

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

November 07, 2013

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-16545**

**Atlas Air Worldwide Holdings, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
(State or other jurisdiction of incorporation)

**13-4146982**  
(IRS Employer Identification No.)

**2000 Westchester Avenue, Purchase, New York**  
(Address of principal executive offices)

**10577**  
(Zip Code)

**(914) 701-8000**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 31, 2013, there were 25,038,629 shares of the registrant's Common Stock outstanding.



**Table of Contents****TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |             |
| Item 1. <u>Financial Statements</u>  |             |
| <u>Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 (unaudited)</u>                                      | 2           |
| <u>Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2013 and 2012 (unaudited)</u>           | 3           |
| <u>Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2013 and 2012 (unaudited)</u> | 4           |
| <u>Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2013 and 2012 (unaudited)</u>                     | 5           |
| <u>Consolidated Statements of Stockholders' Equity as of and for the Nine Months ended September 30, 2013 and 2012 (unaudited)</u> | 6           |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | 7           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | 16          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 30          |
| Item 4. <u>Controls and Procedures</u>   | 30          |
| <b><u>PART II. OTHER INFORMATION</u></b>   |             |
| Item 1. <u>Legal Proceedings</u>   | 31          |
| Item 1A. <u>Risk Factors</u>   | 31          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 32          |
| Item 6. <u>Exhibits</u>  | 32          |
| <u>Signatures</u>  | 33          |
| <u>Exhibit Index</u>   | 34          |

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Atlas Air Worldwide Holdings, Inc.****Consolidated Balance Sheets***(in thousands, except share data)**(Unaudited)*

|   | <b>September 30, 2013</b> | <b>December 31, 2012</b> |
|---|---------------------------|--------------------------|
| <b>Assets</b>   |                           |                          |
| <b>Current Assets</b>   |                           |                          |
| Cash and cash equivalents   | \$ 280,967                | \$ 409,763               |
| Short-term investments  | 11,573                    | 10,119                   |
| Restricted cash   | 5,886                     |                          |
| Accounts receivable, net of allowance of \$1,539 and \$3,172,<br>respectively | 118,515                   | 127,704                  |
| Prepaid maintenance   | 21,004                    | 22,293                   |
| Deferred taxes  | 53,799                    | 26,390                   |
| Prepaid expenses and other current assets                                     | 36,628                    | 36,726                   |
| Total current assets  | 528,372                   | 632,995                  |
| <b>Property and Equipment</b>   |                           |                          |
| Flight equipment  | 2,971,696                 | 2,209,782                |
| Ground equipment  | 45,049                    | 39,230                   |
| Less: accumulated depreciation  | (238,992)                 | (185,419)                |
| Purchase deposits for flight equipment  | 38,978                    | 147,946                  |
| Property and equipment, net   | 2,816,731                 | 2,211,539                |
| <b>Other Assets</b>   |                           |                          |
| Long-term investments and accrued interest                                    | 129,665                   | 140,498                  |
| Deposits and other assets   | 133,238                   | 132,120                  |
| Intangible assets, net  | 35,947                    | 35,533                   |
| <b>Total Assets</b>   | <b>\$ 3,643,953</b>       | <b>\$ 3,152,685</b>      |
| <b>Liabilities and Equity</b>   |                           |                          |
| <b>Current Liabilities</b>  |                           |                          |
| Accounts payable  | \$ 42,700                 | \$ 20,789                |
| Accrued liabilities   | 150,741                   | 152,467                  |
| Current portion of long-term debt   | 262,568                   | 154,760                  |
| Total current liabilities   | 456,009                   | 328,016                  |

**Other Liabilities**

|                   |           |           |
|-------------------|-----------|-----------|
| Long-term debt    | 1,473,685 | 1,149,282 |
| Deferred taxes    | 302,274   | 265,384   |
| Other liabilities | 124,897   | 121,899   |

|                         |           |           |
|-------------------------|-----------|-----------|
| Total other liabilities | 1,900,856 | 1,536,565 |
|-------------------------|-----------|-----------|

**Commitments and contingencies****Equity****Stockholders' Equity**

Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued

|  |     |     |
|--|-----|-----|
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 28,198,464 and 27,672,924 shares issued, 25,037,540 and 26,443,441, shares outstanding (net of treasury stock), as of September 30, 2013 and December 31, 2012, respectively | 282 | 277 |
|--|-----|-----|

|                            |         |         |
|----------------------------|---------|---------|
| Additional paid-in-capital | 557,078 | 544,421 |
|----------------------------|---------|---------|

|   |           |          |
|---|-----------|----------|
| Treasury stock, at cost; 3,160,924 and 1,229,483 shares, respectively | (125,796) | (44,850) |
|---|-----------|----------|

|                                      |          |          |
|--------------------------------------|----------|----------|
| Accumulated other comprehensive loss | (12,790) | (14,263) |
|--------------------------------------|----------|----------|

|                   |         |         |
|-------------------|---------|---------|
| Retained earnings | 862,555 | 798,676 |
|-------------------|---------|---------|

|                            |           |           |
|----------------------------|-----------|-----------|
| Total stockholders' equity | 1,281,329 | 1,284,261 |
|----------------------------|-----------|-----------|

|                         |       |       |
|-------------------------|-------|-------|
| Noncontrolling interest | 5,759 | 3,843 |
|-------------------------|-------|-------|

|              |           |           |
|--------------|-----------|-----------|
| Total equity | 1,287,088 | 1,288,104 |
|--------------|-----------|-----------|

|                                     |                     |                     |
|-------------------------------------|---------------------|---------------------|
| <b>Total Liabilities and Equity</b> | <b>\$ 3,643,953</b> | <b>\$ 3,152,685</b> |
|-------------------------------------|---------------------|---------------------|

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**Table of Contents****Atlas Air Worldwide Holdings, Inc.****Consolidated Statements of Operations***(in thousands, except per share data)**(Unaudited)*

|  | <b>For the Three Months<br/>Ended</b> |                               | <b>For the Nine Months Ended</b> |                               |
|--|---------------------------------------|-------------------------------|----------------------------------|-------------------------------|
|  | <b>September 30,<br/>2013</b>         | <b>September 30,<br/>2012</b> | <b>September 30,<br/>2013</b>    | <b>September 30,<br/>2012</b> |
| <b>Operating Revenue</b>                     |                                       |                               |                                  |                               |
| ACMI   | \$ 189,583                            | \$ 177,722                    | \$ 552,710                       | \$ 492,846                    |
| AMC charter                                  | 95,668                                | 117,377                       | 287,840                          | 376,685                       |
| Commercial charter                           | 104,605                               | 108,078                       | 313,488                          | 305,852                       |
| Dry leasing                                  | 11,874                                | 3,057                         | 21,844                           | 8,864                         |
| Other  | 3,660                                 | 3,017                         | 10,417                           | 9,013                         |
| <b>Total Operating Revenue</b>               | <b>405,390</b>                        | <b>409,251</b>                | <b>1,186,299</b>                 | <b>1,193,260</b>              |
| <b>Operating Expenses</b>                    |                                       |                               |                                  |                               |
| Aircraft fuel                                | 93,434                                | 99,080                        | 289,535                          | 311,414                       |
| Salaries, wages and benefits                 | 74,167                                | 71,386                        | 219,216                          | 215,640                       |
| Maintenance, materials and repairs           | 31,306                                | 40,524                        | 133,152                          | 136,875                       |
| Aircraft rent                                | 48,448                                | 44,133                        | 130,703                          | 126,309                       |
| Depreciation and amortization                | 23,661                                | 16,612                        | 61,840                           | 44,792                        |
| Passenger and ground handling services       | 18,037                                | 18,711                        | 52,109                           | 50,100                        |
| Navigation fees, landing fees and other rent | 16,438                                | 15,153                        | 46,901                           | 44,090                        |
| Travel                                       | 14,535                                | 14,746                        | 43,485                           | 42,189                        |
| Loss (gain) on disposal of aircraft          | 501                                   | (1,058)                       | 79                               | (2,417)                       |
| Other  | 27,157                                | 27,699                        | 80,515                           | 85,306                        |
| <b>Total Operating Expenses</b>              | <b>347,684</b>                        | <b>346,986</b>                | <b>1,057,535</b>                 | <b>1,054,298</b>              |
| <b>Operating Income</b>                      | <b>57,706</b>                         | <b>62,265</b>                 | <b>128,764</b>                   | <b>138,962</b>                |
| <b>Non-operating Expenses (Income)</b>       |                                       |                               |                                  |                               |
| Interest income                              | (4,849)                               | (4,833)                       | (15,003)                         | (14,629)                      |
| Interest expense                             | 22,594                                | 17,004                        | 61,711                           | 46,598                        |
| Capitalized interest                         | (291)                                 | (4,052)                       | (1,985)                          | (16,356)                      |
| Loss on early extinguishment of debt         | 4,524                                 | 143                           | 5,518                            | 285                           |
| Other expense (income), net                  | (241)                                 | (331)                         | 1,415                            | 454                           |
| <b>Total Non-operating Expenses (Income)</b> | <b>21,737</b>                         | <b>7,931</b>                  | <b>51,656</b>                    | <b>16,352</b>                 |

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Income before income taxes                                       | 35,969           | 54,334           | 77,108           | 122,610          |
| Income tax expense   | 11,247           | 19,759           | 11,320           | 45,899           |
| <b>Net Income</b>  | <b>24,722</b>    | <b>34,575</b>    | <b>65,788</b>    | <b>76,711</b>    |
| Less: Net income (loss) attributable to noncontrolling interests | 981              | 717              | 1,909            | (834)            |
| <b>Net Income Attributable to Common Stockholders</b>            | <b>\$ 23,741</b> | <b>\$ 33,858</b> | <b>\$ 63,879</b> | <b>\$ 77,545</b> |
| <b>Earnings per share:</b>                                       |                  |                  |                  |                  |
| Basic  | \$ 0.94          | \$ 1.28          | \$ 2.48          | \$ 2.94          |
| Diluted  | \$ 0.94          | \$ 1.27          | \$ 2.48          | \$ 2.92          |
| <b>Weighted average shares:</b>                                  |                  |                  |                  |                  |
| Basic  | 25,124           | 26,443           | 25,710           | 26,410           |
| Diluted  | 25,212           | 26,580           | 25,784           | 26,527           |

*See accompanying Notes to Unaudited Consolidated Financial Statements*



Table of Contents

## Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Comprehensive Income

*(in thousands)**(Unaudited)*

|  | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |
|--|-------------------------------|-----------------------|------------------------------|-----------------------|
|  | September 30,<br>2013         | September 30,<br>2012 | September 30,<br>2013        | September 30,<br>2012 |
| <b>Net Income</b>  | \$ 24,722                     | \$ 34,575             | \$ 65,788                    | \$ 76,711             |
| <b>Other comprehensive income (loss):</b>                                  |                               |                       |                              |                       |
| Interest rate derivatives:   |                               |                       |                              |                       |
| Net change in fair value   |                               |                       |                              | (713)                 |
| Reclassification into earnings   | 764                           | 817                   | 2,301                        | 1,849                 |
| Income tax benefit (expense)   | (277)                         | (286)                 | (835)                        | (398)                 |
| Foreign currency translation:  |                               |                       |                              |                       |
| Translation adjustment   | 356                           | 173                   | 14                           | 250                   |
| Income tax benefit (expense)   |                               | 137                   |                              | 121                   |
| Other comprehensive income (loss)  | 843                           | 841                   | 1,480                        | 1,109                 |
| <b>Comprehensive Income</b>  | <b>25,565</b>                 | <b>35,416</b>         | <b>67,268</b>                | <b>77,820</b>         |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 1,163                         | 875                   | 1,916                        | (645)                 |
| <b>Comprehensive Income Attributable to Common Stockholders</b>            | <b>\$ 24,402</b>              | <b>\$ 34,541</b>      | <b>\$ 65,352</b>             | <b>\$ 78,465</b>      |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**Table of Contents****Atlas Air Worldwide Holdings, Inc.****Consolidated Statements of Cash Flows***(in thousands)**(Unaudited)*

|   | <b>For the Nine Months Ended</b> |                           |
|---|----------------------------------|---------------------------|
|   | <b>September 30, 2013</b>        | <b>September 30, 2012</b> |
| <b>Operating Activities:</b>  |                                  |                           |
| Net Income Attributable to Common Stockholders                                    | \$ 63,879                        | \$ 77,545                 |
| Net income (loss) attributable to noncontrolling interests                        | 1,909                            | (834)                     |
| Net Income  | 65,788                           | 76,711                    |
| Adjustments to reconcile Net Income to net cash provided by operating activities: |                                  |                           |
| Depreciation and amortization   | 73,324                           | 51,509                    |
| Accretion of debt securities discount   | (6,758)                          | (6,454)                   |
| Provision for allowance for doubtful accounts                                     | 217                              | 897                       |
| Loss on early extinguishment of debt  | 5,518                            | 285                       |
| Loss (gain) on disposal of aircraft   | 79                               | (2,417)                   |
| Deferred taxes  | 10,511                           | 45,346                    |
| Stock-based compensation expense  | 12,176                           | 12,243                    |
| Changes in:   |                                  |                           |
| Accounts receivable   | 6,818                            | (334)                     |
| Prepaid expenses and other current assets   | 12,494                           | 38,991                    |
| Deposits and other assets   | 2,834                            | (10,315)                  |
| Accounts payable and accrued liabilities  | 24,665                           | (9,256)                   |
| Net cash provided by operating activities   | 207,666                          | 197,206                   |
| <b>Investing Activities:</b>  |                                  |                           |
| Capital expenditures  | (24,860)                         | (26,732)                  |
| Purchase deposits and delivery payments for flight equipment                      | (561,979)                        | (312,494)                 |
| Changes in restricted cash  | (5,886)                          |                           |
| Investment in debt securities   |                                  | (1,179)                   |
| Proceeds from short-term investments  | 4,672                            | 4,342                     |
| Proceeds from insurance   | 9,109                            |                           |
| Proceeds from disposal of aircraft  | 4,250                            | 2,715                     |
| Net cash used for investing activities  | (574,694)                        | (333,348)                 |
| <b>Financing Activities:</b>  |                                  |                           |
| Proceeds from debt issuance   | 709,484                          | 639,628                   |
| Refund of accelerated share repurchase  | 21,886                           |                           |
| Prepayment of accelerated share repurchase  | (21,886)                         |                           |
| Purchase of treasury stock  | (80,946)                         | (3,318)                   |

