

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

November 06, 2014

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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 September 30, 2014**

**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**

**13-4146982**  
**(IRS Employer**

**of incorporation)**

**Identification No.)**

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

**10577**  
**(Zip Code)**

**(914) 701-8000**

**(Registrant's telephone number, including area code)**

**Not Applicable**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 31, 2014, there were 24,805,297 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>September 30, 2014</b> | <b>December 31, 2013</b> |
|--|---------------------------|--------------------------|
| <b>Assets</b>  |                           |                          |
| <b>Current Assets</b>  |                           |                          |
| Cash and cash equivalents  | \$ 262,224                | \$ 321,816               |
| Short-term investments   | 11,931                    | 10,904                   |
| Restricted cash  | 13,563                    | 6,491                    |
| Accounts receivable, net of allowance of \$1,748 and \$1,402, respectively | 167,845                   | 132,159                  |
| Prepaid maintenance  | 11,389                    | 31,620                   |
| Deferred taxes   | 29,203                    | 54,001                   |
| Prepaid expenses and other current assets                                  | 26,835                    | 36,962                   |
| Total current assets   | 522,990                   | 593,953                  |
| <b>Property and Equipment</b>  |                           |                          |
| Flight equipment   | 3,485,877                 | 2,969,379                |
| Ground equipment   | 50,305                    | 46,951                   |
| Less: accumulated depreciation   | (328,953)                 | (256,685)                |
| Purchase deposits for flight equipment                                     | 5,947                     | 69,320                   |
| Property and equipment, net  | 3,213,176                 | 2,828,965                |
| <b>Other Assets</b>  |                           |                          |
| Long-term investments and accrued interest                                 | 126,002                   | 130,267                  |
| Deposits and other assets  | 136,438                   | 131,216                  |
| Intangible assets, net   | 69,676                    | 33,858                   |
| <b>Total Assets</b>  | <b>\$ 4,068,282</b>       | <b>\$ 3,718,259</b>      |
| <b>Liabilities and Equity</b>  |                           |                          |
| <b>Current Liabilities</b>   |                           |                          |
| Accounts payable   | \$ 39,234                 | \$ 65,367                |
| Accrued liabilities  | 229,072                   | 194,292                  |
| Current portion of long-term debt  | 191,487                   | 157,486                  |

|  |                     |                     |
|--|---------------------|---------------------|
| Total current liabilities  | 459,793             | 417,145             |
| <b>Other Liabilities</b>   |                     |                     |
| Long-term debt   | 1,829,148           | 1,539,139           |
| Deferred taxes   | 340,444             | 371,655             |
| Other liabilities  | 66,822              | 68,195              |
| Total other liabilities  | 2,236,414           | 1,978,989           |
| Commitments and contingencies  |                     |                     |
| <b>Equity</b>  |                     |                     |
| Stockholders' Equity   |                     |                     |
| Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued   |                     |                     |
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 28,556,909 and 28,200,213 shares issued, 24,804,020 and 25,038,629, shares outstanding (net of treasury stock), as of September 30, 2014 and December 31, 2013, respectively | 286                 | 282                 |
| Additional paid-in-capital   | 569,230             | 561,481             |
| Treasury stock, at cost; 3,752,889 and 3,161,584 shares, respectively  | (145,305)           | (125,826)           |
| Accumulated other comprehensive loss   | (9,762)             | (10,677)            |
| Retained earnings  | 957,626             | 892,513             |
| Total stockholders' equity   | 1,372,075           | 1,317,773           |
| Noncontrolling interest  |                     | 4,352               |
| Total equity   | 1,372,075           | 1,322,125           |
| <b>Total Liabilities and Equity</b>  | <b>\$ 4,068,282</b> | <b>\$ 3,718,259</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>For the Nine Months Ended</b> |                           |
|--|-----------------------------------|---------------------------|----------------------------------|---------------------------|
|  | <b>September 30, 2015</b>         | <b>September 30, 2014</b> | <b>September 30, 2014</b>        | <b>September 30, 2013</b> |
| <b>Operating Revenue</b>                     |                                   |                           |                                  |                           |
| ACMI   | \$ 184,068                        | \$ 189,583                | \$ 568,929                       | \$ 552,710                |
| AMC charter                                  | 109,780                           | 95,668                    | 263,935                          | 287,840                   |
| Commercial charter                           | 143,075                           | 104,605                   | 391,527                          | 313,488                   |
| Dry leasing                                  | 25,411                            | 11,874                    | 75,611                           | 21,844                    |
| Other  | 3,467                             | 3,660                     | 10,331                           | 10,417                    |
| <b>Total Operating Revenue</b>               | <b>465,801</b>                    | <b>405,390</b>            | <b>1,310,333</b>                 | <b>1,186,299</b>          |
| <b>Operating Expenses</b>                    |                                   |                           |                                  |                           |
| Aircraft fuel                                | 115,690                           | 93,434                    | 301,276                          | 289,535                   |
| Salaries, wages and benefits                 | 78,834                            | 74,167                    | 229,637                          | 219,216                   |
| Maintenance, materials and repairs           | 35,084                            | 31,306                    | 144,516                          | 133,152                   |
| Aircraft rent                                | 34,183                            | 40,405                    | 104,419                          | 118,753                   |
| Navigation fees, landing fees and other rent | 35,336                            | 24,481                    | 93,368                           | 58,851                    |
| Depreciation and amortization                | 29,865                            | 23,661                    | 88,401                           | 61,840                    |
| Passenger and ground handling services       | 24,876                            | 18,037                    | 66,106                           | 52,109                    |
| Travel                                       | 21,642                            | 14,535                    | 57,698                           | 43,485                    |
| Loss on disposal of aircraft                 |                                   | 501                       | 14,679                           | 79                        |
| Special charge                               | 90                                |                           | 9,567                            |                           |
| Other  | 29,212                            | 27,157                    | 84,890                           | 80,515                    |
| <b>Total Operating Expenses</b>              | <b>404,812</b>                    | <b>347,684</b>            | <b>1,194,557</b>                 | <b>1,057,535</b>          |
| <b>Operating Income</b>                      | <b>60,989</b>                     | <b>57,706</b>             | <b>115,776</b>                   | <b>128,764</b>            |
| <b>Non-operating Expenses (Income)</b>       |                                   |                           |                                  |                           |
| Interest income                              | (4,588)                           | (4,849)                   | (14,034)                         | (15,003)                  |
| Interest expense                             | 25,960                            | 22,594                    | 78,777                           | 61,711                    |
| Capitalized interest                         | (44)                              | (291)                     | (423)                            | (1,985)                   |
| Loss on early extinguishment of debt         |                                   | 4,524                     |                                  | 5,518                     |
| Other expense (income), net                  | 767                               | (241)                     | 831                              | 1,415                     |
|  | <b>22,095</b>                     | <b>21,737</b>             | <b>65,151</b>                    | <b>51,656</b>             |

Total Non-operating Expenses  
(Income)

|   |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| Income before income taxes                                      | 38,894           | 35,969           | 50,625           | 77,108           |
| Income tax expense (benefit)                                    | 11,318           | 11,247           | (9,958)          | 11,320           |
| <b>Net Income</b>   | <b>27,576</b>    | <b>24,722</b>    | <b>60,583</b>    | <b>65,788</b>    |
| Less: Net income (loss) attributable to noncontrolling interest |                  | 981              | (4,530)          | 1,909            |
| <b>Net Income Attributable to Common Stockholders</b>           | <b>\$ 27,576</b> | <b>\$ 23,741</b> | <b>\$ 65,113</b> | <b>\$ 63,879</b> |
| <b>Earnings per share:</b>                                      |                  |                  |                  |                  |
| Basic   | \$ 1.10          | \$ 0.94          | \$ 2.59          | \$ 2.48          |
| Diluted   | \$ 1.10          | \$ 0.94          | \$ 2.59          | \$ 2.48          |
| <b>Weighted average shares:</b>                                 |                  |                  |                  |                  |
| Basic   | 24,983           | 25,124           | 25,106           | 25,710           |
| Diluted   | 25,064           | 25,212           | 25,164           | 25,784           |

