

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

May 03, 2012

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**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 March 31, 2012**

**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.)

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**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 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. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a 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 March 31, 2012, there were 26,421,640 shares of the registrant's Common Stock outstanding.

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**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>March 31, 2012</b> | <b>December 31, 2011</b> |
|----------------------------------------------------------------------------|-----------------------|--------------------------|
| <b>Assets</b>                                                              |                       |                          |
| <b>Current Assets</b>                                                      |                       |                          |
| Cash and cash equivalents                                                  | \$ 166,649            | \$ 187,111               |
| Short-term investments                                                     | 8,236                 | 8,097                    |
| Accounts receivable, net of allowance of \$3,146 and \$1,931, respectively | 97,869                | 93,213                   |
| Prepaid maintenance                                                        | 35,681                | 35,902                   |
| Deferred taxes                                                             | 11,714                | 10,580                   |
| Prepaid expenses and other current assets                                  | 72,026                | 58,934                   |
| Total current assets                                                       | 392,175               | 393,837                  |
| <b>Property and Equipment</b>                                              |                       |                          |
| Flight equipment                                                           | 1,458,590             | 1,466,384                |
| Ground equipment                                                           | 35,605                | 33,788                   |
| Less: accumulated depreciation                                             | (145,253)             | (159,123)                |
| Purchase deposits for flight equipment                                     | 417,970               | 407,184                  |
| Property and equipment, net                                                | 1,766,912             | 1,748,233                |
| <b>Other Assets</b>                                                        |                       |                          |
| Long-term investments and accrued interest                                 | 137,784               | 135,735                  |
| Deposits and other assets                                                  | 80,646                | 73,232                   |
| Intangible assets, net                                                     | 38,776                | 39,961                   |
| <b>Total Assets</b>                                                        | <b>\$ 2,416,293</b>   | <b>\$ 2,390,998</b>      |
| <b>Liabilities and Equity</b>                                              |                       |                          |
| <b>Current Liabilities</b>                                                 |                       |                          |
| Accounts payable                                                           | \$ 27,376             | \$ 27,352                |
| Accrued liabilities                                                        | 160,053               | 175,298                  |
| Current portion of long-term debt                                          | 78,342                | 70,007                   |
| Total current liabilities                                                  | 265,771               | 272,657                  |
| <b>Other Liabilities</b>                                                   |                       |                          |
| Long-term debt                                                             | 690,304               | 680,009                  |
| Deferred taxes                                                             | 186,545               | 178,069                  |
| Other liabilities                                                          | 119,502               | 118,888                  |
| Total other liabilities                                                    | 996,351               | 976,966                  |
| Commitments and contingencies                                              |                       |                          |
| <b>Equity</b>                                                              |                       |                          |
| Stockholders' Equity                                                       |                       |                          |

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|                                                                                                                                                                                                                                        |                     |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued                                                                                                                                                         |                     |                     |
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 27,647,583 and 27,462,116 shares issued, 26,421,640 and 26,304,764, shares outstanding (net of treasury stock), as of March 31, 2012 and December 31, 2011, respectively |                     |                     |
|                                                                                                                                                                                                                                        | 277                 | 275                 |
| Additional paid-in-capital                                                                                                                                                                                                             | 530,889             | 525,670             |
| Treasury stock, at cost; 1,225,943 and 1,157,352 shares, respectively                                                                                                                                                                  | (44,687)            | (41,499)            |
| Accumulated other comprehensive loss                                                                                                                                                                                                   | (15,919)            | (15,683)            |
| Retained earnings                                                                                                                                                                                                                      | 681,584             | 668,749             |
| Total stockholders' equity                                                                                                                                                                                                             | 1,152,144           | 1,137,512           |
| Noncontrolling interest                                                                                                                                                                                                                | 2,027               | 3,863               |
| Total equity                                                                                                                                                                                                                           | 1,154,171           | 1,141,375           |
| <b>Total Liabilities and Equity</b>                                                                                                                                                                                                    | <b>\$ 2,416,293</b> | <b>\$ 2,390,998</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 Ended</b> |                       |
|---------------------------------------------------------|-----------------------------------|-----------------------|
|                                                         | <b>March 31, 2012</b>             | <b>March 31, 2011</b> |
| <b>Operating Revenue</b>                                |                                   |                       |
| ACMI                                                    | \$ 154,703                        | \$ 146,035            |
| AMC charter                                             | 121,294                           | 81,176                |
| Commercial charter                                      | 76,947                            | 65,536                |
| Dry leasing                                             | 2,945                             | 1,543                 |
| Other                                                   | 3,415                             | 3,316                 |
| <b>Total Operating Revenue</b>                          | <b>\$ 359,304</b>                 | <b>\$ 297,606</b>     |
| <b>Operating Expenses</b>                               |                                   |                       |
| Aircraft fuel                                           | 94,763                            | 74,167                |
| Salaries, wages and benefits                            | 70,876                            | 61,764                |
| Maintenance, materials and repairs                      | 52,980                            | 50,069                |
| Aircraft rent                                           | 39,418                            | 38,354                |
| Depreciation and amortization                           | 14,303                            | 8,330                 |
| Landing fees and other rent                             | 13,055                            | 11,340                |
| Travel                                                  | 12,620                            | 9,122                 |
| Ground handling and airport fees                        | 7,620                             | 5,302                 |
| Gain on disposal of aircraft                            | (196)                             | (120)                 |
| Other                                                   | 33,286                            | 22,787                |
| <b>Total Operating Expenses</b>                         | <b>338,725</b>                    | <b>281,115</b>        |
| <b>Operating Income</b>                                 | <b>20,579</b>                     | <b>16,491</b>         |
| <b>Non-operating Expenses / (Income)</b>                |                                   |                       |
| Interest income                                         | (4,909)                           | (5,115)               |
| Interest expense                                        | 13,963                            | 10,296                |
| Capitalized interest                                    | (6,352)                           | (5,417)               |
| Other (income) expense, net                             | (297)                             | 41                    |
| <b>Total Non-operating Expenses (Income)</b>            | <b>2,405</b>                      | <b>(195)</b>          |
| <b>Income before income taxes</b>                       | <b>18,174</b>                     | <b>16,686</b>         |
| <b>Income tax expense</b>                               | <b>7,234</b>                      | <b>6,224</b>          |
| <b>Net Income</b>                                       | <b>10,940</b>                     | <b>10,462</b>         |
| Less: Net loss attributable to noncontrolling interests | (1,895)                           | (54)                  |
| <b>Net Income Attributable to Common Stockholders</b>   | <b>\$ 12,835</b>                  | <b>\$ 10,516</b>      |
| <b>Earnings per share:</b>                              |                                   |                       |
| Basic                                                   | \$ 0.49                           | \$ 0.40               |

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|         |         |         |
|---------|---------|---------|
| Diluted | \$ 0.48 | \$ 0.40 |
|---------|---------|---------|

## Weighted average shares:

|       |        |        |
|-------|--------|--------|
| Basic | 26,360 | 26,041 |
|-------|--------|--------|

|         |        |        |
|---------|--------|--------|
| Diluted | 26,488 | 26,289 |
|---------|--------|--------|

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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**Atlas Air Worldwide Holdings, Inc.**