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|  |            |            |
|--|------------|------------|
| Excess tax benefit from stock-based compensation expense | 472        | 550        |
| Payment of debt issuance costs                           | (19,682)   | (24,808)   |
| Payments of debt   | (371,096)  | (347,232)  |
| Net cash provided by financing activities                | 238,232    | 264,820    |
| Net (decrease) increase in cash and cash equivalents     | (128,796)  | 128,678    |
| Cash and cash equivalents at the beginning of period     | 409,763    | 187,111    |
| Cash and cash equivalents at the end of period           | \$ 280,967 | \$ 315,789 |
| <b>Non-cash Investing and Financing Activities:</b>      |            |            |
| Acquisition of flight equipment and assumed debt         | \$ 90,498  | \$         |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

Table of Contents

## Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Stockholders Equity

*(in thousands, except share data)**(Unaudited)*

|   | Common<br>Stock | Treasury<br>Stock | Accumulated<br>Additional<br>Paid-In<br>Capital | Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|---|-----------------|-------------------|---|---|----------------------|----------------------------------|----------------------------|-----------------|
| <b>Balance at<br/>December 31,<br/>2011</b>             | \$ 275          | \$ (41,499)       | \$ 525,670                                      | \$ (15,683)                             | \$ 668,749           | \$ 1,137,512                     | \$ 3,863                   | \$ 1,141,375    |
| Net Income (loss)                                       |                 |                   |   |   | 77,545               | 77,545                           | (834)                      | 76,711          |
| Other<br>comprehensive<br>income (loss)                 |                 |                   |   | 920                                     |                      | 920                              | 189                        | 1,109           |
| Stock option and<br>restricted stock<br>compensation    |                 |                   | 12,243  |   |                      | 12,243                           |                            | 12,243          |
| Purchase of 71,488<br>shares of treasury<br>stock       |                 | (3,318)           |   |   |                      | (3,318)                          |                            | (3,318)         |
| Issuance of<br>209,057 shares of<br>restricted stock    | 2               |                   | (2)   |   |                      |                                  |                            |                 |
| Tax benefit on<br>restricted stock and<br>stock options |                 |                   | 550   |   |                      | 550                              |                            | 550             |
| <b>Balance at<br/>September 30,<br/>2012</b>            | \$ 277          | \$ (44,817)       | \$ 538,461                                      | \$ (14,763)                             | \$ 746,294           | \$ 1,225,452                     | \$ 3,218                   | \$ 1,228,670    |

|   | Common<br>Stock | Treasury<br>Stock | Accumulated<br>Additional<br>Paid-In<br>Capital | Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|---|-----------------|-------------------|---|---|----------------------|----------------------------------|----------------------------|-----------------|
| <b>Balance at<br/>December 31,<br/>2012</b> | \$ 277          | \$ (44,850)       | \$ 544,421                                      | \$ (14,263)                             | \$ 798,676           | \$ 1,284,261                     | \$ 3,843                   | \$ 1,288,104    |
| Net Income (loss)                           |                 |                   |   |   | 63,879               | 63,879                           | 1,909                      | 65,788          |
|   |                 |                   |   | 1,473                                   |                      | 1,473                            | 7                          | 1,480           |

|   |               |                     |                   |                    |                   |                     |                 |                     |
|---|---------------|---------------------|-------------------|--------------------|-------------------|---------------------|-----------------|---------------------|
| Other comprehensive income (loss)                 |               |                     |                   |                    |                   |                     |                 |                     |
| Stock option and restricted stock compensation    |               |                     | 12,176            |                    |                   | 12,176              |                 | 12,176              |
| Purchase of 1,931,441 shares of treasury stock    |               | (80,946)            |                   |                    |                   | (80,946)            |                 | (80,946)            |
| Issuance of 525,540 shares of restricted stock    | 5             |                     | (5)               |                    |                   |                     |                 |                     |
| Prepayment of accelerated share repurchase        |               |                     | (21,886)          |                    |                   | (21,886)            |                 | (21,886)            |
| Refund of accelerated share repurchase            |               |                     | 21,886            |                    |                   | 21,886              |                 | 21,886              |
| Reversal of prior year deferred tax               |               |                     | 14                |                    |                   | 14                  |                 | 14                  |
| Tax benefit on restricted stock and stock options |               |                     | 472               |                    |                   | 472                 |                 | 472                 |
| <b>Balance at September 30, 2013</b>              | <b>\$ 282</b> | <b>\$ (125,796)</b> | <b>\$ 557,078</b> | <b>\$ (12,790)</b> | <b>\$ 862,555</b> | <b>\$ 1,281,329</b> | <b>\$ 5,759</b> | <b>\$ 1,287,088</b> |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**Table of Contents**

**Atlas Air Worldwide Holdings, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2013**

**1. Basis of Presentation**

Our consolidated financial statements include the accounts of the holding company, Atlas Air Worldwide Holdings, Inc. ( AAWW ) and its consolidated subsidiaries. AAWW is the parent company of its principal operating subsidiary, Atlas Air, Inc. ( Atlas ), and of Polar Air Cargo LLC ( Old Polar ). AAWW is also the parent company of several subsidiaries related to our dry leasing services (collectively referred to as Titan ). In addition, we are the primary beneficiary of Global Supply Systems Limited ( GSS ), a consolidated subsidiary. AAWW has a 51% equity interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. ( Polar ). We record our share of Polar s results under the equity method of accounting.

The terms we, us, our, and the Company mean AAWW and all entities included in its consolidated financial statements.

We provide outsourced aircraft and aviation operating solutions throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance ( ACMI ), as well as those through which we provide crew, maintenance and insurance services, with the customer providing the aircraft ( CMI ); (ii) military charter services provided to the U.S. Military Air Mobility Command (the AMC ) ( AMC Charter ); (iii) seasonal, commercial and ad hoc charter services ( Commercial Charter ); and (iv) dry leasing of aircraft and engines ( Dry Leasing or Dry Lease ).

The accompanying unaudited consolidated financial statements and related notes (the Financial Statements ) have been prepared in accordance with the U.S. Securities and Exchange Commission (the SEC ) requirements for quarterly reports on Form 10-Q, and consequently exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). All significant intercompany accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes included in the AAWW Annual Report on Form 10-K for the year ended December 31, 2012, which includes additional disclosures and a summary of our significant accounting policies. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of September 30, 2013, the results of operations for the three and nine months ended September 30, 2013 and 2012, comprehensive income for the three and nine months ended September 30, 2013 and 2012, cash flows for the nine months ended September 30, 2013 and 2012, and shareholders equity as of and for the nine months ended September 30, 2013 and 2012.

Our quarterly results are subject to seasonal and other fluctuations, and the operating results for any quarter are therefore not necessarily indicative of results that may be otherwise expected for the entire year.

Except for per share data, all dollar amounts are in thousands unless otherwise noted.

**2. Recently Adopted Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board issued new guidance requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. The new guidance was effective as of the beginning of 2013 and its adoption did not have any impact on our financial condition, results of operations or cash flows.

**Table of Contents****3. Related Parties*****DHL Investment and Polar***

DHL Network Operations (USA), Inc. ( DHL ), a subsidiary of Deutsche Post AG ( DP ), holds a 49% equity interest and a 25% voting interest in Polar. Polar is a variable interest entity that is not consolidated because we are not the primary beneficiary as the risks associated with the direct costs of operation are with DHL. Under a 20-year blocked space agreement (the BSA ), Polar provides air cargo capacity to DHL through Polar s network. Atlas has several agreements with Polar to provide ACMI, CMI, administrative, sales and ground support services to one another. We do not have any financial exposure to fund debt obligations or operating losses of Polar, except for any liquidated damages that we could incur under these agreements. The following table summarizes our transactions with Polar:

| Revenue and Expenses:                          | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2013         | September 30, 2012 | September 30, 2013        | September 30, 2012 |
| ACMI segment revenue from Polar                | \$ 70,821                  | \$ 67,489          | \$ 212,873                | \$ 189,169         |
| Other revenue from Polar                       | \$ 2,842                   | \$ 2,837           | \$ 8,538                  | \$ 8,512           |
| Ground handling and airport fees paid to Polar | \$ 258                     | \$ 1,129           | \$ 908                    | \$ 3,315           |

| Accounts receivable/payable as of: | September 30, 2013 | December 31, 2012 |
|------------------------------------|--------------------|-------------------|
| Receivables from Polar             | \$ 5,591           | \$ 4,264          |
| Payables to Polar                  | \$ 742             | \$ 140            |

| Aggregate Carrying Value of Polar Investment as of: | September 30, 2013 | December 31, 2012 |
|---|--------------------|-------------------|
|   | \$ 4,870           | \$ 4,870          |

***GATS***

We hold a 50% equity and voting interest in Global Aviation Technical Solutions Co. Ltd. ( GATS ), a joint venture with an unrelated third party. The purpose of the joint venture is to purchase rotatable parts and source repair services for those parts, primarily for our 747-8F aircraft. The joint venture is a variable interest entity and we have not consolidated GATS because we are not the primary beneficiary as we do not exercise financial control. As of September 30, 2013 and December 31, 2012, our investment in GATS was \$12.2 million and \$12.3 million, respectively, and our maximum exposure to losses from the entity is limited to our investment, which is comprised primarily of rotatable inventory parts. GATS does not have any third-party debt obligations.

**4. Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Inputs used to measure fair value are classified in the following hierarchy:



- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Other inputs that are observable directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, or inactive quoted prices for identical assets or liabilities in inactive markets;
- Level 3 Unobservable inputs reflecting assumptions about the inputs used in pricing the asset or liability.

We endeavor to utilize the best available information to measure fair value.

We maintain Cash and cash equivalents, Short-term investments and Restricted cash, which include cash on hand, demand deposits, other cash investments that are highly liquid in nature and have original maturities of three months or less at acquisition, money market funds, certificates of deposit and the current portion of debt securities. The carrying value of Cash and cash equivalents, Short-term investments and Restricted cash is based on cost, which approximates fair value.

**Table of Contents**

Long-term investments consist of debt securities for which we have both the ability and the intent to hold until maturity. These investments are classified as held-to-maturity and reported at amortized cost. The fair value of our Long-term investments is based on a discounted cash flow analysis using the contractual cash flows of the investments and a discount rate derived from unadjusted quoted interest rates for debt securities of comparable risk. Such debt securities represent investments in Pass-Through Trust Certificates related to enhanced equipment trust certificates ( EETCs ) issued by Atlas in 1998, 1999 and 2000. Interest on debt securities and accretion of discounts using the effective interest method are included in Interest income.

The fair value of our EETCs is measured based on Level 3 inputs. When available, we use quoted market prices of our equipment notes as a basis for valuing the EETCs. If not available, fair value is based on a discounted cash flow analysis using current borrowing rates for instruments with similar terms.

The fair values of our term loans and the Export-Import Bank of the United States ( Ex-Im Bank ) guaranteed notes are based on a discounted cash flow analysis using current borrowing rates for instruments with similar terms.

