earnings from Operations	10,720	25,815	16,424	26,222
Net Earnings Available to Common Shareholders	1,246	10,621	4,642	10,665
Net Earnings per Common Share				
Basic	\$.03	\$.25	\$.11	\$.25
Diluted	\$.03	\$.24	\$.11	\$.24

</TABLE>

INDEPENDENT AUDITORS' CONSENT

Board of Directors
Airborne Freight Corporation
Seattle, Washington

We consent to the incorporation by reference in Registration Statement Nos. 33-3713, 33-39720, 33-51651 and 33-58905 of Airborne Freight Corporation and subsidiaries on Form S-8 of our reports dated February 13, 1998, appearing in this Annual Report on Form 10-K of Airborne Freight Corporation and subsidiaries for the year ended December 31, 1997.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Seattle, Washington
March 27, 1998

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1997
<PERIOD-START>	JAN-01-1997
<PERIOD-END>	DEC-31-1997
<CASH>	25,525
<SECURITIES>	0
<RECEIVABLES>	332,839
<ALLOWANCES>	10,290
<INVENTORY>	37,966
<CURRENT-ASSETS>	426,552
<PP&E>	1,830,793
<DEPRECIATION>	914,462
<TOTAL-ASSETS>	1,365,973
<CURRENT-LIABILITIES>	330,067
<BONDS>	250,559
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	50,428
<OTHER-SE>	620,487
<TOTAL-LIABILITY-AND-EQUITY>	1,365,973
<SALES>	0
<TOTAL-REVENUES>	2,912,409
<CGS>	0
<TOTAL-COSTS>	2,687,154
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	27,790
<INCOME-PRETAX>	197,465
<INCOME-TAX>	77,393
<INCOME-CONTINUING>	0
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	120,072
<EPS-PRIMARY>	2.68<F1>
<EPS-DILUTED>	2.44<F2>
<FN>	
<F1>EARNINGS PER SHARE - BASIC (IN COMPLIANCE WITH SFAS 128)	
<F2>EARNINGS PER SHARE - DILUTED (IN COMPLIANCE WITH SFAS 128)	
</FN>	

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

EPS RESTATED TO COMPLY WITH SFAS 128

</LEGEND>

<RESTATED>

<MULTIPLIER> 1,000

<S>	<C>	<C>	<C>
<PERIOD-TYPE>	3-MOS	6-MOS	9-MOS
<FISCAL-YEAR-END>	DEC-31-1997	DEC-31-1997	DEC-31-1997
<PERIOD-START>	JAN-01-1997	JAN-01-1997	JAN-01-1997
<PERIOD-END>	MAR-31-1997	JUN-30-1997	SEP-30-1997
<CASH>	10,678	13,857	22,156
<SECURITIES>	0	0	0
<RECEIVABLES>	312,059	315,608	355,414
<ALLOWANCES>	8,530	8,855	10,040
<INVENTORY>	36,617	37,734	36,693
<CURRENT-ASSETS>	390,177	401,771	443,941
<PP&E>	1,726,110	1,724,342	1,759,020
<DEPRECIATION>	862,222	859,337	878,734
<TOTAL-ASSETS>	1,282,006	1,290,998	1,348,751
<CURRENT-LIABILITIES>	275,398	294,422	321,408
<BONDS>	481,378	435,285	0
<PREFERRED-MANDATORY>	0	0	0
<PREFERRED>	0	0	0
<COMMON>	43,281<F1>	43,371<F1>	50,230<F1>
<OTHER-SE>	402,826<F1>	430,375<F1>	588,254<F1>
<TOTAL-LIABILITY-AND-EQUITY>	1,282,006	1,290,998	1,348,751
<SALES>	0	0	0
<TOTAL-REVENUES>	655,522	1,368,306	2,156,904
<CGS>	0	0	0
<TOTAL-COSTS>	623,201	1,281,015	1,985,702
<OTHER-EXPENSES>	0	0	0
<LOSS-PROVISION>	0	0	0
<INTEREST-EXPENSE>	8,447	16,496	23,522
<INCOME-PRETAX>	23,874	70,795	147,680
<INCOME-TAX>	9,500	28,134	58,400
<INCOME-CONTINUING>	14,374	42,661	89,280
<DISCONTINUED>	0	0	0
<EXTRAORDINARY>	0	0	0
<CHANGES>	0	0	0
<NET-INCOME>	14,374	42,661	89,280
<EPS-PRIMARY>	0.34<F1><F2>	0.66<F1><F2>	1.05<F1><F2>
<EPS-DILUTED>	0.31<F1><F3>	0.59<F1><F3>	0.94<F1><F3>
<FN>			

<F1> RESTATED TO REFLECT TWO-FOR-ONE STOCK SPLIT COMPLETED FEBRUARY 1998.