**Consolidated Statements of Comprehensive Income**

*(in thousands)*

*(Unaudited)*

|                                                                            | <b>For the Three Months Ended</b> |                       |
|----------------------------------------------------------------------------|-----------------------------------|-----------------------|
|                                                                            | <b>March 31, 2012</b>             | <b>March 31, 2011</b> |
| <b>Net Income</b>                                                          | <b>\$ 10,940</b>                  | <b>\$ 10,462</b>      |
| <b>Other comprehensive income (loss):</b>                                  |                                   |                       |
| Interest rate derivatives:                                                 |                                   |                       |
| Net change in fair value                                                   | (713)                             |                       |
| Reclassification into earnings                                             | 253                               |                       |
| Income tax benefit                                                         | 167                               |                       |
| Foreign currency translation:                                              |                                   |                       |
| Translation adjustment                                                     | 157                               | 195                   |
| Income tax expense                                                         | (41)                              | (39)                  |
| Other comprehensive income (loss)                                          | (177)                             | 156                   |
| <b>Comprehensive Income</b>                                                | <b>10,763</b>                     | <b>10,618</b>         |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (1,836)                           | 26                    |
| <b>Comprehensive Income Attributable to Common Stockholders</b>            | <b>\$ 12,599</b>                  | <b>\$ 10,592</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 Three Months Ended</b> |                       |
|-----------------------------------------------------------------------------------|-----------------------------------|-----------------------|
|                                                                                   | <b>March 31, 2012</b>             | <b>March 31, 2011</b> |
| <b>Operating Activities:</b>                                                      |                                   |                       |
| Net Income Attributable to Common Stockholders                                    | \$ 12,835                         | \$ 10,516             |
| Net loss attributable to noncontrolling interests                                 | (1,895)                           | (54)                  |
| Net Income                                                                        | 10,940                            | 10,462                |
| Adjustments to reconcile Net Income to net cash provided by operating activities: |                                   |                       |
| Depreciation and amortization                                                     | 16,405                            | 10,182                |
| Accretion of debt securities discount                                             | (2,167)                           | (2,048)               |
| Provision for allowance for doubtful accounts                                     | 709                               | 25                    |
| Gain on disposal of aircraft                                                      | (196)                             | (120)                 |
| Deferred taxes                                                                    | 6,580                             | 2,685                 |
| Stock-based compensation expense                                                  | 4,604                             | 3,748                 |
| Changes in:                                                                       |                                   |                       |
| Accounts receivable                                                               | (4,855)                           | 5                     |
| Prepaid expenses and other current assets                                         | 3,497                             | (9,176)               |
| Deposits and other assets                                                         | (2,251)                           | (4,758)               |
| Accounts payable and accrued liabilities                                          | (15,178)                          | 3,123                 |
| Net cash provided by operating activities                                         | 18,088                            | 14,128                |
| <b>Investing Activities:</b>                                                      |                                   |                       |
| Capital expenditures                                                              | (10,726)                          | (4,238)               |
| Purchase deposits and delivery payments for flight equipment                      | (42,936)                          | (7,293)               |
| Investment in debt securities                                                     | (1,179)                           |                       |
| Proceeds from short-term investments                                              | 2,660                             | 1,163                 |
| Proceeds from disposal of aircraft                                                | 415                               | 165                   |
| Net cash used for investing activities                                            | (51,766)                          | (10,203)              |
| <b>Financing Activities:</b>                                                      |                                   |                       |
| Proceeds from debt issuance                                                       | 35,695                            |                       |
| Proceeds from stock option exercises                                              |                                   | 3,255                 |
| Purchase of treasury stock                                                        | (3,188)                           | (9,062)               |
| Excess tax benefit from stock-based compensation expense                          | 617                               | 2,801                 |
| Payment of debt issuance costs                                                    | (1,596)                           |                       |
| Payments of debt                                                                  | (18,312)                          | (12,997)              |
| Net cash provided by (used for) financing activities                              | 13,216                            | (16,003)              |
| Net decrease in cash and cash equivalents                                         | (20,462)                          | (12,078)              |
| Cash and cash equivalents at the beginning of period                              | 187,111                           | 588,852               |
| Cash and cash equivalents at the end of period                                    | \$ 166,649                        | \$ 576,774            |

*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 | Treasury    | Additional<br>Paid-In | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|---------------------------------------------------|--------|-------------|-----------------------|-----------------------------------------------------------|----------------------|----------------------------------|----------------------------|-----------------|
|                                                   | Stock  | Stock       | Capital               |                                                           |                      |                                  |                            |                 |
| <b>Balance at December 31, 2010</b>               | \$ 270 | \$ (32,248) | \$ 505,297            | \$ 458                                                    | \$ 572,666           | \$ 1,046,443                     | \$ 3,647                   | \$ 1,050,090    |
| Net Income                                        |        |             |                       |                                                           | 10,516               | 10,516                           | (54)                       | 10,462          |
| Other comprehensive income (loss)                 |        |             |                       | 76                                                        |                      | 76                               | 80                         | 156             |
| Comprehensive Income (Loss)                       |        |             |                       |                                                           |                      | 10,592                           | 26                         | 10,618          |
| Stock option and restricted stock compensation    |        |             | 3,748                 |                                                           |                      | 3,748                            |                            | 3,748           |
| Purchase of 134,682 shares of treasury stock      |        | (9,062)     |                       |                                                           |                      | (9,062)                          |                            | (9,062)         |
| Exercise of 79,709 employee stock options         |        |             | 3,255                 |                                                           |                      | 3,255                            |                            | 3,255           |
| Issuance of 359,301 shares of restricted stock    | 4      |             | (4)                   |                                                           |                      |                                  |                            |                 |
| Tax benefit on restricted stock and stock options |        |             | 2,801                 |                                                           |                      | 2,801                            |                            | 2,801           |
| <b>Balance at March 31, 2011</b>                  | \$ 274 | \$ (41,310) | \$ 515,097            | \$ 534                                                    | \$ 583,182           | \$ 1,057,777                     | \$ 3,673                   | \$ 1,061,450    |
|                                                   | Common | Treasury    | Additional<br>Paid-In | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|                                                   | Stock  | Stock       | Capital               |                                                           |                      |                                  |                            |                 |
| <b>Balance at December 31, 2011</b>               | \$ 275 | \$ (41,499) | \$ 525,670            | \$ (15,683)                                               | \$ 668,749           | \$ 1,137,512                     | \$ 3,863                   | \$ 1,141,375    |
| Net Income                                        |        |             |                       |                                                           | 12,835               | 12,835                           | (1,895)                    | 10,940          |
| Other comprehensive income (loss)                 |        |             |                       | (236)                                                     |                      | (236)                            | 59                         | (177)           |
| Comprehensive Income (Loss)                       |        |             |                       |                                                           |                      | 12,599                           | (1,836)                    | 10,763          |
| Stock option and restricted stock compensation    |        |             | 4,604                 |                                                           |                      | 4,604                            |                            | 4,604           |
| Purchase of 68,591 shares of treasury stock       |        | (3,188)     |                       |                                                           |                      | (3,188)                          |                            | (3,188)         |
| Issuance of 185,467 shares of restricted stock    | 2      |             | (2)                   |                                                           |                      |                                  |                            |                 |
| Tax benefit on restricted stock and stock options |        |             | 617                   |                                                           |                      | 617                              |                            | 617             |
| <b>Balance at March 31, 2012</b>                  | \$ 277 | \$ (44,687) | \$ 530,889            | \$ (15,919)                                               | \$ 681,584           | \$ 1,152,144                     | \$ 2,027                   | \$ 1,154,171    |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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**Atlas Air Worldwide Holdings, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**March 31, 2012**

**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 services throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including contracts through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance ( ACMI ), as well as contracts through which we provide crew, maintenance and insurance, with the customer providing the aircraft ( CMI ); (ii) military charter services ( AMC Charter ); (iii) seasonal, commercial and ad-hoc charter services ( Commercial Charter ); and (iv) dry leasing or sub-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, 2011, which included 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 March 31, 2012, the results of operations for the three months ended March 31, 2012 and 2011, comprehensive income for the three months ended March 31, 2012 and 2011, cash flows for the three months ended March 31, 2012 and 2011, and shareholders' equity as of and for the three months ended March 31, 2012 and 2011.

For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

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.

Certain reclassifications have been made to the prior periods' unaudited consolidated financial statement amounts and related note disclosures to conform to the current period's presentation.

**2. Recently Adopted Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board amended its guidance on the presentation of comprehensive income to increase the prominence of items reported in other comprehensive income. The new guidance requires that all components of comprehensive income in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance was effective as of the beginning of 2012 and its adoption did not have any impact on our financial condition, results of operations or cash flows.

**3. DHL Investment and Polar**

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Polar provides air cargo capacity to its customers, including DHL Network Operations (USA), Inc. ( DHL ), through a blocked-space agreement that began on October 27, 2008.