*See accompanying Notes to Unaudited Consolidated Financial Statements*



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

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2015         | September 30, 2014 | September 30, 2015        | September 30, 2014 |
| <b>Net Income</b>  | \$ 27,576                  | \$ 24,722          | \$ 60,583                 | \$ 65,788          |
| <b>Other comprehensive income (loss):</b>                                  |                            |                    |                           |                    |
| Interest rate derivatives:   |                            |                    |                           |                    |
| Net change in fair value   |                            |                    | (251)                     |                    |
| Reclassification into earnings   | 677                        | 764                | 2,049                     | 2,301              |
| Income tax expense   | (259)                      | (277)              | (764)                     | (835)              |
| Foreign currency translation:  |                            |                    |                           |                    |
| Translation adjustment   | (290)                      | 356                | 59                        | 14                 |
| <b>Other comprehensive income</b>  | <b>128</b>                 | <b>843</b>         | <b>1,093</b>              | <b>1,480</b>       |
| <b>Comprehensive Income</b>  | <b>27,704</b>              | <b>25,565</b>      | <b>61,676</b>             | <b>67,268</b>      |
| Less: Comprehensive income (loss) attributable to noncontrolling interests |                            | 1,163              | (4,352)                   | 1,916              |
| <b>Comprehensive Income Attributable to Common Stockholders</b>            | <b>\$ 27,704</b>           | <b>\$ 24,402</b>   | <b>\$ 66,028</b>          | <b>\$ 65,352</b>   |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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

|   | <b>For the Nine Months Ended</b> |                           |
|---|----------------------------------|---------------------------|
|   | <b>September 30, 2014</b>        | <b>September 30, 2013</b> |
| <b>Operating Activities:</b>  |                                  |                           |
| Net Income Attributable to Common Stockholders                                    | \$ 65,113                        | \$ 63,879                 |
| Net income (loss) attributable to noncontrolling interests                        | (4,530)                          | 1,909                     |
| Net Income  | 60,583                           | 65,788                    |
| Adjustments to reconcile Net Income to net cash provided by operating activities: |                                  |                           |
| Depreciation and amortization   | 101,493                          | 73,324                    |
| Accretion of debt securities discount   | (6,022)                          | (6,758)                   |
| Provision for allowance for doubtful accounts                                     | 420                              | 217                       |
| Special charge, net of cash payments  | 6,484                            |                           |
| Loss on early extinguishment of debt  |                                  | 5,518                     |
| Loss (gain) on disposal of aircraft   | 14,679                           | 79                        |
| Deferred taxes  | (10,282)                         | 10,511                    |
| Stock-based compensation expense  | 9,769                            | 12,176                    |
| Changes in:   |                                  |                           |
| Accounts receivable   | (27,147)                         | 6,818                     |
| Prepaid expenses and other current assets   | 36,931                           | 12,494                    |
| Deposits and other assets   | (5,978)                          | 2,834                     |
| Accounts payable and accrued liabilities  | (12,402)                         | 22,092                    |
| Net cash provided by operating activities   | 168,528                          | 205,093                   |
| <b>Investing Activities:</b>  |                                  |                           |
| Capital expenditures  | (17,509)                         | (24,860)                  |
| Purchase deposits and delivery payments for flight equipment                      | (502,782)                        | (561,979)                 |
| Changes in restricted cash  | (7,072)                          | (5,886)                   |
| Proceeds from short-term investments  | 2,886                            | 4,672                     |
| Proceeds from insurance   |                                  | 9,109                     |
| Proceeds from disposal of aircraft  |                                  | 4,250                     |
| Net cash used for investing activities  | (524,477)                        | (574,694)                 |
| <b>Financing Activities:</b>  |                                  |                           |
| Proceeds from debt issuance   | 572,552                          | 709,484                   |
| Maintenance reserves received   | 12,950                           | 2,195                     |
| Refund of accelerated share repurchase  |                                  | 21,886                    |
| Prepayment of accelerated share repurchase  |                                  | (21,886)                  |

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|   |            |            |
|---|------------|------------|
| Purchase of treasury stock  | (19,479)   | (80,946)   |
| Excess tax benefit from stock-based compensation expense  |            | 850        |
| Payment of debt issuance costs  | (17,117)   | (19,682)   |
| Payments of debt  | (252,549)  | (371,096)  |
| Net cash provided by financing activities   | 296,357    | 240,805    |
| Net decrease in cash and cash equivalents   | (59,592)   | (128,796)  |
| Cash and cash equivalents at the beginning of period  | 321,816    | 409,763    |
| Cash and cash equivalents at the end of period  | \$ 262,224 | \$ 280,967 |
| <b>Non-cash Investing and Financing Activities:</b>   |            |            |
| Acquisition of flight equipment and assumed debt  | \$         | \$ 90,498  |
| Acquisition of flight and ground equipment included in Accounts payable and accrued liabilities | \$ 29,087  | \$         |
| Disposition of aircraft included in Accounts receivable   | \$ 5,072   | \$         |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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## Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Stockholders' Equity

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

|   | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|---|-----------------|-------------------|----------------------------------|---|----------------------|----------------------------------|----------------------------|-----------------|
| <b>Balance at<br/>December 31,<br/>2012</b>             | \$ 277          | \$ (44,850)       | \$ 544,421                       | \$ (14,263)   | \$ 798,676           | \$ 1,284,261                     | \$ 3,843                   | \$ 1,288,104    |
| Net Income (loss)                                       |                 |                   |                                  |   | 63,879               | 63,879                           | 1,909                      | 65,788          |
| Other<br>comprehensive<br>income (loss)                 |                 |                   |                                  | 1,473   |                      | 1,473                            | 7                          | 1,480           |
| Stock option and<br>restricted stock<br>compensation    |                 |                   | 12,176                           |   |                      | 12,176                           |                            | 12,176          |
| Purchase of<br>1,931,441 shares<br>of treasury stock    |                 | (80,946)          |                                  |   |                      | (80,946)                         |                            | (80,946)        |
| Issuance of<br>525,540 shares of<br>restricted stock    | 5               |                   | (5)                              |   |                      |                                  |                            |                 |
| Prepayment of<br>accelerated share<br>repurchase        |                 |                   | (21,886)                         |   |                      | (21,886)                         |                            | (21,886)        |
| Refund of<br>accelerated share<br>repurchase            |                 |                   | 21,886                           |   |                      | 21,886                           |                            | 21,886          |
| Reversal of prior<br>year deferred tax                  |                 |                   | 14                               |   |                      | 14                               |                            | 14              |
| Tax benefit on<br>restricted stock<br>and stock options |                 |                   | 472                              |   |                      | 472                              |                            | 472             |
| <b>Balance at<br/>September 30,<br/>2013</b>            | \$ 282          | \$ (125,796)      | \$ 557,078                       | \$ (12,790)   | \$ 862,555           | \$ 1,281,329                     | \$ 5,759                   | \$ 1,287,088    |

|   | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Stockholder<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|---|-----------------|-------------------|----------------------------------|---|----------------------|--------------------------------|----------------------------|-----------------|
| <b>Balance at<br/>December 31,<br/>2013</b>             | \$ 282          | \$(125,826)       | \$ 561,481                       | \$ (10,677)   | \$ 892,513           | \$ 1,317,773                   | \$ 4,352                   | \$ 1,322,125    |
| Net Income (loss)                                       |                 |                   |                                  |   | 65,113               | 65,113                         | (4,530)                    | 60,583          |
| Other<br>comprehensive<br>income (loss)                 |                 |                   |                                  | 915   |                      | 915                            | 178                        | 1,093           |
| Stock-based<br>compensation                             |                 |                   | 9,769                            |   |                      | 9,769                          |                            | 9,769           |
| Purchase of<br>591,305 shares of<br>treasury stock      |                 | (19,479)          |                                  |   |                      | (19,479)                       |                            | (19,479)        |
| Issuance of<br>356,696 shares of<br>restricted stock    | 4               |                   | (4)                              |   |                      |                                |                            |                 |
| Tax benefit on<br>restricted stock<br>and stock options |                 |                   | (2,016)                          |   |                      | (2,016)                        |                            | (2,016)         |
| <b>Balance at<br/>September 30,<br/>2014</b>            | \$ 286          | \$(145,305)       | \$ 569,230                       | \$ (9,762)  | \$ 957,626           | \$ 1,372,075                   | \$                         | \$ 1,372,075    |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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**Atlas Air Worldwide Holdings, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2014**

**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 those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance ( ACMI ), as well as those through which we provide crew, maintenance and insurance services, with the customer providing the aircraft ( CMI ); (ii) military charter services provided to the U.S. Military Air Mobility Command (the AMC ) ( AMC Charter ); (iii) seasonal, commercial and ad hoc charter services ( Commercial Charter ); and (iv) dry leasing of aircraft and engines ( Dry Leasing or Dry Lease ).