<F2> EARNINGS PER SHARE - BASIC (IN COMPLIANCE WITH SFAS 128)

<F3> EARNINGS PER SHARE - DILUTED (IN COMPLIANCE WITH SFAS 128)

</FN>

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

EPS RESTATED TO COMPLY WITH SFAS 128

</LEGEND>

<RESTATED>

<MULTIPLIER> 1,000

<S>	<C>	<C>	<C>	<C>	<C>
<PERIOD-TYPE>	12-MOS	12-MOS	3-MOS	6-MOS	9-MOS
<FISCAL-YEAR-END>	DEC-31-1995	DEC-31-1996	DEC-31-1996	DEC-31-1996	DEC-31-1996
<PERIOD-START>	JAN-01-1995	JAN-01-1996	JAN-01-1996	JAN-01-1996	JAN-01-1996
<PERIOD-END>	DEC-31-1995	DEC-31-1996	MAR-31-1996	JUN-30-1996	SEP-30-1996
<CASH>	17,906	35,816	12,163	12,362	10,765
<SECURITIES>	0	0	0	0	0
<RECEIVABLES>	267,158	295,860	267,998	270,990	269,276
<ALLOWANCES>	7,750	8,345	7,875	7,915	7,990
<INVENTORY>	33,792	34,761	33,039	35,645	35,221
<CURRENT-ASSETS>	352,128	415,222	345,857	350,836	344,607
<PP&E>	1,582,481	1,695,730	1,612,119	1,662,780	1,711,118
<DEPRECIATION>	739,778	829,103	775,404	808,162	844,604
<TOTAL-ASSETS>	1,217,384	1,307,422	1,211,361	1,230,548	1,234,985
<CURRENT-LIABILITIES>	260,529	273,765	247,310	248,436	241,435
<BONDS>	479,621	524,440	487,736	493,649	501,061
<PREFERRED-MANDATORY>	3,948	0	3,948	0	0
<PREFERRED>	0	0	0	3,948	3,948
<COMMON>	42,796<F1>	43,243<F1>	42,889<F1>	42,899<F1>	42,899<F1>
<OTHER-SE>	363,519<F1>	388,587<F1>	363,554<F1>	372,687<F1>	375,739<F1>
<TOTAL-LIABILITY-AND-EQUITY>	1,217,384	1,307,422	1,211,361	1,230,548	1,234,985
<SALES>	0	0	0	0	0
<TOTAL-REVENUES>	2,239,351	2,484,306	597,909	1,220,307	1,832,334
<CGS>	0	0	0	0	0
<TOTAL-COSTS>	2,170,370	2,405,125	587,189	1,183,772	1,779,375
<OTHER-EXPENSES>	0	0	0	0	0
<LOSS-PROVISION>	0	0	0	0	0
<INTEREST-EXPENSE>	29,347	33,236	8,341	16,532	24,875
<INCOME-PRETAX>	39,634	45,945	2,379	20,003	28,084
<INCOME-TAX>	15,814	18,500	1,065	8,000	11,370
<INCOME-CONTINUING>	0	0	0	12,003	16,714
<DISCONTINUED>	0	0	0	0	0
<EXTRAORDINARY>	0	0	0	0	0
<CHANGES>	0	0	0	0	0
<NET-INCOME>	23,820	27,445	1,246	11,867	16,509
<EPS-PRIMARY>	0.56<F1><F2>	0.64<F1><F2>	0.03<F1><F2>	0.25<F1><F2>	0.11<F1><F2>
<EPS-DILUTED>	0.55<F1><F3>	0.64<F1><F3>	0.03<F1><F3>	0.25<F1><F3>	0.11<F1><F3>

<FN>

<F1> RESTATED TO REFLECT TWO-FOR-ONE STOCK SPLIT COMPLETED FEBRUARY 1998.

<F2> EARNINGS PER SHARE - BASIC (IN COMPLIANCE WITH SFAS 128)

<F3> EARNINGS PER SHARE - DILUTED (IN COMPLIANCE WITH SFAS 128)

</FN>

</TABLE>