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Polar currently operates six 747-400 freighter aircraft that are subleased from us. An additional two aircraft are operated by Atlas to support the Polar network and DHL through an alliance agreement whereby Atlas provides ACMI services to Polar. We also provide incremental charter capacity to Polar on an as-needed basis. Atlas and Polar have entered into various agreements under which we provide Polar with crew, maintenance and insurance for the subleased aircraft. Collectively, these service agreements and the subleases are referred to as Express Network ACMI. We provide Polar with certain management and administrative services under a shared services agreement. In addition, Polar and Atlas provide each other with sales and ground support services under a general sales and services agreement. The following table summarizes our transactions with Polar:

|                                                            | For the Three Months Ended |                          |
|------------------------------------------------------------|----------------------------|--------------------------|
|                                                            | March 31, 2012             | March 31, 2011           |
| <b>Revenue and Expenses:</b>                               |                            |                          |
| ACMI revenue from Polar                                    | \$ 60,694                  | \$ 46,377                |
| Other revenue from Polar                                   | \$ 2,837                   | \$ 2,837                 |
| Ground handling and airport fees paid to Polar             | \$ 998                     | \$ 247                   |
| <b>Accounts receivable/payable as of:</b>                  | <b>March 31, 2012</b>      | <b>December 31, 2011</b> |
| Receivables from Polar                                     | \$ 4,031                   | \$ 2,944                 |
| Payables to Polar                                          | \$ 201                     | \$ 121                   |
| <b>Aggregate Carrying Value of Polar Investment as of:</b> | <b>March 31, 2012</b>      | <b>December 31, 2011</b> |
|                                                            | \$ 4,870                   | \$ 4,870                 |

### 4. Concentration of Credit Risk and Significant Customers

We are exposed to concentration of customer credit risk. The following table summarizes our significant exposure to Polar and the U.S. Military Air Mobility Command (AMC). We have not experienced credit issues with either of these customers. No other customer accounted for 10.0% or more of our Total Operating Revenue.

|                                                   | For the Three Months Ended |                |
|---------------------------------------------------|----------------------------|----------------|
|                                                   | March 31, 2012             | March 31, 2011 |
| <b>Revenue as a % of Total Operating Revenue:</b> |                            |                |
| AMC                                               | 33.8%                      | 27.3%          |
| Polar                                             | 17.7%                      | 16.5%          |

|                                              | For the Three Months Ended |                |
|----------------------------------------------|----------------------------|----------------|
|                                              | March 31, 2012             | March 31, 2011 |
| <b>Revenue as a % of Total ACMI Revenue:</b> |                            |                |
| Polar                                        | 39.2%                      | 31.8%          |

### Accounts receivable as a % of Total Accounts

|                                             | For the Three Months Ended |                   |
|---------------------------------------------|----------------------------|-------------------|
|                                             | March 31, 2012             | December 31, 2011 |
| <b>receivable, net of allowance, as of:</b> |                            |                   |
| AMC                                         | 21.0%                      | 23.1%             |
| Polar                                       | 4.1%                       | 3.2%              |

### 5. 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;

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- 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.

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We endeavor to utilize the best available information in measuring fair value.

We maintain Cash and cash equivalents and Short-term investments, 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 and Short-term investments is based on cost, which approximates fair value.

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 was 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 was estimated based on Level 3 inputs. We obtained Level 2 inputs of quoted market prices of our equipment notes and used them as a basis for valuing the EETCs.

The fair value of our term loans was based on a discounted cash flow analysis using current borrowing rates for instruments with similar terms.

The fair value of our interest rate derivatives was based on Level 2 inputs utilized in expected cash flow models. The incorporated market inputs include the implied forward London InterBank Offered Rate ( LIBOR ) yield curve for the same period as the future interest swap settlements. These derivatives were designated as hedging instruments.

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

|                                            | March 31, 2012 |            |            |         |            |
|--------------------------------------------|----------------|------------|------------|---------|------------|
|                                            | Carrying Value | Fair Value | Level 1    | Level 2 | Level 3    |
| <b>Assets</b>                              |                |            |            |         |            |
| Cash and cash equivalents                  | \$ 166,649     | \$ 166,649 | \$ 166,649 | \$      | \$         |
| Short-term investments                     | 8,236          | 8,236      |            |         | 8,236      |
| Long-term investments and accrued interest | 137,784        | 173,755    |            |         | 173,755    |
|                                            | \$ 312,669     | \$ 348,640 | \$ 166,649 | \$      | \$ 181,991 |
| <b>Liabilities</b>                         |                |            |            |         |            |
| Term loans                                 | \$ 447,873     | \$ 446,369 | \$         | \$      | \$ 446,369 |
| 1998 EETCs                                 | 124,677        | 140,705    |            |         | 140,705    |
| 1999 EETCs                                 | 141,790        | 152,314    |            |         | 152,314    |
| 2000 EETCs                                 | 54,306         | 59,417     |            |         | 59,417     |
|                                            | \$ 768,646     | \$ 798,805 | \$         | \$      | \$ 798,805 |

|                                            | December 31, 2011 |            |            |         |         |
|--------------------------------------------|-------------------|------------|------------|---------|---------|
|                                            | Carrying Value    | Fair Value | Level 1    | Level 2 | Level 3 |
| <b>Assets</b>                              |                   |            |            |         |         |
| Cash and cash equivalents                  | \$ 187,111        | \$ 187,111 | \$ 187,111 | \$      | \$      |
| Short-term investments                     | 8,097             | 8,097      |            |         | 8,097   |
| Long-term investments and accrued interest | 135,735           | 167,765    |            |         | 167,765 |

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|                           |    |         |    |         |    |         |    |         |
|---------------------------|----|---------|----|---------|----|---------|----|---------|
|                           | \$ | 330,943 | \$ | 362,973 | \$ | 187,111 | \$ | 175,862 |
| <b>Liabilities</b>        |    |         |    |         |    |         |    |         |
| Interest rate derivatives | \$ | 24,887  | \$ | 24,887  | \$ | 24,887  | \$ |         |
| Term loans                |    | 420,436 |    | 420,436 |    |         |    | 420,436 |
| 1998 EETCs                |    | 128,974 |    | 145,418 |    |         |    | 145,418 |
| 1999 EETCs                |    | 145,410 |    | 156,430 |    |         |    | 156,430 |
| 2000 EETCs                |    | 55,196  |    | 60,502  |    |         |    | 60,502  |
|                           | \$ | 774,903 | \$ | 807,673 | \$ | 24,887  | \$ | 782,786 |

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

|                                     | March 31, 2012 |                        |            | December 31, 2011 |                        |            |
|-------------------------------------|----------------|------------------------|------------|-------------------|------------------------|------------|
|                                     | Carrying Value | Gross Unrealized Gains | Fair Value | Carrying Value    | Gross Unrealized Gains | Fair Value |
| <b>Debt securities</b>              |                |                        |            |                   |                        |            |
| Due after five but within ten years | \$ 137,784     | \$ 35,971              | \$ 173,755 | \$ 135,735        | \$ 32,030              | \$ 167,765 |
| <b>Interest Rate Derivatives</b>    |                |                        |            |                   |                        |            |

We were exposed to changes in interest rates for two debt issuances related to the financing of two Boeing 747-8F aircraft that we purchased. We used forward-starting interest rate swaps to effectively fix the interest rate on two 747-8F financings in the fourth quarter of 2011. The use of forward-starting interest rate swaps effectively converted our floating-rate debt issuance to a fixed-rate.

In May 2011, we entered into two forward-starting interest rate swaps with a total notional value of \$237.5 million to hedge the risk of changes in quarterly interest payments due to fluctuations in the forward 90-day LIBOR swap rate for debt issuances in the fourth quarter of 2011. We designated those forward-starting interest rate swaps as cash flow hedges.

As of December 31, 2011, the fair value of those forward-starting interest rate swaps was \$24.9 million, offset by cash collateral of \$19.9 million, resulting in a net carrying value of \$5.0 million included within Accrued liabilities. We recorded unrealized pre-tax and after-tax losses of \$0.7 million and \$0.5 million, respectively, in Other comprehensive loss for changes in the fair value of our forward-starting interest rate swaps for the three months ended March 31, 2012.