The accompanying unaudited consolidated financial statements and related notes (the Financial Statements ) have been prepared in accordance with the U.S. Securities and Exchange Commission (the SEC ) requirements for quarterly reports on Form 10-Q, and consequently exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). All significant intercompany accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes included in the AAWW Annual Report on Form 10-K for the year ended December 31, 2013, which includes additional disclosures and a summary of our significant accounting policies. The December 31, 2013 balance sheet data was derived from that Annual Report. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of September 30, 2014, the results of operations for the three and nine months ended September 30, 2014 and 2013, comprehensive income for the three and nine months ended September 30, 2014 and 2013, cash flows for the nine months ended September 30, 2014 and 2013, and shareholders equity as of and for the nine months ended September 30, 2014 and 2013.

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 prior periods' unaudited consolidated financial statement amounts and related note disclosures to conform to the current period's presentation, including the reclassification of maintenance reserves received from operating activities to financing activities on the consolidated statements of cash flows.

## **2. Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board amended its accounting guidance for revenue recognition. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the consideration that a company expects to receive for the services provided. It also requires additional disclosures necessary for the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amended guidance is effective as of the beginning of 2017 and we are currently assessing the impact it will have on our financial statements. Early adoption is not permitted.

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

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

|  | For the Three Months Ended<br>September 30, |                    | For the Nine Months Ended |                    |
|--|---|--------------------|---------------------------|--------------------|
|  | 2014  | September 30, 2013 | September 30, 2013        | September 30, 2013 |
| <b>Revenue and Expenses:</b>                               |   |                    |                           |                    |
| ACMI segment revenue from Polar                            | \$ 79,098                                   | \$ 70,821          | \$ 222,937                | \$ 212,873         |
| Other revenue from Polar                                   | \$ 2,845                                    | \$ 2,842           | \$ 8,529                  | \$ 8,538           |
| Ground handling and airport fees paid to Polar             | \$ 537                                      | \$ 258             | \$ 1,309                  | \$ 908             |
|  | September 30, 2013                          |                    | December 31, 2013         |                    |
| <b>Accounts receivable/payable as of:</b>                  |   |                    |                           |                    |
| Receivables from Polar                                     | \$ 5,556                                    | \$ 4,249           |                           |                    |
| Payables to Polar  | \$ 539                                      | \$ 3,464           |                           |                    |
|  | September 30, 2014                          | December 31, 2013  |                           |                    |
| <b>Aggregate Carrying Value of Polar Investment as of:</b> |   |                    |                           |                    |
|  | \$ 4,870                                    | \$ 4,870           |                           |                    |

***GATS***

We hold a 50% interest in Global Aviation Technical Solutions Co. Ltd. ( *GATS* ), a joint venture with an unrelated third party. The purpose of the joint venture is to purchase rotatable parts and provide repair services for those parts, primarily for 747-8F aircraft. The joint venture is a variable interest entity and we have not consolidated GATS because we are not the primary beneficiary as we do not exercise financial control. As of September 30, 2014 and December 31, 2013, our investment in GATS was \$14.1 million and \$13.2 million, respectively, and our maximum exposure to losses from the entity is limited to our investment, which is comprised primarily of rotatable parts. GATS does not have any third-party debt obligations.

**4. Special Charge**

We hold a 49% interest in GSS, a private company. GSS is a variable interest entity and we are the primary beneficiary for financial reporting purposes. Atlas previously dry leased three 747-8F owned aircraft to GSS. The leases provided for payment of rent and a provision for maintenance costs associated with the aircraft. GSS provided ACMI services to British Airways Plc ( *British Airways* ) using these three aircraft. In January 2014, British Airways



notified us that they would be returning the three 747-8F aircraft in April 2014. As a result, we recognized \$0.2 million and \$4.1 million of employee termination benefits and professional fees during the three and nine months ended September 30, 2014, respectively, after management determined that such costs were probable and estimable. Substantially all cash payments related to employee termination benefits and professional fees are expected to be paid by the end of 2014. In addition, we recognized a reserve of \$4.9 million related to a loan from GSS to its 51% U.K. shareholder during the nine months ended September 30, 2014.

In 2013, we recognized a Special charge related to a reduction in capacity from the early termination of operating leases for two 747-400BCF aircraft that we parked in December 2013. Substantially all cash payments related to the lease termination costs are expected to be paid by 2015.

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A summary of the Special charge liabilities is as follows:

|                                    | <b>Lease<br/>Termination<br/>Costs</b> | <b>GSS Employee<br/>Termination<br/>Benefits</b> | <b>Other</b> | <b>Total</b> |
|------------------------------------|--|--|--------------|--------------|
| Liability as of December 31, 2013  | \$ 12,773                              | \$   | \$           | \$ 12,773    |
| Special charge items, net          | 494                                    | 3,818  | 238          | 4,550        |
| Cash payments                      | (9,237)                                | (2,758)  | (238)        | (12,233)     |
| Liability as of September 30, 2014 | \$ 4,030                               | \$ 1,060   | \$           | \$ 5,090     |

**5. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

|                               | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|-------------------------------|---------------------------|--------------------------|
| Customer maintenance reserves | \$ 60,719                 | \$ 17,274                |
| Salaries, wages and benefits  | 34,403                    | 36,450                   |
| Maintenance                   | 33,315                    | 26,539                   |
| Aircraft fuel                 | 21,883                    | 14,905                   |
| Deferred revenue              | 13,212                    | 26,279                   |
| Other                         | 65,540                    | 72,845                   |
| Accrued liabilities           | \$ 229,072                | \$ 194,292               |

Customer maintenance reserves are amounts received under our Dry Leases that are subject to reimbursement to the lessee upon the completion of qualifying maintenance work on the specific Dry Leased aircraft.

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

In January 2014, we refinanced a bridge loan with a note guaranteed by the Export-Import Bank of the United States ( Ex-Im Bank ) in the amount of \$140.6 million secured by a mortgage on a 747-8F aircraft (aircraft tail number N854GT) for a period of 134 months (the 2014 Ex-Im Guaranteed Note ). In connection with entry into this guaranteed note, we paid usual and customary fees. This guaranteed note accrues interest at a fixed rate of 2.67% with principal and interest payable quarterly and contains customary covenants and event of default provisions.

***Term Loans***

In January 2014, we purchased three 777-200LRF aircraft that are leased to a customer on a long-term basis. We accounted for the purchases as asset acquisitions and recognized lease intangibles of \$42.7 million related to the long-term Dry Leases, which will be amortized on a straight-line basis over the life of the leases. As part of the transactions, we entered into six separate term loans in the aggregate amount of \$432.0 million each secured by a

mortgage on the aircraft and the attached leases (the 2014 Term Loans ). In connection with entry into these term loans, we paid usual and customary fees. The term loans accrue interest with principal and interest payable quarterly and contain customary covenants and event of default provisions.