The following table summarizes the carrying amount, estimated fair value and classification of our financial instruments as of:

|  | <b>September 30, 2013</b> |                   |                |                |                |
|--|---------------------------|-------------------|----------------|----------------|----------------|
|  | <b>Carrying<br/>Value</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                              |                           |                   |                |                |                |
| Cash and cash equivalents                  | \$ 280,967                | \$ 280,967        | \$ 280,967     | \$             | \$             |
| Short-term investments                     | 11,573                    | 11,573            |                |                | 11,573         |
| Restricted cash                            | 5,886                     | 5,886             | 5,886          |                |                |
| Long-term investments and accrued interest | 129,665                   | 176,112           |                |                | 176,112        |
|  | \$ 428,091                | \$ 474,538        | \$ 286,853     | \$             | \$ 187,685     |
| <b>Liabilities</b>                         |                           |                   |                |                |                |
| Term loans                                 | \$ 716,004                | \$ 711,678        | \$             | \$             | \$ 711,678     |
| Ex-Im Bank guaranteed notes                | 756,043                   | 727,642           |                |                | 727,642        |
| EETCs                                      | 264,206                   | 342,344           |                |                | 342,344        |
|  | \$ 1,736,253              | \$ 1,781,664      | \$             | \$             | \$ 1,781,664   |

|  | <b>December 31, 2012</b>  |                   |                |                |                |
|--|---------------------------|-------------------|----------------|----------------|----------------|
|  | <b>Carrying<br/>Value</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                              |                           |                   |                |                |                |
| Cash and cash equivalents                  | \$ 409,763                | \$ 409,763        | \$ 409,763     | \$             | \$             |
| Short-term investments                     | 10,119                    | 10,119            |                |                | 10,119         |
| Long-term investments and accrued interest | 140,498                   | 177,740           |                |                | 177,740        |

|  |            |            |            |    |            |
|--|------------|------------|------------|----|------------|
|  | \$ 560,380 | \$ 597,622 | \$ 409,763 | \$ | \$ 187,859 |
|--|------------|------------|------------|----|------------|

**Liabilities**

|                             |              |              |    |    |              |
|-----------------------------|--------------|--------------|----|----|--------------|
| Term loans                  | \$ 450,652   | \$ 461,530   | \$ | \$ | \$ 461,530   |
| Ex-Im Bank guaranteed notes | 560,078      | 556,742      |    |    | 556,742      |
| EETCs                       | 293,312      | 325,187      |    |    | 325,187      |
|                             | \$ 1,304,042 | \$ 1,343,459 | \$ | \$ | \$ 1,343,459 |

The following table presents the carrying value, gross unrealized gain (loss) and fair value of our long-term investments by contractual maturity as of:

|                                     | September 30, 2013 |                              |            | December 31, 2012 |                              |            |
|-------------------------------------|--------------------|------------------------------|------------|-------------------|------------------------------|------------|
|                                     | Carrying Value     | Gross Unrealized Gain (Loss) | Fair Value | Carrying Value    | Gross Unrealized Gain (Loss) | Fair Value |
| <b>Debt securities</b>              |                    |                              |            |                   |                              |            |
| Due after one but within five years | \$                 | \$                           | \$         | \$ 8,365          | \$ 1,404                     | \$ 9,769   |
| Due after five but within ten years | 129,665            | 46,447                       | 176,112    | 132,133           | 35,838                       | 167,971    |
| <b>Total</b>                        | \$ 129,665         | \$ 46,447                    | \$ 176,112 | \$ 140,498        | \$ 37,242                    | \$ 177,740 |

**Table of Contents****5. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

|                              | September 30, 2013 | December 31, 2012 |
|------------------------------|--------------------|-------------------|
| Maintenance                  | \$ 41,361          | \$ 38,475         |
| Salaries, wages and benefits | 27,356             | 32,734            |
| Aircraft fuel                | 18,616             | 19,882            |
| Deferred revenue             | 18,435             | 18,619            |
| Other                        | 44,973             | 42,757            |
| Accrued liabilities          | \$ 150,741         | \$ 152,467        |

**6. Debt*****Ex-Im Bank Guaranteed Notes***

On January 30, 2012, we entered into a term loan facility for up to \$864.8 million with Apple Bank for Savings, guaranteed by Ex-Im Bank to finance up to six 747-8F aircraft deliveries (the Ex-Im Bank Facility). The Ex-Im Bank Facility consists of up to six separate term loans, each secured by a mortgage on a 747-8F aircraft. In connection with entry into the Ex-Im Bank Facility, we have agreed to pay usual and customary commitment and other fees associated with this type of financing. Borrowings under the Ex-Im Bank Facility initially accrue interest at a variable rate, payable quarterly at London InterBank Offered Rate (LIBOR), plus a margin. The Ex-Im Bank Facility provides options to refinance the loans through the issuance of bonds in the capital markets or to convert the loans to a fixed rate. The Ex-Im Bank Facility contains customary covenants and event of default provisions. In addition, there are certain operating conditions under the Ex-Im Bank Facility that we must meet.

On May 16, 2013, we borrowed \$143.0 million under the Ex-Im Bank Facility as a variable-rate loan secured by a mortgage against one 747-8F (aircraft tail number N855GT). On May 28, 2013, we refinanced the loan through the issuance of twelve-year fixed-rate notes in the amount of \$143.0 million (the First 2013 Ex-Im Guaranteed Notes). The First 2013 Ex-Im Guaranteed Notes accrue interest at a fixed rate of 1.83% with principal and interest payable quarterly.

On July 10, 2013, we purchased a 777-200LRF aircraft that is being leased to a customer on a long-term basis. As part of the transaction, we assumed a \$90.5 million term loan secured by a mortgage on the aircraft (manufacturer serial number 35606) with a remaining term of 93 months (the Second 2013 Term Loan). The Second 2013 Term Loan is guaranteed by Ex-Im Bank although it is not part of our Ex-Im Bank Facility. On September 27, 2013, we refinanced the Second 2013 Term Loan through the issuance of fixed-rate notes with a remaining term of 90 months in the amount of \$88.0 million (the Second 2013 Ex-Im Guaranteed Notes). The Second 2013 Ex-Im Guaranteed Notes accrue interest at a fixed rate of 1.84% with principal and interest payable quarterly.

***Term Loans***

On March 7, 2013, we entered into a \$119.5 million term loan secured by a mortgage on a 777-200LRF aircraft (manufacturer serial number 36201) for a period of 89 months with a final payment of \$62.4 million due in July 2020 (the First 2013 Term Loan). In connection with entry into the First 2013 Term Loan, we paid usual and customary

fees. The First 2013 Term Loan accrues interest at a variable rate, payable quarterly, at LIBOR plus a margin and contains customary covenants and event of default provisions.

On March 28, 2013, we entered into a \$105.4 million six-month term loan secured by a mortgage on a 747-8F aircraft (aircraft tail number N854GT) (the First 2013 Bridge Loan ). On September 27, 2013, the First 2013 Bridge Loan was extended to March 28, 2014. In connection with entry into the First 2013 Bridge Loan, we paid usual and customary fees. The First 2013 Bridge Loan accrues interest at a variable rate, payable monthly, at LIBOR plus a margin and contains customary covenants and event of default provisions.

On July 31, 2013, we entered into a \$110.0 million term loan secured by a mortgage on a 777-200LRF aircraft (manufacturer serial number 36200) for a period of 88 months with a final payment of \$50.0 million due in November 2020 (the Third 2013 Term Loan ). In connection with entry into the Third 2013 Term Loan, we paid usual and customary fees. The Third 2013 Term Loan accrues interest at a fixed rate of 4.18% with principal and interest payable quarterly and contains customary covenants and event of default provisions.

**Table of Contents****7. Segment Reporting**

We have the following four reportable segments: ACMI (which includes CMI), AMC Charter, Commercial Charter and Dry Leasing. We use an economic performance metric ( Direct Contribution ) that shows the profitability of each segment after allocation of operating and ownership costs. The following table sets forth Operating Revenue and Direct Contribution for our reportable business segments reconciled to Operating Income and Income before Income Taxes:

|  | For the Three Months Ended |                    | For the Nine Months Ended |                     |
|--|----------------------------|--------------------|---------------------------|---------------------|
|  | September 30, 2013         | September 30, 2012 | September 30, 2013        | September 30, 2012  |
| <b>Operating Revenue:</b>                                |                            |                    |                           |                     |
| ACMI   | \$ 189,583                 | \$ 177,722         | \$ 552,710                | \$ 492,846          |
| AMC Charter  | 95,668                     | 117,377            | 287,840                   | 376,685             |
| Commercial Charter                                       | 104,605                    | 108,078            | 313,488                   | 305,852             |
| Dry Leasing  | 11,874                     | 3,057              | 21,844                    | 8,864               |
| Other  | 3,660                      | 3,017              | 10,417                    | 9,013               |
| <b>Total Operating Revenue</b>                           | <b>\$ 405,390</b>          | <b>\$ 409,251</b>  | <b>\$ 1,186,299</b>       | <b>\$ 1,193,260</b> |
| <b>Direct Contribution:</b>                              |                            |                    |                           |                     |
| ACMI   | \$ 62,587                  | \$ 51,625          | \$ 157,594                | \$ 116,573          |
| AMC Charter  | 14,749                     | 25,437             | 40,144                    | 76,002              |
| Commercial Charter                                       | (3,859)                    | 3,602              | (15,023)                  | 15,559              |
| Dry Leasing  | 4,681                      | 1,378              | 8,294                     | 3,967               |
| <b>Total Direct Contribution for Reportable Segments</b> | <b>78,158</b>              | <b>82,042</b>      | <b>191,009</b>            | <b>212,101</b>      |
| Add back (subtract):                                     |                            |                    |                           |                     |
| Unallocated income and expenses, net                     | (37,164)                   | (28,623)           | (108,304)                 | (91,623)            |
| Loss on early extinguishment of debt                     | (4,524)                    | (143)              | (5,518)                   | (285)               |
| Loss (gain) on disposal of aircraft                      | (501)                      | 1,058              | (79)                      | 2,417               |
| <b>Income before Income Taxes</b>                        | <b>35,969</b>              | <b>54,334</b>      | <b>77,108</b>             | <b>122,610</b>      |
| Add back (subtract):                                     |                            |                    |                           |                     |
| Interest income  | (4,849)                    | (4,833)            | (15,003)                  | (14,629)            |
| Interest expense   | 22,594                     | 17,004             | 61,711                    | 46,598              |
| Capitalized interest                                     | (291)                      | (4,052)            | (1,985)                   | (16,356)            |
| Loss on early extinguishment of debt                     | 4,524                      | 143                | 5,518                     | 285                 |
| Other expense (income), net                              | (241)                      | (331)              | 1,415                     | 454                 |
| <b>Operating Income</b>                                  | <b>\$ 57,706</b>           | <b>\$ 62,265</b>   | <b>\$ 128,764</b>         | <b>\$ 138,962</b>   |

We are exposed to a concentration of revenue to the AMC and Polar (see Note 3 for further discussion regarding Polar). No other customer accounted for 10.0% of our Total Operating Revenue. We have not experienced any credit issues with either of these customers.

## **8. Legal Proceedings**

### ***Department of Justice Investigation and Related Litigation***

In 2010, Old Polar entered into a plea agreement with the United States Department of Justice (the DOJ) relating to the previously disclosed DOJ investigation concerning alleged manipulation by cargo carriers of fuel surcharges and other rate components for air cargo services (the DOJ Investigation).

As a result of the DOJ Investigation, the Company and Old Polar have been named defendants, along with a number of other cargo carriers, in several class actions in the United States arising from allegations about the pricing practices of a number of air cargo carriers that have now been consolidated for pretrial purposes in the United States District Court for the Eastern District of New York. The consolidated complaint alleges, among other things, that the defendants, including the Company and Old Polar, manipulated the market price for air cargo services sold domestically and abroad through the use of surcharges, in violation of United States, state, and European Union antitrust laws. The suit seeks treble damages and injunctive relief.

## **Table of Contents**

In 2007, the Company and Old Polar commenced an adversary proceeding in bankruptcy court against each of the plaintiffs in this class action litigation seeking to enjoin the plaintiffs from prosecuting claims against the Company and Old Polar that arose prior to 2004, the date on which the Company and Old Polar emerged from bankruptcy. In 2007, the plaintiffs consented to the injunctive relief requested and the bankruptcy court entered an order enjoining plaintiffs from prosecuting Company claims arising prior to 2004.

The court in the antitrust class actions has heard and decided a number of procedural motions. Among those was the plaintiffs' motion to join Polar Air Cargo Worldwide, Inc. as an additional defendant, which the court granted on April 13, 2011. There was substantial pretrial written discovery and document production, and a number of depositions were taken. A court hearing on whether or not to certify the case as a class action was held in October 2013 and oral arguments have been scheduled for November 2013. We are unable to reasonably predict the court's ruling or the ultimate outcome of the litigation.

The Company, Old Polar and a number of other cargo carriers have also been named as defendants in civil class action suits in the provinces of British Columbia, Ontario and Quebec, Canada that are substantially similar to the class action suits in the United States. The plaintiffs in the British Columbia case have indicated they do not intend to pursue their lawsuit against the Company and Old Polar. We are unable to reasonably predict the outcome of the litigation in Ontario and Quebec.

If the Company or Old Polar were to incur an unfavorable outcome in connection with one or more of the matters described above, such outcome is not expected to materially affect our business, financial condition, results of operations, and/or cash flows.

### ***Brazilian Customs Claim***

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$8.7 million in aggregate based on September 30, 2013 exchange rates.

In both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. Furthermore, we may seek appropriate indemnity from the shipper in each claim as may be feasible. In the pending claim for one of the cases, we have received an administrative decision dismissing the claim in its entirety, which remains subject to a mandatory appeal by the Brazil customs authorities. As required to defend such claims, we have made deposits pending resolution of these matters. The balances were \$5.9 million as of September 30, 2013 and \$6.3 million as of December 31, 2012, and are included in Deposits and other assets.