On January 12, 2012, we terminated both forward-starting interest rate swaps, which converted a previously unrealized loss of \$25.6 million into a realized loss in Accumulated other comprehensive income (loss). There was no ineffectiveness associated with these hedges upon their termination. The two term loans associated with these hedges were converted to fixed rate loans beginning after their first payment.

As of March 31, 2012, there was \$25.3 million of unamortized realized loss related to the forward-starting interest rate swaps remaining in Accumulated other comprehensive income (loss). We recognized \$0.3 million of realized loss in earnings as a component of Interest expense for the three months ended March 31, 2012. Realized losses expected to be reclassified into earnings within the next 12 months are \$3.2 million as of March 31, 2012.

**6. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

|                              | March 31, 2012    | December 31, 2011 |
|------------------------------|-------------------|-------------------|
| Maintenance                  | \$ 53,646         | \$ 54,239         |
| Aircraft fuel                | 28,390            | 25,583            |
| Salaries, wages and benefits | 24,488            | 43,698            |
| Other                        | 53,529            | 51,778            |
| <b>Accrued liabilities</b>   | <b>\$ 160,053</b> | <b>\$ 175,298</b> |

**7. Debt**

On January 30, 2012, we entered into a term loan facility for up to \$864.8 million with Apple Bank for Savings, guaranteed by The Export Import Bank of the United States ( Ex-Im Bank ) to finance up to six future 747-8F aircraft deliveries (the 2012 Ex-Im Bank Facility ). The 2012 Ex-Im Bank Facility, when drawn, will consist of up to six separate term loans, each secured by a mortgage on one future 747-8F aircraft delivery. In connection with entry into the 2012 Ex-Im Bank Facility, we have agreed to pay usual and customary commitment and other fees

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associated with this type of financing. Borrowings under the 2012 Ex-Im Bank Facility will initially accrue interest at a variable rate, payable quarterly at LIBOR plus a margin. The 2012 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 2012 Ex-Im Bank Facility contains customary covenants and events of default and is not cross-defaulted to any of our other debt facilities.

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In addition, there are certain operating conditions under the 2012 Ex-Im Bank Facility that we must meet. Ex-Im Bank's primary requirement is that any aircraft financed under the facility must be placed under an ACMI agreement with a customer that is not based in certain restricted countries, which are defined by Ex-Im Bank.

On March 30, 2012, we entered into a five-year term loan facility with CIT Bank. The facility is comprised of four separate term loans in the aggregate amount of \$35.7 million, that are collectively referred to as the (CIT Term Loans). The CIT Term Loans are secured by mortgages on two 747-400 (aircraft tail numbers N464MC and N465MC) and two 767-300ER (aircraft tail numbers N640GT and N641GT) passenger aircraft. In connection with entry into the CIT Term Loans, we paid usual and customary fees. The balances outstanding under the CIT Term Loans accrue interest at a fixed interest rate of 6.91%, with principal and interest payable monthly. The CIT Term Loans contain customary covenants, events of default and are cross-defaulted and cross-collateralized. In addition, the CIT Term Loans are cross-defaulted to certain of our other debt facilities.

## **8. Segment Reporting**

We have the following reportable segments: ACMI, 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 direct ownership costs. Direct Contribution consists of Income before income taxes and excludes the following: special charges, pre-operating expenses, nonrecurring items, gains on the disposal of aircraft, unallocated revenue and unallocated fixed costs. Direct ownership costs include crew costs, maintenance, fuel, ground operations, sales costs, aircraft rent, interest expense related to aircraft debt, interest income on debt securities and aircraft depreciation. Unallocated income and expenses include corporate overhead, non-aircraft depreciation, interest income, foreign exchange gains and losses, other revenue and other non-operating costs, including special charges, pre-operating expenses and nonrecurring items. Management uses Direct Contribution to measure segment profitability as it shows each segment's contribution to unallocated fixed costs. Each segment has different operating and economic characteristics that are separately reviewed by our senior management.

Management allocates the costs attributable to aircraft operation and ownership among the various segments based on the aircraft type and activity levels in each segment. Depreciation and amortization expense, aircraft rent, maintenance expense, and other aircraft related expenses are allocated to segments based upon aircraft utilization because certain individual aircraft are utilized across segments interchangeably. In addition, certain ownership costs are directly apportioned to the ACMI segment. Other allocation methods are standard activity-based methods that are commonly used in the industry.

The ACMI segment provides aircraft, crew, maintenance and insurance services to customers. Also included in the ACMI segment are the results of operations for CMI. CMI provides crew, maintenance and insurance services, with the customer providing the aircraft. Under both services, customers guarantee a monthly level of operation at a predetermined rate for a defined period of time. The customer bears the commercial revenue risk and the obligation for other direct operating costs, including fuel. The Direct Contribution from Express Network ACMI flying is reflected as ACMI.

The AMC Charter segment primarily provides full planeload charter flights to the U.S. Military. In addition to cargo flights, the AMC Charter segment includes passenger flights, which we began providing in the second quarter of 2011. We also earn commissions on subcontracting certain flying of oversized cargo and less than full planeload missions, or in connection with flying cargo into areas of military conflict where we cannot perform the services on our own. Revenue from the AMC Charter business is typically derived from one-year contracts on a cost-plus basis with the AMC. Our current AMC contract runs from January 1, 2012 through September 30, 2012. Although we are responsible for the direct operating costs of the aircraft, the price paid for fuel consumed during AMC flights is fixed by the U.S. Military. We receive reimbursement from the AMC each month if the price of fuel paid by us to vendors for AMC missions exceeds the fixed price. Alternatively, if the price of fuel paid by us is less than the fixed price, we pay the difference to the AMC each month.

The Commercial Charter segment provides full planeload air cargo and passenger aircraft charters to charter brokers, cruise-ship operators, freight forwarders, direct shippers and airlines. Charters are often paid in advance and we typically bear the direct operating costs.

The Dry Leasing segment provides for the leasing of aircraft and engines to customers.

Other represents revenue for services that are not allocated to any segment, including administrative and management support services and flight simulator training.

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The following table sets forth Operating Revenue and Direct Contribution for our reportable business segments reconciled to Operating Income and Income before Income Taxes:

|                                                          | <b>For the Three Months Ended</b> |                       |
|----------------------------------------------------------|-----------------------------------|-----------------------|
|                                                          | <b>March 31, 2012</b>             | <b>March 31, 2011</b> |
| <b>Operating Revenue:</b>                                |                                   |                       |
| ACMI                                                     | \$ 154,703                        | \$ 146,035            |
| AMC Charter                                              | 121,294                           | 81,176                |
| Commercial Charter                                       | 76,947                            | 65,536                |
| Dry Leasing                                              | 2,945                             | 1,543                 |
| Other                                                    | 3,415                             | 3,316                 |
| <b>Total Operating Revenue</b>                           | <b>\$ 359,304</b>                 | <b>\$ 297,606</b>     |
| <b>Direct Contribution:</b>                              |                                   |                       |
| ACMI                                                     | \$ 24,154                         | \$ 22,802             |
| AMC Charter                                              | 20,581                            | 14,198                |
| Commercial Charter                                       | 1,876                             | 9,040                 |
| Dry Leasing                                              | 1,336                             | 828                   |
| <b>Total Direct Contribution for Reportable Segments</b> | <b>47,947</b>                     | <b>46,868</b>         |
| Add back (subtract):                                     |                                   |                       |
| Unallocated income and expenses                          | (29,969)                          | (30,302)              |
| Gain on disposal of aircraft                             | 196                               | 120                   |
| <b>Income before Income Taxes</b>                        | <b>18,174</b>                     | <b>16,686</b>         |
| Add back (subtract):                                     |                                   |                       |
| Interest income                                          | (4,909)                           | (5,115)               |
| Interest expense                                         | 13,963                            | 10,296                |
| Capitalized interest                                     | (6,352)                           | (5,417)               |
| Other (income) expense, net                              | (297)                             | 41                    |
| <b>Operating Income</b>                                  | <b>\$ 20,579</b>                  | <b>\$ 16,491</b>      |

**9. Commitments and Contingencies**

In 2006, we entered into an agreement with The Boeing Company ( Boeing ) providing for our purchase of 12 747-8F aircraft (the Boeing 747-8F Agreement ). The Boeing 747-8F Agreement provided for deliveries of the aircraft to begin in 2010, with all 12 deliveries originally contractually scheduled for delivery by the end of 2011. In addition, the Boeing 747-8F Agreement provides us with rights to purchase up to an additional 13 747-8F aircraft.