The following table summarizes the terms and amounts for each term loan (in millions):

|                       | <b>Issue<br/>Date</b> | <b>Face<br/>Value</b> | <b>Collateral<br/>Aircraft<br/>Tail Number</b> | <b>Original<br/>Term</b> | <b>Interest<br/>Rate<br/>Type</b> | <b>Interest<br/>Rate</b> |
|-----------------------|-----------------------|-----------------------|--|--------------------------|-----------------------------------|--------------------------|
| First 2014 Term Loan  | 2014                  | \$ 115.0              | MSN 38969                                      | 114 months               | Fixed                             | 4.48%                    |
| Second 2014 Term Loan | 2014                  | 30.8                  | MSN 38969                                      | 114 months               | Fixed                             | 7.30%                    |
| Third 2014 Term Loan  | 2014                  | 115.0                 | MSN 37138                                      | 118 months               | Fixed                             | 4.57%                    |
| Fourth 2014 Term Loan | 2014                  | 29.0                  | MSN 37138                                      | 118 months               | Fixed                             | 7.38%                    |
| Fifth 2014 Term Loan  | 2014                  | 115.0                 | MSN 39286                                      | 116 months               | Fixed                             | 4.51%                    |
| Sixth 2014 Term Loan  | 2014                  | 27.2                  | MSN 39286                                      | 116 months               | Fixed                             | 7.35%                    |
|                       |                       | \$ 432.0              |  |                          |                                   |                          |

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Our effective income tax rates were an expense of 29.1% and a benefit of 19.7% for the three and nine months ended September 30, 2014, respectively. Our effective income tax rates were an expense of 31.3% and 14.7% for the three and nine months ended 2013, respectively. The effective rate for the nine months ended September 30, 2014 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$24.0 million, net of reserves, related to extraterritorial income ( ETI ) from offshore leasing of certain of our aircraft as well as losses associated with GSS for which we have recognized a valuation allowance due to the uncertainty regarding whether the benefit for those losses will be realized. The effective rate for the nine months ended September 30, 2013 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$14.2 million, net of reserves, related to ETI from offshore leasing of certain of our aircraft. The effective rates in all periods also differed from the U.S. federal statutory rate due to the income tax impact of foreign operations taxed at different rates, our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S., U.S. state income taxes, the nondeductibility of certain expenses for tax purposes, adjustments to our liability for uncertain tax positions, and the relationship of these items to our projected operating results for the year. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

As a result of current and expected future growth in our Dry Leasing business, we determined that the net earnings of certain foreign subsidiaries engaged in this business will be indefinitely reinvested outside of the U.S. As of September 30, 2014, our undistributed net earnings of foreign subsidiaries for which deferred taxes have not been provided were \$33.7 million, and the unrecognized deferred tax liability associated with these earnings was \$11.8 million.

We continue to evaluate our eligibility to claim ETI tax benefits and may recognize additional benefits in future periods. Currently, we are unable to reasonably estimate these benefits.

**8. Financial Instruments**

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

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

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

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

approximates fair value.

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

The fair value of our term loans, Ex-Im Bank guaranteed notes and EETCs are 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 market inputs used included the implied forward LIBOR yield curve for the same period as the future interest rate swap settlements. These derivatives were designated as hedging instruments.

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

|  | <b>September 30, 2014</b> |                   |                |                |                |
|--|---------------------------|-------------------|----------------|----------------|----------------|
|  | <b>Carrying<br/>Value</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                              |                           |                   |                |                |                |
| Cash and cash equivalents                  | \$ 262,224                | \$ 262,224        | \$ 262,224     | \$             | \$             |
| Short-term investments                     | 11,931                    | 11,931            |                |                | 11,931         |
| Restricted cash                            | 13,563                    | 13,563            | 13,563         |                |                |
| Long-term investments and accrued interest | 126,002                   | 162,828           |                |                | 162,828        |
|  | \$ 413,720                | \$ 450,546        | \$ 275,787     | \$             | \$ 174,759     |
| <b>Liabilities</b>                         |                           |                   |                |                |                |
| Term loans                                 | \$ 975,140                | \$ 987,939        | \$             | \$             | \$ 987,939     |
| Ex-Im Bank guaranteed notes                | 822,886                   | 799,792           |                |                | 799,792        |
| EETCs                                      | 222,609                   | 284,983           |                |                | 284,983        |
|  | \$ 2,020,635              | \$ 2,072,714      | \$             | \$             | \$ 2,072,714   |

|  | <b>December 31, 2013</b>  |                   |                |                |                |
|--|---------------------------|-------------------|----------------|----------------|----------------|
|  | <b>Carrying<br/>Value</b> | <b>Fair Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>                              |                           |                   |                |                |                |
| Cash and cash equivalents                  | \$ 321,816                | \$ 321,816        | \$ 321,816     | \$             | \$             |
| Short-term investments                     | 10,904                    | 10,904            |                |                | 10,904         |
| Restricted cash                            | 6,491                     | 6,491             | 6,491          |                |                |
| Interest rate derivatives                  | 9,182                     | 9,182             |                | 9,182          |                |
| Long-term investments and accrued interest | 130,267                   | 174,795           |                |                | 174,795        |
|  | \$ 478,660                | \$ 523,188        | \$ 328,307     | \$ 9,182       | \$ 185,699     |
| <b>Liabilities</b>                         |                           |                   |                |                |                |
| Interest rate derivatives                  | \$ 7,796                  | \$ 7,796          | \$             | \$ 7,796       | \$             |
| Term loans                                 | 702,668                   | 701,421           |                |                | 701,421        |
| Ex-Im Bank guaranteed notes                | 739,741                   | 718,703           |                |                | 718,703        |
| EETCs                                      | 254,216                   | 329,973           |                |                | 329,973        |
|  | \$ 1,704,421              | \$ 1,757,893      | \$             | \$ 7,796       | \$ 1,750,097   |

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

|                                     | September 30, 2014 |                              |            | December 31, 2013 |                              |            |
|-------------------------------------|--------------------|------------------------------|------------|-------------------|------------------------------|------------|
|                                     | Carrying Value     | Gross Unrealized Gain (Loss) | Fair Value | Carrying Value    | Gross Unrealized Gain (Loss) | Fair Value |
| <b>Debt securities</b>              |                    |                              |            |                   |                              |            |
| Due after one but within five years | \$ 34,326          | \$ 15,842                    | \$ 50,168  | \$                | \$                           | \$         |
| Due after five but within ten years | 91,676             | 20,984                       | 112,660    | 130,267           | 44,528                       | 174,795    |
| <b>Total</b>                        | \$ 126,002         | \$ 36,826                    | \$ 162,828 | \$ 130,267        | \$ 44,528                    | \$ 174,795 |

## 9. Segment Reporting

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

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|                                      | For the Three Months           |                       | For the Nine Months Ended |                       |
|--------------------------------------|--------------------------------|-----------------------|---------------------------|-----------------------|
|                                      | Ended<br>September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014     | September 30,<br>2013 |
| <b>Operating Revenue:</b>            |                                |                       |                           |                       |
| ACMI                                 | \$ 184,068                     | \$ 189,583            | \$ 568,929                | \$ 552,710            |
| AMC Charter                          | 109,780                        | 95,668                | 263,935                   | 287,840               |
| Commercial Charter                   | 143,075                        | 104,605               | 391,527                   | 313,488               |
| Dry Leasing                          | 25,411                         | 11,874                | 75,611                    | 21,844                |
| Other                                | 3,467                          | 3,660                 | 10,331                    | 10,417                |
| <b>Total Operating Revenue</b>       | <b>\$ 465,801</b>              | <b>\$ 405,390</b>     | <b>\$ 1,310,333</b>       | <b>\$ 1,186,299</b>   |
| <b>Direct Contribution:</b>          |                                |                       |                           |                       |
| ACMI                                 | \$ 54,228                      | \$ 62,587             | \$ 143,554                | \$ 157,594            |
| AMC Charter                          | 17,603                         | 14,749                | 42,691                    | 40,144                |
| Commercial Charter                   | 571                            | (3,859)               | (17,731)                  | (15,023)              |
| Dry Leasing                          | 8,721                          | 4,681                 | 25,630                    | 8,294                 |
| <b>Total Direct Contribution</b>     | <b>81,123</b>                  | <b>78,158</b>         | <b>194,144</b>            | <b>191,009</b>        |
| Add back (subtract):                 |                                |                       |                           |                       |
| Unallocated income and expenses, net | (42,139)                       | (37,164)              | (119,273)                 | (108,304)             |
| Loss on early extinguishment of debt |                                | (4,524)               |                           | (5,518)               |
| Special charge                       | (90)                           |                       | (9,567)                   |                       |
| Loss on disposal of aircraft         |                                | (501)                 | (14,679)                  | (79)                  |
| <b>Income before Income Taxes</b>    | <b>38,894</b>                  | <b>35,969</b>         | <b>50,625</b>             | <b>77,108</b>         |
| Add back (subtract):                 |                                |                       |                           |                       |
| Interest income                      | (4,588)                        | (4,849)               | (14,034)                  | (15,003)              |
| Interest expense                     | 25,960                         | 22,594                | 78,777                    | 61,711                |
| Capitalized interest                 | (44)                           | (291)                 | (423)                     | (1,985)               |
| Loss on early extinguishment of debt |                                | 4,524                 |                           | 5,518                 |
| Other expense (income), net          | 767                            | (241)                 | 831                       | 1,415                 |
| <b>Operating Income</b>              | <b>\$ 60,989</b>               | <b>\$ 57,706</b>      | <b>\$ 115,776</b>         | <b>\$ 128,764</b>     |

We are exposed to a concentration of revenue to the AMC and Polar (see Note 3 for further discussion regarding Polar). No other customer accounted for 10% of our Total Operating Revenue. We have not experienced any credit issues with either of these customers.