We are currently defending these and other Brazilian customs claims and the ultimate disposition of these claims, either individually or in the aggregate, is not expected to materially affect our financial condition, results of operations or cash flows.

### ***Trademark Matters***

Since 2005, we have been involved in ongoing litigation in Europe against Atlas Transport, an unrelated and unaffiliated entity, over the use of the name "Atlas". Following application by us to register the mark "ATLAS AIR" in the European Union (EU), opposition from Atlas Transport and follow-up filings by us, the Office for Harmonization in



the Internal Market ( OHIM ), which handles trademark matters in the EU, declared Atlas Transport's own trademark ATLAS partially invalid because of the prior existence of our Benelux trademark registration. In 2008, OHIM's First Board of Appeal upheld the lower panel's decision, and Atlas Transport appealed that decision to the EU General Court (formally the Court of First Instance), which upheld the court's decision on May 18, 2011. Atlas Transport appealed that ruling to the European Court of Justice ( ECJ ). On March 9, 2012, the ECJ denied the appeal, bringing to an end that aspect of the OHIM proceedings. The Company's request for OHIM to resume another aspect of the proceedings remains pending.

## **Table of Contents**

In 2007, Atlas Transport also filed a lawsuit in the Netherlands challenging the validity of our Benelux trademark. In 2009, following completion of its proceedings, the court issued a judgment in favor of us. Atlas Transport appealed that decision to the Dutch Court of Appeal, but the judgment took effect immediately upon entry. The appeal remains pending and an oral hearing is currently scheduled for March 20, 2014.

In 2009, Atlas Transport instituted a trademark infringement lawsuit against us in the regional court in Hamburg, Germany. The amended complaint alleges that Atlas Air has been unlawfully using Atlas Transport's trademark in Germany without permission and should be required to render information on the scope of use and pay compensation. In a supplementary motion, Atlas Transport asserts a cease and desist claim against Atlas Air, to be considered if the court denies the claim for compensation. On May 31, 2011, the court dismissed the case and Atlas Transport filed an appeal, which remains pending.

We believe that the ultimate disposition of these claims, either individually or in the aggregate, will not materially affect our financial condition, results of operations or cash flows.

### ***Other***

We have certain other contingencies incident to the ordinary course of business. Management believes that the ultimate disposition of such other contingencies is not expected to materially affect our financial condition, results of operations or cash flows.

## **9. Stock Repurchase**

In 2008, we announced a stock repurchase program authorizing the repurchase of up to \$100.0 million of our common stock, of which we have purchased a total of \$91.0 million. In November 2013, we announced an increase of \$51.0 million to our stock repurchase program authorization, resulting in \$60.0 million of available authorization remaining. Purchases may be made at our discretion in the form of open market repurchase programs, privately negotiated transactions, accelerated share repurchase programs or a combination of these methods. The actual timing and amount of our repurchases will depend on Company and market conditions. Repurchased shares are included in Treasury stock.

On February 19, 2013, we entered into an accelerated share repurchase program agreement ( ASR ) with a financial institution for the repurchase of our common stock for an aggregate purchase price of a minimum of \$25.0 million up to a maximum of \$50.0 million (the First 2013 ASR ). On April 25, 2013, the First 2013 ASR was settled and, in the aggregate, we repurchased 903,301 shares for \$36.5 million at an average cost of \$40.40 per share.

On May 22, 2013, we entered into a second ASR with a financial institution for the repurchase of our common stock for an aggregate purchase price of a minimum of \$35.0 million up to a maximum of \$44.0 million (the Second 2013 ASR ). On August 13, 2013, the Second 2013 ASR was settled and, in the aggregate, we repurchased 820,276 shares for \$35.6 million at an average cost of \$43.43 per share.

Under both ASRs, the number of shares repurchased by us was generally based on the volume weighted average price of our common stock during the terms of the ASRs less a pre-determined discount. We accounted for both ASRs as a repurchase of common stock and as forward contracts indexed to our own common stock. We have determined that the forward contracts met all of the applicable criteria for equity classification and, therefore, neither ASR was accounted for as a derivative instrument.

**10. Earnings Per Share**

Basic earnings per share ( EPS ) represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period. Anti-dilutive options that were out of the money for the three and nine months ended September 30, 2013 and 2012 were de minimis and excluded.

**Table of Contents**

The calculations of basic and diluted EPS were as follows:

|   | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
|   | September 30,<br>2013         | September 30,<br>2012 | September 30,<br>2013        | September 30,<br>2012 |
| <b>Numerator:</b>                                     |                               |                       |                              |                       |
| Net Income Attributable to Common Stockholders        | \$ 23,741                     | \$ 33,858             | \$ 63,879                    | \$ 77,545             |
| <b>Denominator:</b>                                   |                               |                       |                              |                       |
| Basic EPS weighted average shares outstanding         | 25,124                        | 26,443                | 25,710                       | 26,410                |
| Effect of dilutive stock options and restricted stock | 88                            | 137                   | 74                           | 117                   |
| Diluted EPS weighted average shares outstanding       | 25,212                        | 26,580                | 25,784                       | 26,527                |
| <b>EPS:</b>   |                               |                       |                              |                       |
| Basic   | \$ 0.94                       | \$ 1.28               | \$ 2.48                      | \$ 2.94               |
| Diluted   | \$ 0.94                       | \$ 1.27               | \$ 2.48                      | \$ 2.92               |

Diluted shares reflect the potential dilution that could occur from stock options and restricted share units using the treasury stock method. The calculation does not include restricted share units in which performance or market conditions were not satisfied of 0.4 million and 0.5 million for the three and nine months ended September 30, 2013, respectively and 0.4 million for the three and nine months ended September 30, 2012.

**11. Accumulated Other Comprehensive Income (Loss)**

The following table summarizes the components of Accumulated other comprehensive income (loss):

|                                  | Interest Rate<br>Derivatives | Foreign Currency<br>Translation | Total       |
|----------------------------------|------------------------------|---------------------------------|-------------|
| Balance as of December 31, 2012  | \$ (14,618)                  | \$ 355                          | \$ (14,263) |
| Reclassification into earnings   | 2,301                        |                                 | 2,301       |
| Translation adjustment           |                              | 7                               | 7           |
| Tax effect                       | (835)                        |                                 | (835)       |
| Balance as of September 30, 2013 | \$ (13,152)                  | \$ 362                          | \$ (12,790) |

**Interest Rate Derivatives**

As of September 30, 2013, there was \$20.6 million of unamortized realized loss before taxes remaining in Accumulated other comprehensive income (loss) related to terminated forward-starting interest rate swaps, which had been designated as cash flow hedges to effectively fix the interest rates on two 747-8F financings in 2011. The loss is amortized and reclassified into Interest expense over the remaining life of the related debt. Realized losses reclassified into earnings were \$0.8 million for the three months ended September 30, 2013 and 2012, respectively. Realized losses reclassified into earnings were \$2.3 million and \$1.8 million for the nine months ended September 30, 2013 and 2012, respectively. Realized losses expected to be reclassified into earnings within the next 12 months are \$2.9 million as of September 30, 2013.

## **12. Income Taxes**

Our effective income tax rates were 31.3% and 36.4% for the three months ended September 30, 2013 and September 30, 2012, respectively. Our effective income tax rates were 14.7% and 37.4% for the nine months ended September 30, 2013 and September 30, 2012, respectively. The effective rate for the nine months ended September 30, 2013 differs from the U.S. federal statutory rate primarily due to an income tax benefit of \$14.2 million related to extraterritorial income ( ETI ) from certain of our aircraft. We recognized this income tax benefit based on a decision in a recent court case. The effective rates also differ from the U.S. federal statutory rate due to the income tax impact of foreign operations taxed at different rates, U.S. state income taxes, the nondeductibility of certain expenses for tax purposes, adjustments to our liability for uncertain tax positions, and the relationship of these items to our projected operating results for the year. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

**Table of Contents**

As a result of current and expected future growth in our Dry Leasing business, we determined that the net earnings of certain foreign subsidiaries engaged in this business will be indefinitely reinvested outside of the U.S. Our effective rates for the three and nine months ended September 30, 2013 were favorably impacted by our assertion to indefinitely reinvest these net earnings. As of September 30, 2013, our undistributed net earnings of foreign subsidiaries for which deferred taxes have not been provided were \$8.0 million, and the unrecognized deferred tax liability associated with these earnings was \$2.8 million.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our unaudited Financial Statements appearing in this report and our audited consolidated financial statements and related notes included in our 2012 Annual Report on Form 10-K.

**Background**

**Certain Terms - Glossary**

The following represents terms and statistics specific to our business and industry. They are used to evaluate and measure operations, results, productivity and efficiency.

|                        |   |
|------------------------|---|
| Block Hour             | The time interval between when an aircraft departs the terminal until it arrives at the destination terminal.   |
| C Check                | High-level or heavy airframe maintenance checks, which are more intensive in scope than Line Maintenance and are generally performed between 18 and 24 months depending on aircraft type. |
| D Check                | High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed between six and nine years depending on aircraft type.                 |
| Heavy Maintenance      | Scheduled maintenance activities, which are extensive in scope and are primarily based on time intervals, including, but not limited to, C Checks, D Checks and engine overhauls.         |
| Line Maintenance       | Unscheduled maintenance to rectify events occurring during normal day-to-day operations.  |
| Non-heavy Maintenance  | Discrete maintenance activities for the overhaul and repair of specific aircraft components.  |
| Revenue Per Block Hour | An amount calculated by dividing Operating revenues by Block Hours.   |
| Yield                  | The average amount a customer pays to fly one tonne of cargo one mile.  |

**Business Overview**

We are a leading global provider of outsourced aircraft and aviation operating solutions. As such, we manage and operate the world's largest fleet of Boeing 747 freighters. We provide unique value to our customers by giving them access to highly reliable new production freighters that deliver the lowest unit cost in the marketplace combined with outsourced aircraft operating services that we believe lead the industry in terms of quality and global scale. Our customers include airlines, express delivery providers, freight forwarders, the U.S. military and charter brokers. We provide global services with operations in Africa, Asia, Australia, Europe, the Middle East, North America and South America.

Our primary service offerings encompass the following:

ACMI, whereby we provide outsourced cargo aircraft operating solutions, including the

provision of an aircraft, crew, maintenance and insurance, while customers assume fuel, demand and Yield risk;

CMI, which is part of our ACMI business segment, whereby we provide outsourced cargo and passenger aircraft operating solutions including the provision of crew, maintenance and insurance, while customers provide the aircraft and assume fuel, demand and Yield risk;

AMC Charter services, whereby we provide cargo and passenger aircraft charter services for the AMC. The AMC pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs;

Commercial Charter, whereby we provide cargo and passenger aircraft charters to customers, including brokers, cruise-ship operators, freight forwarders, direct shippers and airlines. The customer generally pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs; and

Dry Leasing, whereby we provide aircraft and engine leasing solutions.



## **Table of Contents**

We look to achieve our growth plans to enhance stakeholder value by:

Delivering superior service quality to our valued customers;

Aggressively managing our fleet with a focus on leading-edge aircraft;

Focusing on securing long-term customer contracts;

Driving significant and ongoing productivity improvements;

Selectively pursuing and evaluating future acquisitions and alliances; and

Building our brand and increasing our market share.

See [Business Overview](#) and [Business Strategy](#) in our 2012 Annual Report on Form 10-K for additional information.

## **Business Developments**

Our ACMI results for the first three quarters of 2013, compared to 2012, were positively impacted by the following events:

Between March and June 2012, we began CMI flying the first three of five 767-200 freighters owned by DHL. We began flying the fourth during July 2012 and the fifth during November 2012.

In May and July 2012, we took delivery of two 747-8F aircraft that we placed in service with Panalpina Air & Ocean Ltd ( [Panalpina](#) ) under an ACMI agreement, which replaced two 747-400F aircraft.

In June 2012, we began ACMI flying a 747-400F aircraft for Etihad Airways ( [Etihad](#) ), which was the first 747-400F aircraft in its global network.

In July 2012, we began ACMI flying an additional 747-400F aircraft for Polar and DHL, which increased the size of our fleet flying for DHL from eight to nine aircraft.

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In October and December 2012, we took delivery of two 747-8F aircraft that we placed into ACMI service with Polar and DHL, replacing two 747-400 aircraft.

In January and February 2013, we began CMI flying two new 767-300ERF aircraft owned by DHL.

In April 2013, we began ACMI flying a 747-400F aircraft for Chapman Freeborn Airchartering Ltd. ( Chapman Freeborn ), which was the first dedicated 747-400F aircraft in its network.

In May 2013, we took delivery of a 747-8F aircraft that we placed into ACMI service with Etihad, which was the first 747-8F aircraft in its global network.

In July 2013, we began CMI flying a VIP-configured 767-200 passenger aircraft owned by MLW Air, LLC. ( MLW Air ). MLW Air 's 767-200 is the only all-first class 767 commercial charter aircraft with worldwide operations registered with the U.S. Federal Aviation Administration.

In September 2013, we began ACMI flying a 747-400F for Astral Aviation Limited ( Astral Aviation ), which was the first 747-400F aircraft in its global network.

AMC Charter Cargo and Passenger Block Hours have been negatively impacted by reduced demand from the AMC during the first three quarters of 2013.