Since the initial date of the Boeing 747-8F Agreement, Boeing has announced several delays in the delivery schedule of the 12 747-8F aircraft. In September 2011, after lengthy delays and performance considerations, we exercised our termination rights in connection with three early build 747-8F aircraft reducing our order to nine.

As a result of announced delays, Boeing proposed a revised delivery and payment schedule in September 2011. Estimated expenditures under the proposed schedule as of March 31, 2012, including estimated amounts for contractual price escalations and advance payments, are \$433.7 million for the remainder of 2012 and \$213.6 million in 2013.

**10. 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). Under the terms of the agreement, approved by the United States District Court for the District of Columbia, Old Polar will pay a fine of \$17.4 million, payable in five annual

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installments, of which the first two payments have been made. The fine relates to an alleged agreement by Old Polar with respect to fuel surcharges on cargo shipped from the United States to Australia during the time period from January 2000 through April 2003.

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 pre-trial 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.

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. The case is currently in the class certification phase. There has been substantial pre-trial written discovery and document production, and a number of depositions have been taken. The plaintiffs' motion for class certification was filed on October 28, 2011, and the Company intends to oppose the motion. We are unable to reasonably predict the court's ruling on the motion 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 \$10.8 million and \$5.9 million, respectively, plus interest based on March 31, 2012 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 necessary. In the pending claim for \$10.8 million, we 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 \$6.8 million as of March 31, 2012 and \$6.5 million as of December 31, 2011, 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

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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.

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 has appealed that decision to the Dutch Court of Appeal, but the judgment took effect immediately upon entry.

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.

## 11. 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 months ended March 31, 2012 and 2011 were de minimis and were excluded.

The calculations of basic and diluted EPS were as follows:

|                                                       | For the Three Months Ended |                |
|-------------------------------------------------------|----------------------------|----------------|
|                                                       | March 31, 2012             | March 31, 2011 |
| <b>Numerator:</b>                                     |                            |                |
| Net Income Attributable to Common Stockholders        | \$ 12,835                  | \$ 10,516      |
| <b>Denominator:</b>                                   |                            |                |
| Basic EPS weighted average shares outstanding         | 26,360                     | 26,041         |
| Effect of dilutive stock options and restricted stock | 128                        | 248            |
| Diluted EPS weighted average shares outstanding       | 26,488                     | 26,289         |
| <b>EPS:</b>                                           |                            |                |
| Basic                                                 | \$ 0.49                    | \$ 0.40        |
| Diluted                                               | \$ 0.48                    | \$ 0.40        |

Diluted shares reflect the potential dilution that could occur from stock options and restricted shares using the treasury stock method. The calculation does not include restricted shares and units in which performance or market conditions were not satisfied of 0.4 million for the three

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months ended March 31, 2012 and 0.3 for the three months ended March 31, 2011.

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

|                                 | <b>Interest Rate<br/>Derivatives</b> | <b>Foreign Currency<br/>Translation</b> | <b>Total</b> |
|---------------------------------|--------------------------------------|-----------------------------------------|--------------|
| Balance as of December 31, 2011 | \$ (15,853)                          | \$ 170                                  | \$ (15,683)  |
| Net change in fair value        | (713)                                |                                         | (713)        |
| Reclassification into earnings  | 253                                  |                                         | 253          |
| Translation adjustment          |                                      | 77                                      | 77           |
| Tax effect                      | 167                                  | (20)                                    | 147          |
| Balance as of March 31, 2012    | \$ (16,146)                          | \$ 227                                  | \$ (15,919)  |

**13. Income Taxes**

Our effective income tax rates were 39.8% and 37.3% for the three months ended March 31, 2012 and 2011, respectively. The effective rates differ from the U.S. federal statutory rate due to the income tax impact of global operations, U.S. state income taxes, the non-deductibility of certain expenses for tax purposes, and the relationship of these items to our projected operating results for the year. The increase in the effective rate from 2011 to 2012 was primarily due to a discrete tax item of approximately \$0.3 million recorded in the first quarter of 2012.

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### **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 2011 Annual Report on Form 10-K.

#### **Background**

#### **Certain Terms Glossary**

The following represents terms and statistics specific to the airline and cargo industries. They are used by management 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, 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 every six to nine years depending on aircraft type.                   |
| Heavy Maintenance      | Scheduled maintenance activities, which are the most 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 services. 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 aircraft operating solutions, including the provision of an aircraft, crew, maintenance and insurance, while customers assume fuel, demand and Yield risk;

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

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Dry Leasing, whereby we provide aircraft and/or engine leasing solutions;

AMC Charter services, whereby we provide cargo and passenger 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; and

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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 pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs.

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;

Diversifying our service offerings;

Focusing on securing long-term customer contracts;

Driving significant and ongoing efficiencies and 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 2011 Annual Report on Form 10-K for additional information.

## **Business Developments**

Our ACMI results for the first quarter of 2012, compared to the same period in 2011, were positively impacted by the following events:

In March 2011, we began ACMI flying two additional 747-400 aircraft for Polar and DHL to operate in Express Network ACMI. This increased the size of our Express Network ACMI flying for DHL from six to eight aircraft.

In November and December 2011, we took delivery of three 747-8F aircraft that we placed with British Airways under an ACMI agreement through GSS, which replaced three 747-400 aircraft.

In March 2012, we began flying CMI for the first of five 767 freighters owned by DHL in its North American network. The other four are expected to be placed in service by the third quarter of 2012.

In May 2011, we began flying passenger charters for the U.S. Military. These charters are similar to our existing AMC Charters in that the AMC pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs. We are currently operating two 747-400 and two 767-300ER passenger aircraft purchased during 2011 and expect to place a third 767-300ER in service during the second quarter of 2012. AMC passenger Block Hours have shown strong growth as we continue to ramp up flying both domestic and international AMC missions.

Commercial Charter volumes and Yields have begun to show improvement out of Asia during the first quarter. In addition to providing passenger charters to the AMC, we are utilizing our new passenger aircraft for both public and private Commercial Charter passenger flights.