**10. Legal Proceedings*****Department of Justice Investigation and Related Litigation***

In 2010, Old Polar entered into an agreement with the United States Department of Justice (the DOJ) to resolve issues relating to the previously disclosed DOJ investigation concerning alleged manipulation by cargo carriers of fuel



surcharges and other rate components for air cargo services (the DOJ Investigation ).

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

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.

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The court in the antitrust class actions has heard and decided a number of procedural motions. Among those was the plaintiffs' motion to join Polar Air Cargo Worldwide, Inc. as an additional defendant, which the court granted on April 13, 2011. There was substantial pretrial written discovery and document production, and a number of depositions were taken. A court hearing on whether or not to certify the case as a class action was held in October 2013 and oral arguments were held in November 2013. On October 15, 2014, the court magistrate issued a decision recommending that the court enter an order certifying the class for adjudicating the claims. We plan to oppose that recommendation. We are unable to reasonably predict the court's ruling or the ultimate outcome of the litigation.

The Company, Old Polar and a number of other cargo carriers also were 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. On August 1, 2014, the Canadian plaintiffs and Old Polar executed a settlement agreement in which Old Polar agreed, without admitting violations of law, to pay an immaterial amount in return for the release of all claims. The settlement agreement is subject to court approval.

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 or cash flows.

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

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$8.0 million in aggregate based on September 30, 2014 exchange rates.

In both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. Furthermore, we may seek appropriate indemnity from the shipper in each claim as may be feasible. In the pending claim for one of the cases, we have received an administrative decision dismissing the claim in its entirety, which remains subject to a mandatory appeal by the Brazil customs authorities. As required to defend such claims, we have made deposits pending resolution of these matters. The balances were \$5.8 million as of September 30, 2014 and \$5.7 million as of December 31, 2013, 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 courts in Germany and the Netherlands, and before the European Union's Office for Harmonization in the Internal Market, which handles European Union trademark matters, against Atlas Transport, an unrelated and unaffiliated entity, over the use of the name "Atlas". On May 12, 2014, the parties executed a settlement agreement providing for dismissal of all pending actions and confirming our right to continue to use the "Atlas" trademark without interference. The ultimate disposition of these claims, either individually or in the aggregate, did 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. Stock Repurchase**

We record the repurchase of our shares of common stock at cost based on the settlement date of the transaction. These shares are classified as treasury stock, which is a reduction to stockholders' equity. Treasury shares are included in authorized and issued shares but excluded from outstanding shares.

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In 2008, we established a stock repurchase program authorizing the repurchase of up to \$100.0 million of our common stock. In November 2013, we announced an increase of \$51.0 million to our stock repurchase program. As of September 30, 2014, we had repurchased 2,882,757 shares of our common stock for approximately \$106.0 million, at an average cost of \$36.77 per share under this program, resulting in \$45.0 million of available authorization remaining. Purchases may be made at our discretion in the form of open market repurchase programs, privately negotiated transactions, accelerated share repurchase programs or a combination of these methods. The actual timing and amount of our repurchases will depend on Company and market conditions.

During the three months ended September 30, 2014, we repurchased 458,937 shares of our common stock for an aggregate purchase price of \$15.0 million under an open market repurchase program at an average cost of \$32.68 per share.

**12. Earnings Per Share**

Basic earnings per share ( EPS ) represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period. Anti-dilutive options that were out of the money for the three and nine months ended September 30, 2014 and 2013 were de minimis and excluded.

The calculations of basic and diluted EPS were as follows:

|   | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2014         | September 30, 2013 | September 30, 2014        | September 30, 2013 |
| <b>Numerator:</b>                                     |                            |                    |                           |                    |
| Net Income Attributable to Common Stockholders        | \$ 27,576                  | \$ 23,741          | \$ 65,113                 | \$ 63,879          |
| <b>Denominator:</b>                                   |                            |                    |                           |                    |
| Basic EPS weighted average shares outstanding         | 24,983                     | 25,124             | 25,106                    | 25,710             |
| Effect of dilutive stock options and restricted stock | 81                         | 88                 | 58                        | 74                 |
| Diluted EPS weighted average shares outstanding       | 25,064                     | 25,212             | 25,164                    | 25,784             |
| <b>EPS:</b>   |                            |                    |                           |                    |
| Basic   | \$ 1.10                    | \$ 0.94            | \$ 2.59                   | \$ 2.48            |
| Diluted   | \$ 1.10                    | \$ 0.94            | \$ 2.59                   | \$ 2.48            |

Diluted shares reflect the potential dilution that could occur from stock options and restricted share units using the treasury stock method. The calculation does not include restricted share units in which performance or market conditions were not satisfied of 0.4 million and 0.4 million for the three and nine months ended September 30, 2014, respectively and 0.4 million and 0.5 million for the three and nine months ended September 30, 2013, respectively.

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

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, 2013  | \$ (11,375)                          | \$ 698                                  | \$ (10,677)  |
| Net change in fair value         | (251)                                |   | (251)        |
| Reclassification into earnings   | 2,049                                |   | 2,049        |
| Translation adjustment           |                                      | (119)                                   | (119)        |
| Tax effect                       | (764)                                |   | (764)        |
| Balance as of September 30, 2014 | \$ (10,341)                          | \$ 579                                  | \$ (9,762)   |

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

***Interest Rate Derivatives***

In December 2013, we entered into six forward-starting interest rate swaps with a total notional value of \$432.5 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. The debt issuances were related to the financing of three Boeing 777-200LRF aircraft that we purchased in January 2014 (see Note 6).

In January 2014, we terminated all six of the forward-starting interest rate swaps in connection with the debt issuances, which converted a previously unrealized gain of \$1.1 million into a realized gain in Accumulated other comprehensive income (loss). There was no ineffectiveness associated with these hedges upon their termination.

As of September 30, 2014, there was \$16.7 million of net unamortized realized loss before taxes remaining in Accumulated other comprehensive income (loss) related to terminated forward-starting interest rate swaps, which had been designated as cash flow hedges to effectively fix the interest rates on two 747-8F financings in 2011 and the three 777-200LRF financings in 2014. The net loss is amortized and reclassified into Interest expense over the remaining life of the related debt. Net realized losses reclassified into earnings were \$0.7 million and \$0.8 million for the three months ended September 30, 2014 and 2013, respectively. Net realized losses reclassified into earnings were \$2.0 million and \$2.3 million for the nine months ended September 30, 2014 and 2013, respectively. Net realized losses expected to be reclassified into earnings within the next 12 months are \$2.6 million as of September 30, 2014.

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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 2013 Annual Report on Form 10-K.

**Glossary**

The following represents terms and statistics specific to our business and industry. 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 and are generally performed between 18 and 24 months depending on aircraft type.  |
| D Check               | High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed every six and eight 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.   |
| 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, operating the world's largest fleet of Boeing 747 freighters, as well as Boeing 747 and 767 passenger aircraft and Boeing 767 freighters. We also provide Boeing 777 aircraft on a Dry Lease basis. 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 include the following:

ACMI, whereby we provide outsourced cargo and passenger aircraft operating solutions, including the provision of an aircraft, crew, maintenance and insurance, while customers assume fuel, demand and

Yield risk. In addition, the customer is responsible for landing, navigation and most other operational fees and costs;

CMI, which is part of our ACMI business segment, whereby we provide outsourced cargo and passenger aircraft operating solutions, including the provision of crew, maintenance and insurance, while customers provide the aircraft and assume fuel, demand and Yield risk. In addition, the customer is responsible for landing, navigation and most other operational fees and costs;

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

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



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Dry Leasing, whereby we provide cargo and passenger aircraft and engine leasing solutions. The customer operates, and is responsible for insuring and maintaining the flight equipment.