**Table of Contents**

Commercial Charter Block Hours increased significantly during the first three quarters of 2013, reflecting our redeployment of 747-400 aircraft from ACMI during remarketing periods and the deployment of a 747-8F aircraft, which we took delivery of in March 2013, until it is placed with an ACMI customer. However, Commercial Charter Yields have been negatively impacted by softer demand and excess capacity in the air cargo market. In addition, Commercial Charter has been negatively impacted by a reduction in the number of one-way AMC missions and a change in the proportion of those missions from outbound U.S. to inbound U.S. These changes reduced the opportunity to use return legs for Commercial Charters.

As a result of the continuing reduction in AMC Charter cargo demand and weakness in the Commercial Charter market, we continually assess the opportunities for our 747-400 freighter aircraft and will make adjustments to our capacity as necessary. Some of these actions may involve grounding or disposing of aircraft, which could result in asset impairments or other charges in future periods.

In March and July 2013, Titan purchased three recently-manufactured Boeing 777-200LRF aircraft that are being Dry Leased to customers on a long-term basis.

We continue to enhance our organization through an initiative called Continuous Improvement. Our efforts thus far have reduced costs during the first three quarters of 2013, compared to 2012, in the following areas: Maintenance, from our engine and spare part purchase programs rather than incurring more expensive repairs for existing parts; Passenger and ground handling, from reduced catering rates; Travel, from reduced rates negotiated with vendors; and rate reductions on various other operating expenses through procurement initiatives.

**Results of Operations***Three Months Ended September 30, 2013 and 2012***Operating Statistics**

The following discussion should be read in conjunction with our Financial Statements and other financial information appearing and referred to elsewhere in this report.

The table below sets forth selected Operating Statistics for the three months ended September 30:

|                    | 2013   | 2012   | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------|--------|--------|--------------------------|-------------------|
| <b>Block Hours</b> |        |        |                          |                   |
| ACMI               | 28,813 | 28,451 | 362                      | 1.3%              |
| AMC Charter:       |        |        |                          |                   |
| Cargo              | 1,531  | 2,283  | (752)                    | (32.9)%           |
| Passenger          | 3,029  | 3,882  | (853)                    | (22.0)%           |
| Commercial Charter | 5,310  | 5,331  | (21)                     | (0.4)%            |
| Other              | 220    | 277    | (57)                     | (20.6)%           |
| Total Block Hours  | 38,903 | 40,224 | (1,321)                  | (3.3)%            |

| <b>Revenue Per Block Hour</b> |           |           |           |         |
|-------------------------------|-----------|-----------|-----------|---------|
| ACMI                          | \$ 6,580  | \$ 6,247  | \$ 333    | 5.3%    |
| AMC Charter                   | \$ 20,980 | \$ 19,039 | \$ 1,941  | 10.2%   |
| Cargo                         | \$ 21,962 | \$ 19,853 | \$ 2,109  | 10.6%   |
| Passenger                     | \$ 20,483 | \$ 18,561 | \$ 1,922  | 10.4%   |
| Commercial Charter            | \$ 19,700 | \$ 20,273 | \$ (573)  | (2.8)%  |
| <b>Fuel</b>                   |           |           |           |         |
| <b>AMC</b>                    |           |           |           |         |
| Average fuel cost per gallon  | \$ 3.62   | \$ 2.67   | \$ 0.95   | 35.6%   |
| Fuel gallons consumed (000s)  | 11,324    | 15,357    | (4,033)   | (26.3)% |
| <b>Commercial Charter</b>     |           |           |           |         |
| Average fuel cost per gallon  | \$ 3.09   | \$ 3.29   | \$ (0.20) | (6.1)%  |
| Fuel gallons consumed (000s)  | 16,956    | 17,637    | (681)     | (3.9)%  |

**Table of Contents**

|   | 2013        | 2012        | Increase<br>/<br>(Decrease) | Percent<br>Change |
|---|-------------|-------------|-----------------------------|-------------------|
| <b>Segment Operating Fleet (average aircraft equivalents during the period)</b> |             |             |                             |                   |
| <b>ACMI*</b>  |             |             |                             |                   |
| 747-8F Cargo  | 8.0         | 4.7         | 3.3                         | 70.2%             |
| 747-400 Cargo   | 13.6        | 16.5        | (2.9)                       | (17.6)%           |
| 767-300 Cargo   | 2.0         |             | 2.0                         | NM                |
| 767-200 Cargo   | 5.0         | 3.8         | 1.2                         | 31.6%             |
| 747-400 Passenger   | 1.4         | 1.0         | 0.4                         | 40.0%             |
| 767-200 Passenger   | 1.0         |             | 1.0                         | NM                |
| <b>Total</b>  | <b>31.0</b> | <b>26.0</b> | <b>5.0</b>                  | <b>19.2%</b>      |
| <b>AMC Charter</b>  |             |             |                             |                   |
| 747-400 Cargo   | 3.1         | 2.7         | 0.4                         | 14.8%             |
| 747-400 Passenger   | 1.4         | 1.8         | (0.4)                       | (22.2)%           |
| 767-300 Passenger   | 2.7         | 2.9         | (0.2)                       | (6.9)%            |
| <b>Total</b>  | <b>7.2</b>  | <b>7.4</b>  | <b>(0.2)</b>                | <b>(2.7)%</b>     |
| <b>Commercial Charter</b>   |             |             |                             |                   |
| 747-8F Cargo  | 1.0         |             | 1.0                         | NM                |
| 747-400 Cargo   | 7.7         | 5.9         | 1.8                         | 30.5%             |
| 747-400 Passenger   | 0.2         | 0.2         |                             | NM                |
| 767-300 Passenger   | 0.2         | 0.1         | 0.1                         | NM                |
| <b>Total</b>  | <b>9.1</b>  | <b>6.2</b>  | <b>2.9</b>                  | <b>46.8%</b>      |
| <b>Dry Leasing</b>  |             |             |                             |                   |
| 777-200 Cargo   | 2.6         |             | 2.6                         | NM                |
| 757-200 Cargo   | 1.0         | 1.0         |                             | NM                |
| 737-300 Cargo   | 1.0         | 0.8         | 0.2                         | 25.0%             |
| 737-800 Passenger   | 2.0         | 2.0         |                             | NM                |
| <b>Total</b>  | <b>6.6</b>  | <b>3.8</b>  | <b>2.8</b>                  | <b>73.7%</b>      |
| <b>Total Operating Aircraft</b>   | <b>53.9</b> | <b>43.4</b> | <b>10.5</b>                 | <b>24.2%</b>      |
| <b>Out-of-service**</b>   | <b>1.0</b>  |             | <b>1.0</b>                  | <b>NM</b>         |

\* ACMI average fleet excludes spare aircraft provided by CMI customers.

\*\* All of our out-of-service aircraft are completely unencumbered.

NM represents year-over-year changes that are not meaningful.

**Operating Revenue**

The following table compares our Operating Revenue for the three months ended September 30 (in thousands):

|                                | 2013              | 2012              | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------|-------------------|-------------------|--------------------------|-------------------|
| <b>Operating Revenue</b>       |                   |                   |                          |                   |
| ACMI                           | \$ 189,583        | \$ 177,722        | \$ 11,861                | 6.7%              |
| AMC Charter                    | 95,668            | 117,377           | (21,709)                 | (18.5)%           |
| Commercial Charter             | 104,605           | 108,078           | (3,473)                  | (3.2)%            |
| Dry Leasing                    | 11,874            | 3,057             | 8,817                    | 288.4%            |
| Other                          | 3,660             | 3,017             | 643                      | 21.3%             |
| <b>Total Operating Revenue</b> | <b>\$ 405,390</b> | <b>\$ 409,251</b> | <b>\$ (3,861)</b>        | <b>(0.9)%</b>     |

ACMI revenue increased \$11.9 million, or 6.7%, primarily due to the entry of five 747-8F aircraft into service throughout 2012 and 2013, as well as increased CMI flying, partially offset by the redeployment of 747-400 aircraft into other segments. ACMI Block Hours were 28,813 for the third quarter of 2013, compared to 28,451 in 2012, representing an increase of 362 Block Hours, or 1.3%. The increase in Block Hours was primarily driven by the start-up of CMI flying for DHL of two 767-300 cargo aircraft in the first quarter of 2013 and one 767-200 passenger aircraft for MLW Air during the third quarter of 2013, as well as an increase in CMI flying for Boeing. Block Hours also increased related to the start-up of ACMI 747-400 flying for Chapman Freeborn in April 2013 and the start-up of 747-8F flying for DHL in October 2012 and Etihad in May 2013. In addition, we utilized our passenger aircraft to provide short-term ACMI flying for other airlines.

**Table of Contents**

Partially offsetting these increases was the deployment of certain 747-400 cargo aircraft to other segments. ACMI Revenue per Block Hour was \$6,580 for the third quarter of 2013, compared to \$6,247 in 2012, an increase of \$333 per Block Hour, or 5.3%. The increase in Revenue per Block Hour primarily reflects the impact of higher rates on an increased number of 747-8F aircraft, partially offset by lower rates on increased CMI flying.

*AMC Charter revenue* decreased \$21.7 million, or 18.5%, primarily driven by a reduction in both AMC Charter Cargo and Passenger flying, partially offset by an increase in Revenue per Block Hour. AMC Charter Block Hours were 4,560 for the third quarter of 2013 compared to 6,165 in 2012, a decrease of 1,605 Block Hours, or 26.0%. The decrease in AMC Charter Block Hours was driven by reduced cargo and passenger demand from the AMC. AMC Charter Revenue per Block Hour was \$20,980 for the third quarter of 2013 compared to \$19,039 in 2012, an increase of \$1,941 per Block Hour, or 10.2%, primarily due to an increase in the average pegged fuel price. This increase was partially offset by reduced cargo Block Hours and a change in the number and direction of one-way AMC missions. For the third quarter of 2013, the AMC average pegged fuel price was \$3.62 per gallon compared to \$2.67 in 2012. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense.

*Commercial Charter revenue* decreased \$3.5 million, or 3.2%, primarily due to a decrease in Revenue per Block Hour. Revenue per Block Hour was \$19,700 in the third quarter of 2013, compared to \$20,273 in 2012, a decrease of \$573 per Block Hour, or 2.8%. This reflects the impact of lower Yields from softer demand and excess capacity in the air cargo market, lower fuel prices and the impact of a reduction in Commercial Charter return legs due to a change in the number and direction of one-way AMC missions. Commercial Charter Block Hours were relatively unchanged.

*Dry Leasing revenue* increased \$8.8 million, or 288.4%, primarily due to the acquisition of one 777-200LRF aircraft in March 2013 and two 777-200LRF aircraft in July 2013 that are being leased to customers on a long-term basis.

**Operating Expenses**

The following table compares our Operating Expenses for the three months ended September 30 (in thousands):

|  | 2013       | 2012       | Increase<br>/<br>(Decrease) | Percent<br>Change |
|--|------------|------------|-----------------------------|-------------------|
| <b>Operating Expenses</b>                    |            |            |                             |                   |
| Aircraft fuel                                | \$ 93,434  | \$ 99,080  | \$ (5,646)                  | (5.7)%            |
| Salaries, wages and benefits                 | 74,167     | 71,386     | 2,781                       | 3.9%              |
| Maintenance, materials and repairs           | 31,306     | 40,524     | (9,218)                     | (22.7)%           |
| Aircraft rent                                | 48,448     | 44,133     | 4,315                       | 9.8%              |
| Depreciation and amortization                | 23,661     | 16,612     | 7,049                       | 42.4%             |
| Passenger and ground handling services       | 18,037     | 18,711     | (674)                       | (3.6)%            |
| Navigation fees, landing fees and other rent | 16,438     | 15,153     | 1,285                       | 8.5%              |
| Travel                                       | 14,535     | 14,746     | (211)                       | (1.4)%            |
| Loss (gain) on disposal of aircraft          | 501        | (1,058)    | (1,559)                     | (147.4)%          |
| Other  | 27,157     | 27,699     | (542)                       | (2.0)%            |
| Total Operating Expenses                     | \$ 347,684 | \$ 346,986 |                             |                   |

*Aircraft fuel* decreased \$5.6 million, or 5.7%, primarily due to reduced AMC and Commercial Charter fuel consumption and fuel price decreases in Commercial Charter, partially offset by a fuel price increase in AMC. AMC fuel consumption decreased by 4.0 million gallons, or 26.3%, primarily reflecting the decrease in Block Hours operated. The average fuel price per gallon for the AMC Charter business was \$3.62 in the third quarter of 2013, compared to \$2.67 in 2012, an increase of 35.6%. The average fuel price per gallon for the Commercial Charter business was \$3.09 for the third quarter of 2013, compared to \$3.29 in 2012, a decrease of 6.1%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$2.8 million, or 3.9%, primarily driven by costs to support additional aircraft operating in 2013.