**Results of Operations**

***Three Months Ended March 31, 2012 and 2011***

**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 March 31:

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|                                                                                 | 2012        | 2011        | Increase /<br>(Decrease) | Percent<br>Change |
|---------------------------------------------------------------------------------|-------------|-------------|--------------------------|-------------------|
| <b>Block Hours</b>                                                              |             |             |                          |                   |
| ACMI                                                                            | 24,509      | 23,699      | 810                      | 3.4%              |
| AMC Charter:                                                                    |             |             |                          |                   |
| Cargo                                                                           | 3,189       | 4,130       | (941)                    | (22.8)%           |
| Passenger                                                                       | 1,850       |             | 1,850                    | NM                |
| Commercial Charter                                                              | 3,691       | 3,165       | 526                      | 16.6%             |
| Other                                                                           | 434         | 216         | 218                      | 100.9%            |
| Total Block Hours                                                               | 33,673      | 31,210      | 2,463                    | 7.9%              |
| <b>Revenue Per Block Hour</b>                                                   |             |             |                          |                   |
| ACMI                                                                            | \$ 6,312    | \$ 6,162    | \$ 150                   | 2.4%              |
| AMC Charter:                                                                    |             |             |                          |                   |
| Cargo                                                                           | \$ 24,886   | \$ 19,655   | \$ 5,231                 | 26.6%             |
| Passenger                                                                       | \$ 22,667   | \$          | \$ 22,667                | NM                |
| Commercial Charter                                                              | \$ 20,847   | \$ 20,706   | \$ 141                   | 0.7%              |
| <b>Fuel</b>                                                                     |             |             |                          |                   |
| <b>AMC</b>                                                                      |             |             |                          |                   |
| Average fuel cost per gallon                                                    | \$ 3.61     | \$ 2.95     | \$ 0.66                  | 22.4%             |
| Fuel gallons consumed (000s)                                                    | 14,029      | 13,365      | 664                      | 5.0%              |
| <b>Commercial Charter</b>                                                       |             |             |                          |                   |
| Average fuel cost per gallon                                                    | \$ 3.39     | \$ 3.06     | \$ 0.33                  | 10.8%             |
| Fuel gallons consumed (000s)                                                    | 13,031      | 11,336      | 1,695                    | 15.0%             |
| <b>Segment Operating Fleet (average aircraft equivalents during the period)</b> |             |             |                          |                   |
| <b>ACMI*</b>                                                                    |             |             |                          |                   |
| 747-8F Cargo                                                                    | 3.0         |             | 3.0                      | NM                |
| 747-400 Cargo                                                                   | 17.5        | 19.7        | (2.2)                    | (11.2)%           |
| 747-200 Cargo                                                                   | 0.1         | 0.3         | (0.2)                    | (66.7)%           |
| 767-200 Cargo                                                                   | 0.2         |             | 0.2                      | NM                |
| 747-400 Passenger                                                               | 1.0         | 1.0         |                          | NM                |
| 767-300 Passenger                                                               | 0.1         |             | 0.1                      | NM                |
| Total                                                                           | 21.9        | 21.0        | 0.9                      | 4.3%              |
| <b>AMC Charter</b>                                                              |             |             |                          |                   |
| 747-400 Cargo                                                                   | 3.6         | 0.9         | 2.7                      | 300.0%            |
| 747-200 Cargo                                                                   | 0.7         | 4.0         | (3.3)                    | (82.5)%           |
| 747-400 Passenger                                                               | 1.7         |             | 1.7                      | NM                |
| 767-300 Passenger                                                               | 1.1         |             | 1.1                      | NM                |
| Total                                                                           | 7.1         | 4.9         | 2.2                      | 44.9%             |
| <b>Commercial Charter</b>                                                       |             |             |                          |                   |
| 747-400 Cargo                                                                   | 3.9         | 2.0         | 1.9                      | 95.0%             |
| 747-200 Cargo                                                                   | 0.7         | 1.6         | (0.9)                    | (56.3)%           |
| 747-400 Passenger                                                               | 0.1         |             | 0.1                      | NM                |
| 767-300 Passenger                                                               | 0.3         |             | 0.3                      | NM                |
| Total                                                                           | 5.0         | 3.6         | 1.4                      | 38.9%             |
| <b>Dry Leasing</b>                                                              |             |             |                          |                   |
| 757-200 Cargo                                                                   | 1.0         | 1.0         |                          | NM                |
| 737-800 Passenger                                                               | 2.0         |             | 2.0                      | NM                |
| Total                                                                           | 3.0         | 1.0         | 2.0                      | 200.0%            |
| <b>Total Operating Aircraft</b>                                                 | <b>37.0</b> | <b>30.5</b> | <b>6.5</b>               | <b>21.3%</b>      |

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|                         |     |       |          |
|-------------------------|-----|-------|----------|
| <b>Out-of-service**</b> | 0.9 | (0.9) | (100.0)% |
|-------------------------|-----|-------|----------|

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

\*\* All of our out-of-service aircraft are completely unencumbered. Permanently parked aircraft, all of which are also completely unencumbered, are not included in the operating statistics above.

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### Operating Revenue

The following table compares our Operating Revenue for the three months ended March 31 (in thousands):

|                                | XXXX.X            | XXXX.X            | XXXX.X                   | XXXX.X            |
|--------------------------------|-------------------|-------------------|--------------------------|-------------------|
|                                | 2012              | 2011              | Increase /<br>(Decrease) | Percent<br>Change |
| <b>Operating Revenue</b>       |                   |                   |                          |                   |
| ACMI                           | \$ 154,703        | \$ 146,035        | \$ 8,668                 | 5.9%              |
| AMC Charter                    | 121,294           | 81,176            | 40,118                   | 49.4%             |
| Commercial Charter             | 76,947            | 65,536            | 11,411                   | 17.4%             |
| Dry Leasing                    | 2,945             | 1,543             | 1,402                    | 90.9%             |
| Other                          | 3,415             | 3,316             | 99                       | 3.0%              |
| <b>Total Operating Revenue</b> | <b>\$ 359,304</b> | <b>\$ 297,606</b> | <b>\$ 61,698</b>         | <b>20.7%</b>      |

*ACMI revenue* increased \$8.7 million, or 5.9%, due to increases in Block Hours and Revenue per Block Hour. ACMI Block Hours were 24,509 in the first quarter of 2012, compared to 23,699 in 2011, representing an increase of 810 Block Hours, or 3.4%. The increase in Block Hours was primarily driven by flying two incremental aircraft for DHL beginning in March 2011. Revenue per Block Hour was \$6,312 for the first quarter of 2012, compared to \$6,162 for 2011, an increase of \$150 per Block Hour, or 2.4%. The increase in Revenue per Block Hour primarily reflects the impact of higher rates for three 747-8F aircraft, which began flying during the fourth quarter of 2011.

*AMC Charter revenue* increased \$40.1 million, or 49.4%, primarily driven by \$41.9 million of AMC Charter Passenger revenue due to flying that we began in May 2011. Revenue per Block Hour increased primarily due to an increase in AMC Charter Cargo Revenue per Block Hour from \$19,655 for the first quarter of 2011 to \$24,886 in 2012, an increase of \$5,231 per Block Hour, or 26.6%. This increase was due to an increase in the average pegged fuel price and premiums earned on flying more 747-400 cargo aircraft during the first quarter of 2012. For the first quarter of 2012, the AMC average pegged fuel price was \$3.61 per gallon compared to an average pegged fuel price of \$2.95 for 2011. AMC Charter Block Hours were 5,039 in the first quarter of 2012 compared to 4,130 in 2011, an increase of 909 Block Hours, or 22.0%. The increase in AMC Charter Block Hours was due to the addition of 1,850 AMC Charter Passenger Block Hours, partially offset by a decrease of 941 AMC Charter Cargo Block Hours driven by reduced cargo demand from the AMC.

*Commercial Charter revenue* increased \$11.4 million, or 17.4%, due to increases in Block Hours and Revenue per Block Hour. Commercial Charter Block Hours were 3,691 in the first quarter of 2012, compared to 3,165 in 2011, representing an increase of 526 Block Hours, or 16.6%. The increase in Block Hours was primarily due to our deployment of an additional 747-400 cargo aircraft to support increased demand in South America. In addition, we were able to utilize our passenger aircraft for sporting event and concert tour charters. Revenue per Block Hour was \$20,847 in the first quarter of 2012, compared to \$20,706 in 2011, an increase of \$141 per Block Hour, or 0.7%, which reflects an improvement in Commercial Charter Yields out of Asia.

*Dry Leasing revenue* increased \$1.4 million, or 90.9%, as a result of dry leasing two additional aircraft in the second quarter of 2011.