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

Delivering superior service quality to our valued customers;

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

Focusing on securing long-term customer contracts;

Driving significant and ongoing productivity improvements; and

Selectively pursuing and evaluating future acquisitions and alliances.

See Business Overview and Business Strategy in our 2013 Annual Report on Form 10-K for additional information.

**Business Developments**

Our ACMI results for the first three quarters of 2014, compared with 2013, were impacted by the following events:

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

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

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

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

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

In February 2014, we began ACMI flying a 747-8F aircraft with BST Logistics (Hong Kong) Company Limited ( BST Logistics ), a business partner of Navitrans International Freight Forwarding Co., Ltd. Service, which was the first 747-8F aircraft in its network.

In April and early May 2014, British Airways returned three 747-8F aircraft that we had been ACMI flying in its network. In May 2014, two of the 747-8F aircraft returned from British Airways were placed into ACMI service for DHL, replacing one 747-400F aircraft.

In August 2014, we agreed with DHL to operate four additional 767-200 freighters owned by DHL in its North American network. We expect to begin CMI flying all four aircraft during the first quarter of 2015.

In October 2014, we signed an ACMI agreement with DHL for one additional 747-8F aircraft and one additional 747-400F aircraft, increasing the number of 747 freighter aircraft in ACMI service for DHL to twelve. Both aircraft began flying in October 2014.

AMC Charter Cargo Block Hours have been negatively impacted during the nine months ended September 30, 2014 due to the continuing reduction in demand from the AMC. This was partially offset by incremental flying as former competitors exited the AMC Charter market.

Commercial Charter Block Hours increased during the first three quarters of 2014, reflecting stronger demand and our redeployment of 747-8F and 747-400 aircraft from ACMI during remarketing periods.

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

In March and July 2013, we purchased three recently-manufactured Boeing 777-200LRF aircraft that are being Dry Leased by Titan to customers on a long-term basis. In January 2014, we purchased three additional recently-manufactured Boeing 777-200LRF aircraft that are being Dry Leased by Titan to a customer on a long-term basis.

**Results of Operations****Three Months Ended September 30, 2014 and 2013****Operating Statistics**

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

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

|                               | 2014      | 2013      | Increase<br>/<br>(Decrease) | Percent<br>Change |
|-------------------------------|-----------|-----------|-----------------------------|-------------------|
| <b>Block Hours</b>            |           |           |                             |                   |
| ACMI                          | 28,096    | 28,813    | (717)                       | (2.5)%            |
| <b>AMC Charter:</b>           |           |           |                             |                   |
| Cargo                         | 1,892     | 1,531     | 361                         | 23.6%             |
| Passenger                     | 3,679     | 3,029     | 650                         | 21.5%             |
| Commercial Charter            | 7,111     | 5,310     | 1,801                       | 33.9%             |
| Other                         | 261       | 220       | 41                          | 18.6%             |
| Total Block Hours             | 41,039    | 38,903    | 2,136                       | 5.5%              |
| <b>Revenue Per Block Hour</b> |           |           |                             |                   |
| ACMI                          | \$ 6,551  | \$ 6,580  | \$ (29)                     | (0.4)%            |
| <b>AMC Charter</b>            |           |           |                             |                   |
| Cargo                         | \$ 19,710 | \$ 21,962 | \$ (2,252)                  | (10.3)%           |
| Passenger                     | \$ 19,703 | \$ 20,483 | \$ (780)                    | (3.8)%            |
| Commercial Charter            | \$ 20,120 | \$ 19,700 | \$ 420                      | 2.1%              |
| <b>Fuel</b>                   |           |           |                             |                   |
| <b>AMC</b>                    |           |           |                             |                   |
| Average fuel cost per gallon  | \$ 3.36   | \$ 3.62   | \$ (0.26)                   | (7.2)%            |
| Fuel gallons consumed (000s)  | 13,341    | 11,324    | 2,017                       | 17.8%             |
| <b>Commercial Charter</b>     |           |           |                             |                   |
| Average fuel cost per gallon  | \$ 3.06   | \$ 3.09   | \$ (0.03)                   | (1.0)%            |

|                              |        |        |       |       |
|------------------------------|--------|--------|-------|-------|
| Fuel gallons consumed (000s) | 23,142 | 16,956 | 6,186 | 36.5% |
|------------------------------|--------|--------|-------|-------|

**Segment Operating Fleet (average aircraft equivalents during the period)**

|                     | 2014 | 2013 | Increase<br>/<br>(Decrease) |
|---------------------|------|------|-----------------------------|
| <b>ACMI*</b>        |      |      |                             |
| 747-8F Cargo        | 8.4  | 8.0  | 0.4                         |
| 747-400 Cargo       | 11.1 | 12.0 | (0.9)                       |
| 747-400 Dreamlifter | 3.0  | 1.6  | 1.4                         |
| 767-300 Cargo       | 2.0  | 2.0  |                             |
| 767-200 Cargo       | 5.0  | 5.0  |                             |
| 747-400 Passenger   | 1.3  | 1.4  | (0.1)                       |
| 767-300 Passenger   | 0.1  |      | 0.1                         |
| 767-200 Passenger   | 1.0  | 1.0  |                             |
| Total               | 31.9 | 31.0 | 0.9                         |

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|                                 | 2014        | 2013        | Increase<br>/<br>(Decrease) |
|---------------------------------|-------------|-------------|-----------------------------|
| <b>AMC Charter</b>              |             |             |                             |
| 747-400 Cargo                   | 2.2         | 3.1         | (0.9)                       |
| 747-400 Passenger               | 1.5         | 1.4         | 0.1                         |
| 767-300 Passenger               | 2.7         | 2.7         |                             |
| <b>Total</b>                    | <b>6.4</b>  | <b>7.2</b>  | <b>(0.8)</b>                |
| <b>Commercial Charter</b>       |             |             |                             |
| 747-8F Cargo                    | 0.5         | 1.0         | (0.5)                       |
| 747-400 Cargo                   | 7.6         | 7.7         | (0.1)                       |
| 747-400 Passenger               | 0.1         | 0.2         | (0.1)                       |
| 767-300 Passenger               | 0.3         | 0.2         | 0.1                         |
| <b>Total</b>                    | <b>8.5</b>  | <b>9.1</b>  | <b>(0.6)</b>                |
| <b>Dry Leasing</b>              |             |             |                             |
| 777-200 Cargo                   | 6.0         | 2.6         | 3.4                         |
| 757-200 Cargo                   | 1.0         | 1.0         |                             |
| 737-300 Cargo                   | 1.0         | 1.0         |                             |
| 737-800 Passenger               | 2.0         | 2.0         |                             |
| <b>Total</b>                    | <b>10.0</b> | <b>6.6</b>  | <b>3.4</b>                  |
| <b>Total Operating Aircraft</b> | <b>56.8</b> | <b>53.9</b> | <b>2.9</b>                  |
| <b>Out-of-service**</b>         | <b>1.0</b>  | <b>1.0</b>  |                             |

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

\*\* Out-of-service aircraft are completely unencumbered.