**Table of Contents**

*Maintenance, materials and repairs* decreased \$9.2 million, or 22.7%, primarily due to a decrease of \$12.1 million for 747-400 aircraft, partially offset by increases of \$3.1 million for 747-8F aircraft. Heavy Maintenance expense on 747-400 aircraft decreased \$9.8 million, primarily due to a reduction in D Checks and engine overhauls compared to 2012. Line Maintenance expense increased \$3.1 million for 747-8F aircraft driven by increased flying, offset by a reduction of \$3.1 million for 747-400 aircraft, primarily driven by reduced flying. Heavy airframe maintenance events and engine overhauls for the three months ended September 30 were:

| <b>Heavy Maintenance Events</b> | <b>2013</b> | <b>2012</b> | <b>Increase /<br/>(Decrease)</b> |
|---------------------------------|-------------|-------------|----------------------------------|
| 747-400 C Checks                | 2           | 2           |                                  |
| 747-400 D Checks                |             | 1           | (1)                              |
| CF6-80 engine overhauls         | 1           | 3           | (2)                              |

*Aircraft rent* increased \$4.3 million, or 9.8%, primarily due to an increase in subcontracting certain Commercial Charter flights with our ACMI customers during the third quarter of 2013.

*Depreciation and amortization* increased \$7.0 million, or 42.4%, due to additional aircraft operating in 2013.

*Navigation fees, landing fees and other rent* increased \$1.3 million, or 8.5%, primarily due to a higher proportion of flying to commercial airports relative to military bases, partially offset by a decrease in AMC Charter flying during the third quarter of 2013.

**Non-operating Expenses (Income)**

The following table compares our Non-operating Expenses (Income) for the three months ended September 30 (in thousands):

|  | <b>2013</b> | <b>2012</b> | <b>Increase<br/>/<br/>(Decrease)</b> | <b>Percent<br/>Change</b> |
|--|-------------|-------------|--------------------------------------|---------------------------|
| <b>Non-operating Expenses (Income)</b> |             |             |                                      |                           |
| Interest income                        | \$ (4,849)  | \$ (4,833)  | \$ 16                                | 0.3%                      |
| Interest expense                       | 22,594      | 17,004      | 5,590                                | 32.9%                     |
| Capitalized interest                   | (291)       | (4,052)     | (3,761)                              | (92.8)%                   |
| Loss on early extinguishment of debt   | 4,524       | 143         | 4,381                                | NM                        |
| Other expense (income), net            | (241)       | (331)       | (90)                                 | (27.2)%                   |

*Interest expense* increased \$5.6 million, or 32.9%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases throughout 2012 and 2013.

*Capitalized interest* decreased \$3.8 million, or 92.8%, resulting from 747-8F aircraft that entered service.

*Loss on early extinguishment of debt* was primarily related to the refinancing of term loans with lower rate Ex-Im Bank Guaranteed Notes (see Note 6 for further discussion).

*Income taxes.* Our effective income tax rates were 31.3% and 36.4% for the three months ended September 30, 2013 and 2012, respectively. The reduction in the effective rate was primarily due to our assertion in 2013 to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. and the net impact of resolution of income tax liabilities in both periods.

**Table of Contents****Segments**

The following table compares the Direct Contribution of our reportable segments (see Note 7 to our Financial Statements for the reconciliation to Operating income) for the three months ended September 30 (in thousands):

|                                      | 2013      | 2012      | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------------|-----------|-----------|--------------------------|-------------------|
| <b>Direct Contribution:</b>          |           |           |                          |                   |
| ACMI                                 | \$ 62,587 | \$ 51,625 | \$ 10,962                | 21.2%             |
| AMC Charter                          | 14,749    | 25,437    | (10,688)                 | (42.0)%           |
| Commercial Charter                   | (3,859)   | 3,602     | (7,461)                  | (207.1)%          |
| Dry Leasing                          | 4,681     | 1,378     | 3,303                    | 239.7%            |
| Total Direct Contribution            | \$ 78,158 | \$ 82,042 | \$ (3,884)               | (4.7)%            |
| Unallocated income and expenses, net | \$ 37,164 | \$ 28,623 | \$ 8,541                 | 29.8%             |

***ACMI Segment***

ACMI Direct Contribution increased \$11.0 million, or 21.2%, primarily due to higher profitability on our new 747-8F aircraft and increased CMI flying for DHL and Boeing during the third quarter of 2013, partially offset by the redeployment of 747-400 aircraft into other segments.

***AMC Charter Segment***

AMC Charter Direct Contribution decreased \$10.7 million, or 42.0%, primarily due to a decrease in cargo and passenger Block Hours resulting from lower AMC demand and a change in the number and direction of one-way AMC missions, partially offset by a decrease in heavy maintenance on 747-400 aircraft.

***Commercial Charter Segment***

Commercial Charter Direct Contribution decreased \$7.5 million, primarily due to a reduction in Revenue per Block Hour driven by softer demand, excess capacity in the air cargo market and a reduction in Commercial Charter return legs due to a change in the number and direction of one-way AMC missions. In addition, Commercial Charter Direct Contribution was negatively impacted by increased aircraft ownership costs from the deployment of 747-400 cargo aircraft into this segment and increases in volume-driven operating expenses from flying to more expensive locations. Partially offsetting these items was a decrease in heavy maintenance on 747-400 aircraft.

***Dry Leasing Segment***

Dry Leasing Direct Contribution increased \$3.3 million, primarily due the addition of one 777-200LRF aircraft in March 2013 and two 777-200LRF aircraft in July 2013 that are being leased to customers on a long-term basis.

***Unallocated income and expenses, net***

Unallocated income and expenses, net increased \$8.5 million, or 29.8%, primarily due to a reduction in capitalized interest of \$3.8 million on 747-8F aircraft that entered service and costs to support additional aircraft operating in 2013.

*Nine Months Ended September 30, 2013 and 2012*

### **Operating Statistics**

The following discussion should be read in conjunction with our Financial Statements and notes thereto and other financial information appearing and referred to elsewhere in this report.

**Table of Contents**

The table below sets forth selected Operating Statistics for the nine months ended September 30:

|   | 2013      | 2012      | Increase /<br>(Decrease) | Percent<br>Change |
|---|-----------|-----------|--------------------------|-------------------|
| <b>Block Hours</b>  |           |           |                          |                   |
| ACMI  | 85,274    | 78,698    | 6,576                    | 8.4%              |
| <b>AMC Charter:</b>   |           |           |                          |                   |
| Cargo   | 5,296     | 8,152     | (2,856)                  | (35.0)%           |
| Passenger   | 8,264     | 9,121     | (857)                    | (9.4)%            |
| Commercial Charter  | 16,360    | 14,761    | 1,599                    | 10.8%             |
| Other   | 655       | 908       | (253)                    | (27.9)%           |
| Total Block Hours   | 115,849   | 111,640   | 4,209                    | 3.8%              |
| <b>Revenue Per Block Hour</b>   |           |           |                          |                   |
| ACMI  | \$ 6,482  | \$ 6,262  | \$ 220                   | 3.5%              |
| AMC Charter   | \$ 21,227 | \$ 21,808 | \$ (581)                 | (2.7)%            |
| Cargo   | \$ 22,681 | \$ 23,771 | \$ (1,090)               | (4.6)%            |
| Passenger   | \$ 20,296 | \$ 20,053 | \$ 243                   | 1.2%              |
| Commercial Charter  | \$ 19,162 | \$ 20,720 | \$ (1,558)               | (7.5)%            |
| <b>Fuel</b>   |           |           |                          |                   |
| <b>AMC</b>  |           |           |                          |                   |
| Average fuel cost per gallon  | \$ 3.63   | \$ 3.27   | \$ 0.36                  | 11.0%             |
| Fuel gallons consumed (000s)  | 33,847    | 44,909    | (11,062)                 | (24.6)%           |
| <b>Commercial Charter</b>   |           |           |                          |                   |
| Average fuel cost per gallon  | \$ 3.13   | \$ 3.34   | \$ (0.21)                | (6.3)%            |
| Fuel gallons consumed (000s)  | 53,210    | 49,256    | 3,954                    | 8.0%              |
| <b>Segment Operating Fleet (average aircraft equivalents during the period)</b> |           |           |                          |                   |
| <b>ACMI*</b>  |           |           |                          |                   |
| 747-8F Cargo  | 7.7       | 3.7       | 4.0                      | 108.1%            |
| 747-400 Cargo   | 13.8      | 16.7      | (2.9)                    | (17.4)%           |
| 767-300 Cargo   | 1.8       |           | 1.8                      | NM                |
| 767-200 Cargo   | 5.0       | 1.8       | 3.2                      | NM                |
| 747-400 Passenger   | 1.1       | 1.1       |                          | NM                |
| 767-300 Passenger   | 0.3       |           | 0.3                      | NM                |
| 767-200 Passenger   | 0.3       |           | 0.3                      | NM                |
| Total   | 30.0      | 23.3      | 6.7                      | 28.8%             |
| <b>AMC Charter</b>  |           |           |                          |                   |
| 747-400 Cargo   | 2.9       | 3.1       | (0.2)                    | (6.5)%            |
| 747-200 Cargo   |           | 0.2       | (0.2)                    | (100.0)%          |
| 747-400 Passenger   | 1.7       | 1.7       |                          | NM                |
| 767-300 Passenger   | 2.6       | 2.3       | 0.3                      | 13.0%             |
| Total   | 7.2       | 7.3       | (0.1)                    | (1.4)%            |

**Commercial Charter**

|                   |     |     |       |          |
|-------------------|-----|-----|-------|----------|
| 747-8F Cargo      | 0.4 |     | 0.4   | NM       |
| 747-200 Cargo     |     | 0.2 | (0.2) | (100.0)% |
| 747-400 Cargo     | 7.8 | 5.3 | 2.5   | 47.2%    |
| 747-400 Passenger | 0.2 | 0.2 |       | NM       |
| 767-300 Passenger | 0.2 | 0.2 |       | NM       |

|       |     |     |     |       |
|-------|-----|-----|-----|-------|
| Total | 8.6 | 5.9 | 2.7 | 45.8% |
|-------|-----|-----|-----|-------|

**Dry Leasing**

|                   |     |     |     |        |
|-------------------|-----|-----|-----|--------|
| 777-200 Cargo     | 1.3 |     | 1.3 | NM     |
| 757-200 Cargo     | 1.0 | 1.0 |     | NM     |
| 737-300 Cargo     | 1.0 | 0.3 | 0.7 | 233.3% |
| 737-800 Passenger | 2.0 | 2.0 |     | NM     |

|       |     |     |     |       |
|-------|-----|-----|-----|-------|
| Total | 5.3 | 3.3 | 2.0 | 60.6% |
|-------|-----|-----|-----|-------|

|                                 |             |             |             |              |
|---------------------------------|-------------|-------------|-------------|--------------|
| <b>Total Operating Aircraft</b> | <b>51.1</b> | <b>39.8</b> | <b>11.3</b> | <b>28.4%</b> |
|---------------------------------|-------------|-------------|-------------|--------------|

|                         |            |  |            |           |
|-------------------------|------------|--|------------|-----------|
| <b>Out-of-service**</b> | <b>0.8</b> |  | <b>0.8</b> | <b>NM</b> |
|-------------------------|------------|--|------------|-----------|

\* ACMI average fleet excludes spare aircraft provided by CMI customers.

\*\* All of our out-of-service aircraft are completely unencumbered.

**Table of Contents****Operating Revenue**

The following table compares our Operating Revenue for the nine months ended September 30 (in thousands):

|                                | 2013                | 2012                | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------|---------------------|---------------------|--------------------------|-------------------|
| <b>Operating Revenue</b>       |                     |                     |                          |                   |
| ACMI                           | \$ 552,710          | \$ 492,846          | \$ 59,864                | 12.1%             |
| AMC Charter                    | 287,840             | 376,685             | (88,845)                 | (23.6)%           |
| Commercial Charter             | 313,488             | 305,852             | 7,636                    | 2.5%              |
| Dry Leasing                    | 21,844              | 8,864               | 12,980                   | 146.4%            |
| Other                          | 10,417              | 9,013               | 1,404                    | 15.6%             |
| <b>Total Operating Revenue</b> | <b>\$ 1,186,299</b> | <b>\$ 1,193,260</b> | <b>\$ (6,961)</b>        | <b>(0.6)%</b>     |

*ACMI revenue* increased \$59.9 million, or 12.1%, primarily due to the entry of 747-8F aircraft into service and increased CMI flying, partially offset by the redeployment of 747-400 aircraft into other segments. ACMI Block Hours were 85,274 in 2013, compared to 78,698 in 2012, an increase of 6,576 Block Hours, or 8.4%. The increase in Block Hours was primarily driven by the start-up of CMI flying of two 767-300 cargo aircraft for DHL in the first quarter of 2013, five 767-200 cargo aircraft for DHL during 2012 and one 767-200 passenger aircraft for MLW Air in July 2013, as well as an increase in CMI flying for Boeing. Block Hours also increased related to the start-up of ACMI 747-400 flying for Chapman Freeborn in April 2013 and Etihad in June 2012, as well as the start-up of ACMI 747-8F flying for DHL in October 2012 and Etihad in May 2013. In addition, we utilized our passenger aircraft to provide short-term ACMI flying for other airlines. Partially offsetting these increases was the deployment of certain 747-400 cargo aircraft to other segments. ACMI Revenue per Block Hour was \$6,482 for the first three quarters of 2013, compared to \$6,262 in 2012, an increase of \$220 per Block Hour, or 3.5%. The increase in Revenue per Block Hour primarily reflects the impact of higher rates on an increased number of 747-8F aircraft, partially offset by lower rates on increased CMI flying.