### Operating Expenses

The following table compares our Operating Expenses for the three months ended March 31 (in thousands):

|                                    | XXXX.X    | XXXX.X    | XXXX.X                   | XXXX.X            |
|------------------------------------|-----------|-----------|--------------------------|-------------------|
|                                    | 2012      | 2011      | Increase /<br>(Decrease) | Percent<br>Change |
| <b>Operating Expenses</b>          |           |           |                          |                   |
| Aircraft fuel                      | \$ 94,763 | \$ 74,167 | \$ 20,596                | 27.8%             |
| Salaries, wages and benefits       | 70,876    | 61,764    | 9,112                    | 14.8%             |
| Maintenance, materials and repairs | 52,980    | 50,069    | 2,911                    | 5.8%              |

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|                                  |        |        |        |       |
|----------------------------------|--------|--------|--------|-------|
| Aircraft rent                    | 39,418 | 38,354 | 1,064  | 2.8%  |
| Depreciation and amortization    | 14,303 | 8,330  | 5,973  | 71.7% |
| Landing fees and other rent      | 13,055 | 11,340 | 1,715  | 15.1% |
| Travel                           | 12,620 | 9,122  | 3,498  | 38.3% |
| Ground handling and airport fees | 7,620  | 5,302  | 2,318  | 43.7% |
| Gain on disposal of aircraft     | (196)  | (120)  | 76     | 63.3% |
| Other                            | 33,286 | 22,787 | 10,499 | 46.1% |

|                          |            |            |
|--------------------------|------------|------------|
| Total Operating Expenses | \$ 338,725 | \$ 281,115 |
|--------------------------|------------|------------|

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*Aircraft fuel* increased \$20.6 million, or 27.8%, as a result of approximately \$13.5 million in fuel price increases and \$7.1 million in increased consumption. The average fuel price per gallon for the AMC Charter business was \$3.61 in the first quarter of 2012, compared to \$2.95 in 2011, an increase of 22.4%. AMC fuel consumption increased by 0.7 million gallons, or 5.0%, reflecting the increase in Block Hours operated, partially offset by the use of more efficient 747-400 and 767-300 aircraft during the first quarter of 2012 in place of less efficient 747-200 aircraft in 2011. The average fuel price per gallon for the Commercial Charter business was \$3.39 for the first quarter of 2012, compared to \$3.06 in 2011, an increase of 10.8%. Fuel consumption for this business increased by 1.7 million gallons, or 15.0%, commensurate with the increase in Block Hours operated. We do not incur fuel expense in our ACMI business as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$9.1 million, or 14.8%, primarily driven by increased wages for crewmembers, higher Block Hours and the hiring of additional employees to support new aircraft.

*Maintenance, materials and repairs* increased \$2.9 million, or 5.8%, driven by maintenance expense increases of \$9.5 million for 747-400 aircraft and \$2.8 million for other aircraft, partially offset by a \$9.4 million reduction in maintenance expense for 747-200 aircraft. Heavy Maintenance expense on 747-400 aircraft increased approximately \$3.1 million due to an increase in the number of C Checks and additional maintenance expense on engines, partially offset by a reduction in D Check expense compared to 2011. Heavy Maintenance expense on 747-200 aircraft decreased approximately \$5.6 million due to the retirement of this fleet during the first quarter of 2012. Non-heavy Maintenance expense on 747-400 aircraft increased \$3.2 million driven by the timing of other Non-heavy Maintenance events on these aircraft compared to 2011. Line Maintenance expense increased \$3.2 million for 747-400 aircraft and \$2.8 million for other aircraft driven by an increase in Block Hours flown compared to 2011. Line Maintenance expense decreased \$3.8 million on 747-200 aircraft due to the retirement of this fleet during the first quarter of 2012. Heavy airframe maintenance events and engine overhauls for the three months ended March 31 were:

|                                 | XXXXXXX<br>2012 | XXXXXXX<br>2011 | XXXXXXX<br>Increase /<br>(Decrease) |
|---------------------------------|-----------------|-----------------|-------------------------------------|
| <b>Heavy Maintenance Events</b> |                 |                 |                                     |
| 747-400 C Checks                | 7               | 1               | 6                                   |
| 747-400 D Checks                | 2               | 3               | (1)                                 |
| CF6-50 engine overhauls         |                 | 2               | (2)                                 |
| CF6-80 engine overhauls         | 5               | 5               |                                     |

*Aircraft rent* increased \$1.1 million, or 2.8%, primarily due to the leasing of additional aircraft in 2011.

*Depreciation and amortization* increased \$6.0 million, or 71.7%, due to additional aircraft in 2012.

*Landing fees and other rent* increased \$1.7 million, or 15.1%, primarily due to increased flying during the first quarter of 2012.

*Travel* increased \$3.5 million, or 38.3%, primarily due to increased travel for flight attendants and crew related to increased flying during the first quarter of 2012.

*Ground handling* increased \$2.3 million, or 43.7%, primarily due to increased services related to passenger flying during the first quarter of 2012.

*Other operating expenses* increased \$10.5 million, or 46.1%, primarily due to contract services for flight attendants and passenger catering, and commissions related to increased AMC Charter Revenue.

**Non-operating Expenses / (Income)**

The following table compares our Non-operating Expenses / (Income) for the three months ended March 31 (in thousands):

| XXXX.X<br>2012 | XXXX.X<br>2011 | XXXX.X<br>Increase /<br>(Decrease) | XXXX.X<br>Percent<br>Change |
|----------------|----------------|------------------------------------|-----------------------------|
|----------------|----------------|------------------------------------|-----------------------------|

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| Non-operating Expenses (Income) |    |         |    |         |    |       |        |
|---------------------------------|----|---------|----|---------|----|-------|--------|
| Interest income                 | \$ | (4,909) | \$ | (5,115) | \$ | (206) | (4.0)% |
| Interest expense                |    | 13,963  |    | 10,296  |    | 3,667 | 35.6%  |
| Capitalized interest            |    | (6,352) |    | (5,417) |    | 935   | 17.3%  |
| Other (income) expense, net     |    | (297)   |    | 41      |    | 338   | 824.4% |

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*Interest expense* increased \$3.7 million, or 35.6%, primarily from an increase in our average debt balances related to financing three 747-8F aircraft in the fourth quarter of 2011.

*Capitalized interest* increased \$0.9 million, or 17.3%, primarily due to higher interest rates applied to higher pre-delivery deposit balances outstanding during the period.

*Income taxes.* Our effective income tax rates were 39.8% for the three months ended March 31, 2012 and 37.3% for the three months ended March 31, 2011. The increase in the effective tax rate for the three months ended March 31, 2012 was primarily due to a discrete tax item of approximately \$0.3 million recorded in the first quarter of 2012. We expect the effective income tax rate to decrease to approximately 38.0% in subsequent quarters and for the full year in 2012.

**Segments**

The following table compares the Direct Contribution for our reportable segments (see Note 8 to our Financial Statements for the reconciliation to Operating income) for the three months ended March 31 (in thousands):

|                                 | XXXX.X<br>2012 | XXXX.X<br>2011 | XXXX.X<br>Increase /<br>(Decrease) | XXXX.X<br>Percent<br>Change |
|---------------------------------|----------------|----------------|------------------------------------|-----------------------------|
| <b>Direct Contribution:</b>     |                |                |                                    |                             |
| ACMI                            | \$ 24,154      | \$ 22,802      | \$ 1,352                           | 5.9%                        |
| AMC Charter                     | 20,581         | 14,198         | 6,383                              | 45.0%                       |
| Commercial Charter              | 1,876          | 9,040          | (7,164)                            | (79.2)%                     |
| Dry Leasing                     | 1,336          | 828            | 508                                | 61.4%                       |
| Total Direct Contribution       | \$ 47,947      | \$ 46,868      | \$ 1,079                           | 2.3%                        |
| Unallocated income and expenses | \$ 29,969      | \$ 30,302      | \$ (333)                           | (1.1)%                      |

**ACMI Segment**

Direct Contribution related to the ACMI segment increased \$1.4 million, or 5.9%, primarily due to increases in Block Hours and Revenue per Block Hour. The increase in Block Hours was primarily driven by flying two incremental aircraft for DHL beginning in March 2011. The increase in ACMI Revenue per Block Hour primarily reflects the impact of higher rates for three 747-8F aircraft, which began flying during the fourth quarter of 2011. Offsetting these items were increases in crew costs and aircraft ownership costs. In addition, ACMI Direct Contribution was impacted by higher Line Maintenance and the unfavorable timing of maintenance events on 747-400 aircraft in the first quarter of 2012.

**AMC Charter Segment**

Direct Contribution related to the AMC Charter segment increased \$6.4 million, or 45.0%, primarily due to increased Revenue per Block Hour driven by premiums earned from flying more 747-400 aircraft during the first quarter of 2012 and increased Block Hours. The increase in AMC Charter Block Hours was primarily due to the increase in AMC passenger flying, which we began in May 2011. Partially offsetting these items were increases in crew costs, volume-driven operating expenses and aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft. In addition, AMC Charter Direct Contribution was negatively impacted by the higher cost of operating an inefficient 747-200 fleet size during the first quarter of 2012.