**Operating Revenue**

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

|                                | 2014              | 2013              | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------|-------------------|-------------------|--------------------------|-------------------|
| <b>Operating Revenue</b>       |                   |                   |                          |                   |
| ACMI                           | \$ 184,068        | \$ 189,583        | \$ (5,515)               | (2.9)%            |
| AMC Charter                    | 109,780           | 95,668            | 14,112                   | 14.8%             |
| Commercial Charter             | 143,075           | 104,605           | 38,470                   | 36.8%             |
| Dry Leasing                    | 25,411            | 11,874            | 13,537                   | 114.0%            |
| Other                          | 3,467             | 3,660             | (193)                    | (5.3)%            |
| <b>Total Operating Revenue</b> | <b>\$ 465,801</b> | <b>\$ 405,390</b> | <b>\$ 60,411</b>         | <b>14.9%</b>      |

*ACMI revenue* decreased \$5.5 million, or 2.9%, primarily due to lower 747-400 flying by certain ACMI customers, partially offset by higher 747-8F revenue and increased CMI flying. ACMI Block Hours were 28,096 for the third quarter of 2014, compared with 28,813 in 2013, a decrease of 717 Block Hours, or 2.5%, primarily due to certain 747-400 ACMI customers flying less in 2014. In addition, Block Hours were impacted by the return of three 747-8F aircraft from British Airways in April and early May of 2014, partially offset by the placement of two additional 747-8F aircraft with DHL in May 2014, the start-up of ACMI 747-8F flying for BST Logistics in February 2014 and the start-up of ACMI 747-400 flying for Astral Aviation in September 2013. Block Hours were also positively impacted by an increase in CMI flying for Boeing. ACMI Revenue per Block Hour was relatively unchanged.

*AMC Charter revenue* increased \$14.1 million, or 14.8%, primarily driven by an increase in AMC Charter Passenger and Cargo Block Hours, partially offset by a decrease in Revenue per Block Hour. AMC Charter Block Hours were 5,571 for the third quarter of 2014 compared with 4,560 in 2013, an increase of 1,011 Block Hours, or 22.2%. The increase in AMC Charter Block Hours was driven by incremental passenger and cargo flying due to increased demand as former competitors exited the AMC Charter market. AMC Charter Revenue per Block Hour was \$19,706 for the third quarter of 2014, compared with \$20,980 in 2013, a decrease of \$1,274 per Block Hour, or 6.1%, primarily due to a decrease in the average AMC pegged fuel price. For the third quarter of 2014, the average pegged fuel price was \$3.36 per gallon compared with \$3.62 in 2013. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense.

*Commercial Charter revenue* increased \$38.5 million, or 36.8%, primarily due to an increase in both Block Hours and Revenue per Block Hour. Commercial Charter Block Hours were 7,111 in the third quarter of 2014, compared with

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5,310 in 2013, representing an increase of 1,801 Block Hours, or 33.9%. The increase in Block Hours was primarily due to increased demand during the third quarter of 2014. Revenue per Block Hour was \$20,120 in the third quarter of 2014, compared with \$19,700 in 2013, an increase of \$420 per Block Hour, or 2.1%. This increase reflects the impact of cargo revenue on subcontracted Commercial Charter flights with no associated Block Hours.

*Dry Leasing revenue* increased \$13.5 million primarily due to the acquisition of three 777-200LRF aircraft in January 2014 and two 777-200LRF aircraft in July 2013 that are being dry leased to customers on a long-term basis.

**Operating Expenses**

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

|  | 2014              | 2013              | Increase /<br>(Decrease) | Percent<br>Change |
|--|-------------------|-------------------|--------------------------|-------------------|
| <b>Operating Expenses</b>                    |                   |                   |                          |                   |
| Aircraft fuel                                | \$ 115,690        | \$ 93,434         | \$ 22,256                | 23.8%             |
| Salaries, wages and benefits                 | 78,834            | 74,167            | 4,667                    | 6.3%              |
| Maintenance, materials and repairs           | 35,084            | 31,306            | 3,778                    | 12.1%             |
| Aircraft rent                                | 34,183            | 40,405            | (6,222)                  | (15.4)%           |
| Navigation fees, landing fees and other rent | 35,336            | 24,481            | 10,855                   | 44.3%             |
| Depreciation and amortization                | 29,865            | 23,661            | 6,204                    | 26.2%             |
| Passenger and ground handling services       | 24,876            | 18,037            | 6,839                    | 37.9%             |
| Travel                                       | 21,642            | 14,535            | 7,107                    | 48.9%             |
| Loss on disposal of aircraft                 |                   | 501               | (501)                    | NM                |
| Special charge                               | 90                |                   | 90                       | NM                |
| Other  | 29,212            | 27,157            | 2,055                    | 7.6%              |
| <b>Total Operating Expenses</b>              | <b>\$ 404,812</b> | <b>\$ 347,684</b> |                          |                   |

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

*Aircraft fuel* increased \$22.3 million, or 23.8%, primarily due to increases in Commercial Charter and AMC Charter fuel consumption, partially offset by reduced fuel prices. Commercial Charter fuel consumption increased by 6.2 million gallons, or 36.5%, primarily driven by the increase in Block Hours operated. AMC Charter fuel consumption increased by 2.0 million gallons, or 17.8%, primarily reflecting the increase in Block Hours operated for the AMC. The average fuel price per gallon for the AMC Charter business was \$3.36 in the third quarter of 2014, compared with \$3.62 in 2013, a decrease of 7.2%. The average fuel price per gallon for the Commercial Charter business was \$3.06 for the third quarter of 2014, compared with \$3.09 in 2013, a decrease of 1.0%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$4.7 million, or 6.3%, primarily driven by higher Block Hours and an increase in ground staff costs due to key initiatives.

*Maintenance, materials and repairs* increased \$3.8 million, or 12.1%, primarily driven by an increase of \$5.5 million for 747-8F and 767 aircraft, partially offset by a decrease of \$1.7 million for 747-400 aircraft. Heavy Maintenance expense on 747-8F and 767 aircraft increased due to a higher number of C Checks and other maintenance activities,

partially offset by lower heavy maintenance on 747-400 aircraft due to a reduction in the number C Checks in 2014. Line Maintenance expense on 747-400 aircraft and 747-8F aircraft increased primarily due to increased flying and a higher number of repairs to rotatable parts in 2014. Heavy airframe maintenance events and engine overhauls for the three months ended September 30 were:

| <b>Heavy Maintenance Events</b> | <b>2014</b> | <b>2013</b> | <b>Increase<br/>/<br/>(Decrease)</b> |
|---------------------------------|-------------|-------------|--------------------------------------|
| 747-400 C Checks                | 1           | 2           | (1)                                  |
| 747-8 C Checks                  | 2           |             | 2                                    |
| 767 C Checks                    | 1           |             | 1                                    |
| CF6-80 engine overhauls         | 1           | 1           |                                      |

*Aircraft rent* decreased \$6.2 million, or 15.4%, primarily due to the early termination of operating leases for two 747-400BCFs that we parked in December 2013 to reduce capacity.



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*Navigation fees, landing fees and other rent* increased \$10.9 million, or 44.3%, primarily due to an increase in purchased capacity from subcontracting certain Commercial Charter flights. We reclassified purchased capacity from Aircraft rent to Navigation fees, landing fees and other rent and we reclassified previously reported amounts to conform to the current period's presentation.

*Depreciation and amortization* increased \$6.2 million, or 26.2%, due to additional aircraft operating in the third quarter of 2014.

*Passenger and ground handling services* increased \$6.8 million, or 37.9%, primarily due to an increase in cargo and passenger flying.

*Travel* increased \$7.1 million, or 48.9%, primarily due to higher rates related to crewmember travel to higher cost locations, as well as increased flying.

**Non-operating Expenses (Income)**

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

|  | 2014       | 2013       | Increase<br>/<br>(Decrease) | Percent<br>Change |
|--|------------|------------|-----------------------------|-------------------|
| <b>Non-operating Expenses (Income)</b> |            |            |                             |                   |
| Interest income                        | \$ (4,588) | \$ (4,849) | \$ (261)                    | (5.4)%            |
| Interest expense                       | 25,960     | 22,594     | 3,366                       | 14.9%             |
| Capitalized interest                   | (44)       | (291)      | (247)                       | (84.9)%           |
| Loss on early extinguishment of debt   |            | 4,524      | (4,524)                     | NM                |
| Other expense (income), net            | 767        | (241)      | 1,008                       | NM                |

*Interest expense* increased \$3.4 million, or 14.9%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases in July 2013 and early 2014.

*Loss on early extinguishment of debt* was primarily related to the refinancing of term loans in 2013.

*Income taxes.* Our effective income tax rates were an expense of 29.1% and 31.3% for the three months ended September 30, 2014 and September 30, 2013, respectively. The effective rates differed from the U.S. federal statutory rate primarily due to our assertion beginning in 2013, to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. In addition, the effective rate for the three months ended September 30, 2013 differed from the U.S. federal statutory rate as a result of the net impact of resolution of income tax liabilities in that period.