*AMC Charter revenue* decreased \$88.8 million, or 23.6%, primarily driven by a reduction in both AMC Charter Cargo and Passenger flying. AMC Charter Block Hours were 13,560 in 2013 compared to 17,273 in 2012, a decrease of 3,713 Block Hours, or 21.5%. The decrease in AMC Charter Block Hours was primarily driven by reduced cargo and passenger demand from the AMC. AMC Charter Revenue per Block Hour was \$21,227 in 2013 compared to \$21,808 in 2012, a decrease of \$581 per Block Hour, or 2.7%, primarily due to a higher volume of passenger flying on smaller 767 aircraft, reduced cargo Block Hours and a change in the number and direction of one-way AMC missions. Partially offsetting these decreases was an increase in the average pegged fuel price during 2013. For the first three quarters of 2013, the AMC average pegged fuel price was \$3.63 per gallon compared to \$3.27 in 2012. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense.

*Commercial Charter revenue* increased \$7.6 million, or 2.5%, due to an increase in Block Hours, partially offset by a decrease in Revenue per Block Hour. Commercial Charter Block Hours were 16,360 in 2013, compared to 14,761 in 2012, representing an increase of 1,599 Block Hours, or 10.8%. The increase in Block Hours was primarily due to the deployment of 747-400 and a 747-8F cargo aircraft during ACMI marketing periods and a change in the number and direction of one-way AMC missions. Revenue per Block Hour was \$19,162 for the first three quarters of 2013, compared to \$20,720 in 2012, a decrease of \$1,558 per Block Hour, or 7.5%. This reflects the impact of lower Yields

from softer demand and excess capacity in the air cargo market, lower fuel prices and the impact of a reduction in Commercial Charter return legs of one-way AMC missions.

*Dry Leasing revenue* increased \$13.0 million, or 146.4%, primarily due to the acquisition of one 777-200LRF aircraft in March 2013 and two 777-200LRF aircraft in July 2013 that are being leased to customers on a long-term basis.



**Table of Contents****Operating Expenses**

The following table compares our Operating Expenses for the nine months ended September 30 (in thousands):

|  | 2013                | 2012                | Increase /<br>(Decrease) | Percent<br>Change |
|--|---------------------|---------------------|--------------------------|-------------------|
| <b>Operating Expenses</b>                    |                     |                     |                          |                   |
| Aircraft fuel                                | \$ 289,535          | \$ 311,414          | \$ (21,879)              | (7.0)%            |
| Salaries, wages and benefits                 | 219,216             | 215,640             | 3,576                    | 1.7%              |
| Maintenance, materials and repairs           | 133,152             | 136,875             | (3,723)                  | (2.7)%            |
| Aircraft rent                                | 130,703             | 126,309             | 4,394                    | 3.5%              |
| Depreciation and amortization                | 61,840              | 44,792              | 17,048                   | 38.1%             |
| Passenger and ground handling services       | 52,109              | 50,100              | 2,009                    | 4.0%              |
| Navigation fees, landing fees and other rent | 46,901              | 44,090              | 2,811                    | 6.4%              |
| Travel                                       | 43,485              | 42,189              | 1,296                    | 3.1%              |
| Loss (gain) on disposal of aircraft          | 79                  | (2,417)             | (2,496)                  | (103.3)%          |
| Other  | 80,515              | 85,306              | (4,791)                  | (5.6)%            |
| <b>Total Operating Expenses</b>              | <b>\$ 1,057,535</b> | <b>\$ 1,054,298</b> |                          |                   |

*Aircraft fuel* decreased \$21.9 million, or 7.0%, primarily due to reduced AMC fuel consumption and fuel price decreases in Commercial Charter, partially offset by increases in Commercial Charter fuel consumption and AMC fuel prices. AMC fuel consumption decreased by 11.1 million gallons, or 24.6%, reflecting the decrease in Block Hours operated and a higher proportion of Block Hours flown on smaller 767 passenger aircraft. The average fuel price per gallon for the AMC Charter business was \$3.63 for the first three quarters of 2013, compared to \$3.27 in 2012, an increase of 11.0%. Commercial Charter fuel consumption increased by 4.0 million gallons, or 8.0%, primarily driven by the increase in Block Hours operated. The average fuel price per gallon for the Commercial Charter business was \$3.13 for the first three quarters of 2013, compared to \$3.34 in 2012, a decrease of 6.3%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$3.6 million, or 1.7%, primarily driven by costs to support additional aircraft operating in 2013.

*Maintenance, materials and repairs* decreased by \$3.7 million, or 2.7%, primarily driven by a decrease of \$16.4 million for 747-400 aircraft, partially offset by increases of \$8.4 million for 747-8F aircraft and \$5.7 million for 767 aircraft. Heavy Maintenance expense on 747-400 aircraft decreased approximately \$5.9 million primarily due to a reduction in D Checks and engine overhauls compared to 2012. Heavy Maintenance expense on 767 aircraft increased approximately \$2.5 million primarily due to an increase in the number of C Checks in 2013. Non-heavy Maintenance expense on 747-400 aircraft decreased \$2.1 million. Line Maintenance expense increased \$8.4 million for 747-8F aircraft and \$3.0 million for 767 aircraft driven by increased flying. Line Maintenance expense decreased \$8.3 million for 747-400 aircraft primarily driven by decreased flying. Heavy airframe maintenance events and engine overhauls for the nine months ended September 30 were:

**Heavy Maintenance Events**

| 2013 | 2012 |
|------|------|
|------|------|

|                         |    |    | <b>Increase /<br/>(Decrease)</b> |
|-------------------------|----|----|----------------------------------|
| 747-400 C Checks        | 12 | 11 | 1                                |
| 747-400 D Checks        | 1  | 3  | (2)                              |
| 767 C Checks            | 3  |    | 3                                |
| CF6-80 engine overhauls | 12 | 14 | (2)                              |

*Aircraft rent* increased \$4.4 million, or 3.5%, primarily due to an increase in subcontracting certain Commercial Charter flights with our ACMI customers during the first three quarters of 2013.

*Depreciation and amortization* increased \$17.0, or 38.1%, primarily due to additional aircraft operating in 2013.

*Passenger and ground handling services* increased \$2.0 million, or 4.0%, primarily due to higher rates for ground handling from Commercial Charter flying to more expensive locations, partially offset by a reduction in rates for passenger catering during the first three quarters of 2013.

**Table of Contents**

*Navigation fees, landing fees and other rent* increased \$2.8 million, or 6.4%, primarily due to a higher proportion of flying to commercial airports relative to military bases during the first three quarters of 2013.

*Travel* increased \$1.3 million, or 3.1%, primarily due to increased travel for crew related to increased flying during the first three quarters of 2013.

*Other* decreased \$4.8 million, or 5.6%, primarily due to a decrease in commission expense on lower AMC Charter revenue.

**Non-operating Expenses (Income)**

The following table compares our Non-operating Expenses (Income) for the nine months ended September 30 (in thousands):

|  | 2013        | 2012        | Increase /<br>(Decrease) | Percent<br>Change |
|--|-------------|-------------|--------------------------|-------------------|
| <b>Non-operating Expenses (Income)</b> |             |             |                          |                   |
| Interest income                        | \$ (15,003) | \$ (14,629) | \$ 374                   | 2.6%              |
| Interest expense                       | 61,711      | 46,598      | 15,113                   | 32.4%             |
| Capitalized interest                   | (1,985)     | (16,356)    | (14,371)                 | (87.9)%           |
| Loss on early extinguishment of debt   | 5,518       | 285         | 5,233                    | NM                |
| Other expense (income), net            | 1,415       | 454         | 961                      | NM                |

*Interest expense* increased \$15.1 million, or 32.4%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases throughout 2012 and 2013.

*Capitalized interest* decreased \$14.4 million, or 87.9%, resulting from 747-8F aircraft that entered service.

*Loss on early extinguishment of debt* was primarily related to the refinancing of term loans with lower rate Ex-Im Bank Guaranteed Notes (see Note 6 for further discussion).

*Income taxes.* Our effective income tax rates were 14.7% and 37.4% for the nine months ended September 30, 2013 and 2012, respectively. During the first three quarters of 2013, we recognized income tax benefits related to ETI from certain of our aircraft based on a decision in a recent court case and related to our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. This assertion is expected to provide an ongoing benefit to our effective income tax rate. In addition, the reduction in the effective rate was also driven by the net impact of resolution of income tax liabilities in both periods.

**Segments**

The following table compares the Direct Contribution for our reportable segments (see Note 7 to our Financial Statements for the reconciliation to Operating income) for the nine months ended September 30 (in thousands):

|  | 2013 | 2012 | Increase /<br>(Decrease) | Percent<br>Change |
|--|------|------|--------------------------|-------------------|
|--|------|------|--------------------------|-------------------|

| <b>Direct Contribution:</b>                 |                   |                   |                    |               |
|---|-------------------|-------------------|--------------------|---------------|
| ACMI  | \$ 157,594        | \$ 116,573        | \$ 41,021          | 35.2%         |
| AMC Charter                                 | 40,144            | 76,002            | (35,858)           | (47.2)%       |
| Commercial Charter                          | (15,023)          | 15,559            | (30,582)           | (196.6)%      |
| Dry Leasing                                 | 8,294             | 3,967             | 4,327              | 109.1%        |
| <b>Total Direct Contribution</b>            | <b>\$ 191,009</b> | <b>\$ 212,101</b> | <b>\$ (21,092)</b> | <b>(9.9)%</b> |
| <b>Unallocated income and expenses, net</b> | <b>\$ 108,304</b> | <b>\$ 91,623</b>  | <b>\$ 16,681</b>   | <b>18.2%</b>  |

## **Table of Contents**

### ***ACMI Segment***

ACMI Direct Contribution increased \$41.0 million, or 35.2%, primarily due to higher profitability on our new 747-8F aircraft and increased CMI flying for DHL and Boeing during the first three quarters of 2013, partially offset by the redeployment of 747-400 aircraft into other segments.

### ***AMC Charter Segment***

AMC Charter Direct Contribution decreased \$35.9 million, or 47.2%, primarily due to a decrease in Block Hours resulting from lower AMC cargo and passenger demand, and a change in the number and direction of one-way AMC missions.

### ***Commercial Charter Segment***

Commercial Charter Direct Contribution decreased \$30.6 million, primarily due to a reduction in Revenue per Block Hour driven by softer demand, excess capacity in the air cargo market and a reduction in Commercial Charter return legs of one-way AMC missions. Partially offsetting these items was an increase in Block Hours, primarily due to the redeployment of 747-400 and a 747-8F aircraft during ACMI marketing periods and a change in the number and direction of one-way AMC missions. In addition, Commercial Charter Direct Contribution was negatively impacted by increased aircraft ownership costs from the deployment of 747-400 cargo aircraft into this segment, increases in volume-driven operating expenses from flying to more expensive locations and increased heavy maintenance expense.

### ***Dry Leasing Segment***

Dry Leasing Direct Contribution increased \$4.3 million, primarily due the addition of one 777-200LRF aircraft in March 2013 and two 777-200LRF aircraft in July 2013 that are being leased to customers on a long-term basis.

### ***Unallocated income and expenses, net***

Unallocated income and expenses, net increased \$16.7 million, or 18.2%, primarily due to a reduction in capitalized interest of \$14.4 million on 747-8F aircraft that entered service.

## **Reconciliation of GAAP to non-GAAP Financial Measures**

To supplement our Financial Statements presented in accordance with GAAP, we present certain non-GAAP financial measures to assist in the evaluation of our business performance. These non-GAAP measures include Adjusted Net Income Attributable to Common Stockholders and adjusted diluted earnings per share ( Adjusted Diluted EPS ), which exclude certain items that impact year-over-year comparisons of our results. These non-GAAP measures may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

We use these non-GAAP financial measures in assessing the performance of our ongoing operations and in planning and forecasting future periods. We believe that these adjusted measures provide meaningful information to assist investors and analysts in understanding our business results and assessing our prospects for future performance.