**Commercial Charter Segment**

Direct Contribution related to the Commercial Charter segment decreased \$7.2 million, or 79.2%, primarily due to increases in fuel expense, crew costs and aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft. Partially offsetting these items was an increase in Block Hours and higher Commercial Charter Yields. In addition, Commercial Charter Direct Contribution was negatively impacted by the higher cost of operating an inefficient 747-200 fleet size during the first quarter of 2012.

***Dry Leasing Segment***

Direct Contribution related to the Dry Leasing segment increased primarily due to the dry leasing of two additional aircraft in the second quarter of 2011.

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Unallocated income and expenses was relatively unchanged.

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

To supplement our Financial Statements presented in accordance with accounting principles generally accepted in the United States of America ( 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 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):

|                                                                | For the Three Months Ended |                |                |
|----------------------------------------------------------------|----------------------------|----------------|----------------|
|                                                                | March 31, 2012             | March 31, 2011 | Percent Change |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 12,835                  | \$ 10,516      | 22.1%          |
| After-tax impact from:                                         |                            |                |                |
| Fleet retirement costs*                                        | 926                        |                |                |
| Pre-operating expenses**                                       |                            | 2,242          |                |
| Gain on disposal of aircraft                                   | (125)                      | (76)           |                |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 13,636                  | \$ 12,682      | 7.5%           |
| <b>Diluted EPS</b>                                             | \$ 0.48                    | \$ 0.40        | 20.0%          |
| After-tax impact from:                                         |                            |                |                |
| Fleet retirement costs*                                        | 0.03                       |                |                |
| Pre-operating expenses**                                       |                            | 0.09           |                |
| Gain on disposal of aircraft                                   |                            |                |                |
| <b>Adjusted Diluted EPS</b>                                    | \$ 0.51                    | \$ 0.49        | 4.1%           |

\* Fleet retirement costs in 2012 included incremental employee costs related to the retirement of our 747-200 fleet.

\*\* Pre-operating expenses in 2011 were related to the introduction of new aircraft types and include incremental costs incurred as a result of aircraft delivery delays.

**Liquidity and Capital Resources**

Significant liquidity events in the first quarter of 2012 were as follows:

In January 2012, we entered into the 2012 Ex-Im Bank Facility of up to \$864.8 million to finance up to six future 747-8F aircraft deliveries. The 2012 Ex-Im Bank Facility, when drawn, will consist of up to six separate term loans each secured by a mortgage on one of our future 747-8F aircraft deliveries.

In March 2012, we entered into the CIT Term Loans in the aggregate amount of \$35.7 million to finance two 747-400 and two 767-300ER passenger aircraft.

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*Operating Activities.* Net cash provided by operating activities for the first quarter of 2012 was \$18.1 million, compared to \$14.1 million for the first quarter of 2011.

*Investing Activities.* Net cash used for investing activities was \$51.8 million for the first quarter of 2012, consisting

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primarily of \$42.9 million of purchase deposit and delivery payments for flight equipment, which included \$6.4 million of capitalized interest on our 747-8F aircraft order, and \$10.7 million of capital expenditures, partially offset by \$2.7 million of proceeds from short-term investments. During the first quarter of 2012, we purchased one 767-300ER passenger aircraft. Capital expenditures for the first quarter of 2012 were funded through working capital. Net cash used for investing activities was \$10.2 million for the first quarter of 2011, consisting primarily of \$7.3 million of purchase deposit and delivery payments for flight equipment, which included \$5.4 million of capitalized interest on our 747-8F aircraft order and \$4.2 million of capital expenditures, partially offset by \$1.2 million of proceeds from short-term investments.

*Financing Activities.* Net cash provided by financing activities was \$13.2 million for the first quarter of 2012, which primarily reflected the proceeds from debt issuance of \$35.7 million, partially offset by \$18.3 million of payments on debt obligations. Net cash used for financing activities was \$16.0 million for the first quarter of 2011, which primarily reflected \$13.0 million of payments on debt obligations.

We consider Cash and cash equivalents, Short-term investments and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations and to fund capital expenditures for 2013. Capital expenditures for the remainder of 2012 are expected to be approximately \$45.7 million, which excludes aircraft and capitalized interest. Our estimated 747-8F aircraft delivery payment requirements for the remainder of 2012 are approximately \$433.7 million. We expect our Cash and cash equivalents, pre-delivery financing facility and the 2012 Ex-Im Bank Facility to be sufficient to fund our 747-8F aircraft delivery payment requirements for 2012.

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 2009 that enables us to sell up to \$500 million of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and other factors. Approximately \$112.6 million of net proceeds from our stock offering in the fourth quarter of 2009 was drawn down from this shelf registration statement. 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 100% of the cost of qualified assets placed in service during 2011 or 2012 and 50% of the cost of qualified assets placed in service during 2013. Two 747-8F aircraft delivered to us in 2011 qualify for 100% bonus tax depreciation. As a result, we did not incur any current U.S. federal income tax during 2012, and we expect to obtain a refund of almost all U.S. federal income tax paid for 2011 and 2010. In addition, we expect four 747-8F aircraft to be delivered in 2012 to qualify for 100% bonus tax depreciation and two 747-8F aircraft to be delivered in 2013 to qualify for 50% bonus tax depreciation. Due to the impact of bonus tax depreciation, we do not expect to pay any significant U.S. federal income tax until 2016 or later. Furthermore, our business operations are subject to income tax in several non-U.S. jurisdictions. We expect our U.K. subsidiary to pay 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.

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

See Note 7 to our Financial Statements for a description of our new debt obligations, the 2012 Ex-Im Bank Facility and the CIT Term Loans. See our 2011 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2011 and a description of our debt obligations and amendments thereto.

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

Fifteen of our thirty-five operating aircraft are under operating leases (this excludes aircraft provided by CMI customers). Five are leased through trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. All fixed price options were restructured to reflect a fair market value purchase option, and as such, we are not the primary beneficiary of the leasing entities. We are generally not the primary beneficiary of the leasing entities if the lease terms are consistent with market terms at the inception of the lease and the leases do not include a residual value guarantee, fixed-price purchase option or similar feature that would obligate us to absorb decreases in value or entitle us to participate in increases in the value of the aircraft. We have not consolidated any additional aircraft in the related trusts upon application of accounting for consolidations, because we are not the primary beneficiary based on the fact that all fixed price options were restructured to reflect a fair market value purchase option. In addition, we reviewed the other ten Atlas aircraft that are under operating leases but not financed through a trust and determined that none of them would be consolidated upon the application of accounting for consolidations. Our maximum exposure under all operating leases is the remaining lease payments, which amounts are reflected in future lease commitments described in Note 10 to the audited consolidated financial statements in our 2011 Annual Report on Form 10-K.



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There were no material changes in our off-balance sheet arrangements during the three months ended March 31, 2012.

### **Recent Accounting Pronouncements**

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

### **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, 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, 2011. 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 2011 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 March 31, 2012. 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 March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

With respect to the fiscal quarter ended March 31, 2012, the information required in response to this Item is set forth in Note 10 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 2011 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 2011 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 September 30, 2013. If the federal war-risk coverage program terminates or 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 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 could 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.

**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.

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**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: May 3, 2012

/s/ William J. Flynn

William J. Flynn  
President and Chief Executive Officer

Dated: May 3, 2012

/s/ Spencer Schwartz

Spencer Schwartz  
Senior Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1                  | Participation Agreement, dated as of January 30, 2012, among Helios Leasing I LLC, as Lessor, Helios Leasing Trust, as Lessor Parent, Wilmington Trust Company, as Trustee, Atlas Air, Inc., as Lessee, Wilmington Trust Company, as Indenture Trustee, Apple Bank for Savings, as Initial Guaranteed Lender, Wells Fargo Bank Northwest, National Association, as Security Trustee, and Export-Import Bank of the United States (the Company has filed a request with the Commission for confidential treatment as to certain portions of this document) |
| 10.2                  | Form of Restricted Stock Unit Agreement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 10.3                  | Form of Performance Share Unit Agreement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 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 March 31, 2012 and December 31, 2011, (ii) Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011, (v) Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2012 and 2011 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.