The following is a reconciliation of Net Income Attributable to Common Stockholders and Diluted EPS to the corresponding non-GAAP measures (in thousands, except per share data):

|  | <b>For the Three Months Ended</b> |                      |                       |
|--|-----------------------------------|----------------------|-----------------------|
|  | <b>September 30,</b>              | <b>September 30,</b> |                       |
|  | <b>2013</b>                       | <b>2012</b>          | <b>Percent Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 23,741                         | \$ 33,858            | (29.9%)               |
| After-tax impact from:   |                                   |                      |                       |
| Fleet retirement costs (a)                                     |                                   | 125                  |                       |
| Loss on early extinguishment of debt (b)                       | 4,524                             | 91                   |                       |
| Loss (gain) on disposal of aircraft                            | 319                               | (674)                |                       |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 28,584                         | \$ 33,400            | (14.4%)               |

**Table of Contents**

|  | <b>For the Three Months Ended</b> |                               |                       |
|--|-----------------------------------|-------------------------------|-----------------------|
|  | <b>September 30,<br/>2013</b>     | <b>September 30,<br/>2012</b> | <b>Percent Change</b> |
| <b>Diluted EPS</b>                       | \$ 0.94                           | \$ 1.27                       | (26.0%)               |
| After-tax impact from:                   |                                   |                               |                       |
| Fleet retirement costs (a)               |                                   |                               |                       |
| Loss on early extinguishment of debt (b) | 0.18                              |                               |                       |
| Loss (gain) on disposal of aircraft      | 0.01                              | (0.03)                        |                       |
| <b>Adjusted Diluted EPS</b>              | \$ 1.13                           | \$ 1.26                       | (10.3%)               |

|  | <b>For the Nine Months Ended</b> |                               |                       |
|--|----------------------------------|-------------------------------|-----------------------|
|  | <b>September 30,<br/>2013</b>    | <b>September 30,<br/>2012</b> | <b>Percent Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 63,879                        | \$ 77,545                     | (17.6%)               |
| After-tax impact from:   |                                  |                               |                       |
| Fleet retirement costs (a)                                     |                                  | 2,093                         |                       |
| Loss on early extinguishment of debt (b)                       | 5,157                            | 182                           |                       |
| ETI tax benefit  | (14,160)                         |                               |                       |
| Loss (gain) on disposal of aircraft                            | 50                               | (1,540)                       |                       |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 54,926                        | \$ 78,280                     | (29.8%)               |
| <b>Diluted EPS</b>   | \$ 2.48                          | \$ 2.92                       | (15.1%)               |
| After-tax impact from:   |                                  |                               |                       |
| Fleet retirement costs (a)                                     |                                  | 0.08                          |                       |
| Loss on early extinguishment of debt (b)                       | 0.20                             | 0.01                          |                       |
| ETI tax benefit  | (0.55)                           |                               |                       |
| Loss (gain) on disposal of aircraft                            |                                  | (0.06)                        |                       |
| <b>Adjusted Diluted EPS</b>                                    | \$ 2.13                          | \$ 2.95                       | (27.8%)               |

Items do not sum due to rounding.

- a) Fleet retirement costs included incremental employee costs related to the retirement of our 747-200 fleet.
- b) Loss on early extinguishment of debt was related to the financing of 747-8F and 777-200LRF aircraft.

**Liquidity and Capital Resources**

Significant liquidity events in the first three quarters of 2013 were as follows:

*Treasury Stock Transactions*

Between February and April 2013, we paid \$36.5 million under the First 2013 ASR to repurchase 903,301 shares. Between May and August 2013, we paid \$35.6 million under the Second 2013 ASR to repurchase 820,276 shares. See Note 9 to our Financial Statements for a discussion of our stock repurchase program.

*Debt Transactions*

In January 2013, we prepaid \$40.2 million for the amounts outstanding under two term loans, which were due in the third quarter of 2013.

In March 2013, we entered into the First 2013 Term Loan in the amount of \$119.5 million to finance the purchase of a 777-200LRF aircraft that is being Dry Leased to a customer on a long-term basis.

In March 2013, we entered into the First 2013 Bridge Loan in the amount of \$105.4 million to finance the delivery of our eighth 747-8F aircraft.



## **Table of Contents**

In May 2013, we entered into the First 2013 Ex-Im Bank Guaranteed Notes in the amount of \$143.0 million to finance the delivery of our ninth 747-8F aircraft.

In July 2013, we assumed the Second 2013 Term Loan in the amount of \$90.5 million for the purchase of a 777-200LRF aircraft that is being Dry Leased to a customer on a long-term basis. In September 2013, we refinanced the Second 2013 Term Loan through the issuance of fixed-rate notes.

In July 2013, we entered into the Third 2013 Term Loan in the amount of \$110.0 million to finance the purchase of a 777-200LRF aircraft that is being Dry Leased to a customer on a long-term basis.

*Operating Activities.* Net cash provided by operating activities for the first three quarters of 2013 was \$207.7 million, compared to \$197.2 million for the first three quarters of 2012. The increase primarily reflects changes in the timing of working capital.

*Investing Activities.* Net cash used for investing activities was \$574.7 million for the first three quarters of 2013, consisting primarily of \$562.0 million of purchase deposit and delivery payments for flight equipment, which included \$2.0 million of capitalized interest, and \$24.9 million of core capital expenditures, excluding flight equipment, partially offset by \$9.1 million of proceeds from insurance. Purchase deposit and delivery payments for flight equipment are primarily related to the purchase of two 747-8F cargo aircraft and three 777-200LRF cargo aircraft. All Capital expenditures for the first three quarters of 2013 were funded through working capital, except for the aircraft financed as discussed above. Net cash used for investing activities was \$333.3 million for the first three quarters of 2012, consisting primarily of \$312.5 million of purchase deposit and delivery payments for flight equipment, which included \$16.4 million of capitalized interest on our 747-8F aircraft order and \$26.7 million of core capital expenditures, excluding flight equipment, partially offset by \$4.3 million of proceeds from short-term investments.

*Financing Activities.* Net cash provided by financing activities was \$238.2 million for the first three quarters of 2013, which primarily reflected the proceeds from debt issuance of \$709.5 million and a \$21.9 million refund from the First and Second 2013 ASRs, partially offset by \$371.1 million of payments on debt obligations, \$80.9 million related to the purchase of treasury stock, \$21.9 million related to prepayments under the ASR transactions discussed above and \$19.7 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of \$231.0 million in term loans with the First and Second 2013 Ex-Im Bank Guaranteed Notes. Net cash provided by financing activities was \$264.8 million for the first three quarters of 2012, which primarily reflected the proceeds from debt issuance of \$639.6 million, partially offset by \$347.2 million of payments on debt obligations and \$24.8 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of \$284.7 million in term loans under the Ex-Im Bank Facility with the First and Second 2012 Ex-Im Bank Guaranteed Notes.

We consider Cash and cash equivalents, Short-term investments, Restricted cash and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations, to fund capital expenditures for the remainder of 2013 and to repurchase shares of our stock. Core capital expenditures for the remainder of 2013 are expected to be approximately \$17.8 million, which excludes flight equipment and capitalized interest. We expect the First 2013 Bridge Loan to be refinanced with a long-term financing facility.

We may access external sources of capital from time to time depending on our cash requirements, assessments of current and anticipated market conditions, and the after-tax cost of capital. To that end, we filed a shelf registration statement with the SEC in 2012 that enables us to sell a yet to be determined amount of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and other factors. Our access to capital markets can be adversely impacted by prevailing economic conditions and by financial, business and other

factors, some of which are beyond our control. Additionally, our borrowing costs are affected by market conditions and may be adversely impacted by a tightening in credit markets.

We can claim bonus tax depreciation equal to 50% of the cost of qualified assets placed in service during 2013 or 2014. Two 747-8F aircraft delivered to us in 2013 qualified for 50% bonus tax depreciation. As a result of bonus tax depreciation claimed on aircraft delivered to us, we do not expect to pay any significant U.S. federal income tax until 2017 or later. Our business operations are subject to income tax in several non-U.S. jurisdictions. We expect GSS to pay U.K. cash income taxes commensurate with its earnings. We do not expect to pay cash income taxes in any other jurisdiction for at least several years. We currently do not intend to repatriate cash from certain foreign subsidiaries that is indefinitely reinvested outside the U.S. Any repatriation of cash from these subsidiaries or certain changes in U.S. tax laws could result in additional tax expense and payment of U.S. federal and certain state taxes.

## **Table of Contents**

### ***Contractual Obligations and Debt Agreements***

See Note 6 to our Financial Statements for a description of our new debt obligations: the First 2013 Ex-Im Guaranteed Notes, the Second 2013 Ex-Im Guaranteed Notes, the First 2013 Term Loan, the Second 2013 Term Loan, the Third 2013 Term Loan and the First 2013 Bridge Loan. See our 2012 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2012 and a description of our debt obligations and amendments thereto.

### **Off-Balance Sheet Arrangements**

There were no material changes in our off-balance sheet arrangements during the three months ended September 30, 2013.

### **Recent Accounting Pronouncement**

See Note 2 to our Financial Statements for a discussion of a recent accounting pronouncement.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q (this Report), as well as other reports, releases and written and oral communications issued or made from time to time by or on behalf of AAWW, contain statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements are based on management's beliefs, plans, expectations and assumptions, and on information currently available to management. Generally, the words will, may, should, expect, anticipate, intend, plan, continue, seek, project, estimate and similar expressions used in this Report that do not relate to historical facts are intended to identify forward-looking statements.

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2012. Many of such factors are beyond AAWW's control and are difficult to predict. As a result, AAWW's future actions, financial position, results of operations and the market price for shares of AAWW's common stock could differ materially from those expressed in any forward-looking statements. Readers are therefore cautioned not to place undue reliance on forward-looking statements. AAWW does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, AAWW, whether as a result of new information, future events or otherwise, except as required by law.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For additional discussion of our exposure to market risk, refer to Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk included in our 2012 Annual Report on Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2013. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

With respect to the fiscal quarter ended September 30, 2013, the information required in response to this Item is set forth in Note 8 to our Financial Statements and such information is incorporated herein by reference. Such description contains all of the information required with respect hereto.

**ITEM 1A. RISK FACTORS**

The following is an update of a risk factor that is set forth in Item 1A Risk Factors of our 2012 Annual Report on Form 10-K. The update reflects a change to the relevant date within the risk factor appearing below. For additional risk factors that may cause actual results to differ materially from those anticipated, please refer to our 2012 Annual Report on Form 10-K.

*Our insurance coverage may become more expensive and difficult to obtain and may not be adequate to insure all of our risks.*

Aviation insurance premiums historically have fluctuated based on factors that include the loss history of the industry in general, and the insured carrier in particular. Future terrorist attacks and other adverse events involving aircraft could result in increases in insurance costs and could affect the price and availability of such coverage. We have, as have most other U.S. airlines, purchased our war-risk coverage through a special program administered by the U.S. federal government. The FAA is currently providing war-risk hull and cargo loss, crew and third-party liability insurance through January 15, 2014. Unless the U.S. Congress enacts legislation extending the program, U.S. federal government coverage will end on that date. It is possible that the U.S. Congress will fail to vote to extend the program or will extend it only in more limited form. If the federal war-risk coverage program terminates or is extended but provides significantly less coverage in the future, we could face a significant increase in the cost of war-risk coverage, and because of competitive pressures in the industry, our ability to pass this additional cost on to customers may be limited. We also may be unable to secure the same scope of war risk insurance coverage as we have today.

We participate in an insurance pooling arrangement with DHL and their affiliates. This allows us to obtain aviation hull and liability and hull deductible coverage at reduced rates. If we were to withdraw from this arrangement for any reason or if other pool members have higher incidents, we may incur higher insurance costs.

There can be no assurance that we will be able to maintain our existing coverage on terms favorable to us, that the premiums for such coverage will not increase substantially or that we will not bear substantial losses and lost revenue from accidents or other adverse events. Substantial claims resulting from an accident in excess of related insurance coverage or a significant increase in our current insurance expense could have a material adverse effect on our business, results of operations and financial condition. Additionally, while we carry insurance against the risks inherent to our operations, which we believe are consistent with the insurance arrangements of other participants in our industry, we cannot provide assurance that we are adequately insured against all risks. If our liability exceeds the amounts of our insurance coverage, we would be required to pay the excess amount, which could be material to our business, financial condition and operations.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We made the following repurchases of shares of our common stock during the quarter ended September 30, 2013:

| Period                                       | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|----------------------------------|------------------------------|--|--|
| July 1, 2013 through July 31, 2013           |                                  |                              |  |  |
| August 1, 2013 through August 31, 2013       | 204,485(a)                       | (a)                          | 2,423,820(a)   | \$ 9,000,000   |
| September 1, 2013 through September 30, 2013 |                                  |                              |  |  |
| Total  | 204,485                          |                              | 2,423,820  | \$ 9,000,000   |

(a) Reflects the repurchase of shares of common stock pursuant to our ASRs. See Note 9 to our Financial Statements for a discussion of our stock repurchase program.

**ITEM 6. EXHIBITS**

## a. Exhibits

See accompanying Exhibit Index included after the signature page of this report for a list of exhibits filed or furnished with this report.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Atlas Air Worldwide Holdings, Inc.

Dated: November 7, 2013

/s/ William J. Flynn  
William J. Flynn  
President and Chief Executive Officer

Dated: November 7, 2013

/s/ Spencer Schwartz  
Spencer Schwartz  
Senior Vice President and Chief Financial Officer

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 31.1                  | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer, furnished herewith. |
| 31.2                  | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer, furnished herewith. |
| 32.1                  | Section 1350 Certifications, furnished herewith.   |
| 101.INS               | XBRL Instance Document. *  |
| 101.SCH               | XBRL Taxonomy Extension Schema Document. *   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document. *                                   |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document. *                                    |
| 101.LAB               | XBRL Taxonomy Extension Labels Linkbase Document. *  |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document. *                                  |

\* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, (iv) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2013 and 2012, (v) Consolidated Statement of Stockholders' Equity for the three and nine months ended September 30, 2013 and 2012 and (vi) Notes to Unaudited Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.