**Segments**

The following table compares the Direct Contribution of our reportable segments (see Note 9 to our Financial Statements for the reconciliation to Operating income) for the three months ended September 30 (in thousands):

|                                      | 2014      | 2013      | Increase<br>/<br>(Decrease) | Percent<br>Change |
|--------------------------------------|-----------|-----------|-----------------------------|-------------------|
| <b>Direct Contribution:</b>          |           |           |                             |                   |
| ACMI                                 | \$ 54,228 | \$ 62,587 | \$ (8,359)                  | (13.4)%           |
| AMC Charter                          | 17,603    | 14,749    | 2,854                       | 19.4%             |
| Commercial Charter                   | 571       | (3,859)   | 4,430                       | 114.8%            |
| Dry Leasing                          | 8,721     | 4,681     | 4,040                       | 86.3%             |
| Total Direct Contribution            | \$ 81,123 | \$ 78,158 | \$ 2,965                    | 3.8%              |
| Unallocated income and expenses, net | \$ 42,139 | \$ 37,164 | \$ 4,975                    | 13.4%             |

***ACMI Segment***

ACMI Direct Contribution decreased \$8.4 million, or 13.4%, primarily due to an increase in maintenance expense on 747-8F aircraft and lower 747-400 flying by certain ACMI customers during the third quarter of 2014, partially offset by lower maintenance expense on 747-400 aircraft.

**Table of Contents*****AMC Charter Segment***

AMC Charter Direct Contribution increased \$2.9 million, or 19.4%, primarily due to increased passenger and cargo flying due to increased demand as former competitors exited the AMC Charter market. Partially offsetting these items were increases in crewmember travel and ground handling expenses from flying to higher cost locations.

***Commercial Charter Segment***

Commercial Charter Direct Contribution increased \$4.4 million, or 114.8%, primarily due to higher aircraft utilization driven by increased demand and our decision to reduce capacity at the end of 2013. Partially offsetting these improvements were increases in crewmember travel and ground handling expenses from flying to higher cost locations. Our Commercial Charter quarterly results are subject to seasonal and other fluctuations, and the Direct Contribution for any quarter is not necessarily indicative of the results that may be expected for the entire year.

***Dry Leasing Segment***

Dry Leasing Direct Contribution increased \$4.0 million, primarily due to the addition of three 777-200LRF aircraft in January 2014 and two 777-200LRF aircraft in July 2013 that are being dry leased to customers on a long-term basis.

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

Unallocated income and expenses increased \$5.0 million, or 13.4%, primarily driven by an increase in ground staff costs due to key initiatives.

***Nine Months Ended September 30, 2014 and 2013*****Operating Statistics**

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

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

|                               | 2014    | 2013    | Increase /<br>(Decrease) | Percent<br>Change |
|-------------------------------|---------|---------|--------------------------|-------------------|
| <b>Block Hours</b>            |         |         |                          |                   |
| ACMI                          | 83,770  | 85,274  | (1,504)                  | (1.8)%            |
| AMC Charter:                  |         |         |                          |                   |
| Cargo                         | 3,493   | 5,296   | (1,803)                  | (34.0)%           |
| Passenger                     | 9,378   | 8,264   | 1,114                    | 13.5%             |
| Commercial Charter            | 19,484  | 16,360  | 3,124                    | 19.1%             |
| Other                         | 796     | 655     | 141                      | 21.5%             |
| Total Block Hours             | 116,921 | 115,849 | 1,072                    | 0.9%              |
| <b>Revenue Per Block Hour</b> |         |         |                          |                   |

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|                              |           |           |            |        |
|------------------------------|-----------|-----------|------------|--------|
| ACMI                         | \$ 6,792  | \$ 6,482  | \$ 310     | 4.8%   |
| <b>AMC Charter</b>           |           |           |            |        |
| Cargo                        | \$ 21,039 | \$ 22,681 | \$ (1,642) | (7.2)% |
| Passenger                    | \$ 20,308 | \$ 20,296 | \$ 12      | 0.1%   |
| Commercial Charter           | \$ 20,095 | \$ 19,162 | \$ 933     | 4.9%   |
| <b>Fuel</b>                  |           |           |            |        |
| <b>AMC</b>                   |           |           |            |        |
| Average fuel cost per gallon | \$ 3.35   | \$ 3.63   | \$ (0.28)  | (7.7)% |
| Fuel gallons consumed (000s) | 30,644    | 33,847    | (3,203)    | (9.5)% |
| <b>Commercial Charter</b>    |           |           |            |        |
| Average fuel cost per gallon | \$ 3.12   | \$ 3.13   | \$ (0.01)  | NM     |
| Fuel gallons consumed (000s) | 63,698    | 53,210    | 10,488     | 19.7%  |

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|   | 2014        | 2013        | Increase<br>/<br>(Decrease) |
|---|-------------|-------------|-----------------------------|
| <b>Segment Operating Fleet (average aircraft equivalents during the period)</b> |             |             |                             |
| <b>ACMI*</b>  |             |             |                             |
| 747-8F Cargo  | 8.5         | 7.7         | 0.8                         |
| 747-400 Cargo   | 11.8        | 12.2        | (0.4)                       |
| 747-400 Dreamlifter   | 3.1         | 1.6         | 1.5                         |
| 767-300 Cargo   | 2.0         | 1.8         | 0.2                         |
| 767-200 Cargo   | 5.0         | 5.0         |                             |
| 747-400 Passenger   | 1.1         | 1.1         |                             |
| 767-300 Passenger   |             | 0.3         | (0.3)                       |
| 767-200 Passenger   | 1.0         | 0.3         | 0.7                         |
| <b>Total</b>  | <b>32.5</b> | <b>30.0</b> | <b>2.5</b>                  |
| <b>AMC Charter</b>  |             |             |                             |
| 747-400 Cargo   | 1.5         | 2.9         | (1.4)                       |
| 747-400 Passenger   | 1.7         | 1.7         |                             |
| 767-300 Passenger   | 2.7         | 2.6         | 0.1                         |
| <b>Total</b>  | <b>5.9</b>  | <b>7.2</b>  | <b>(1.3)</b>                |
| <b>Commercial Charter</b>   |             |             |                             |
| 747-8F Cargo  | 0.5         | 0.4         | 0.1                         |
| 747-400 Cargo   | 7.7         | 7.8         | (0.1)                       |
| 747-400 Passenger   | 0.1         | 0.2         | (0.1)                       |
| 767-300 Passenger   | 0.2         | 0.2         |                             |
| <b>Total</b>  | <b>8.5</b>  | <b>8.6</b>  | <b>(0.1)</b>                |
| <b>Dry Leasing</b>  |             |             |                             |
| 777-200 Cargo   | 5.9         | 1.3         | 4.6                         |
| 757-200 Cargo   | 1.0         | 1.0         |                             |
| 737-300 Cargo   | 1.0         | 1.0         |                             |
| 737-800 Passenger   | 2.0         | 2.0         |                             |
| <b>Total</b>  | <b>9.9</b>  | <b>5.3</b>  | <b>4.6</b>                  |
| <b>Total Operating Aircraft</b>   | <b>56.8</b> | <b>51.1</b> | <b>5.7</b>                  |
| <b>Out-of-service**</b>   | <b>1.0</b>  | <b>0.8</b>  | <b>0.2</b>                  |

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

\*\* Out-of-service aircraft are completely unencumbered.

**Operating Revenue**

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

|                                | 2014                | 2013                | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------|---------------------|---------------------|--------------------------|-------------------|
| <b>Operating Revenue</b>       |                     |                     |                          |                   |
| ACMI                           | \$ 568,929          | \$ 552,710          | \$ 16,219                | 2.9%              |
| AMC Charter                    | 263,935             | 287,840             | (23,905)                 | (8.3)%            |
| Commercial Charter             | 391,527             | 313,488             | 78,039                   | 24.9%             |
| Dry Leasing                    | 75,611              | 21,844              | 53,767                   | 246.1%            |
| Other                          | 10,331              | 10,417              | (86)                     | (0.8)%            |
| <b>Total Operating Revenue</b> | <b>\$ 1,310,333</b> | <b>\$ 1,186,299</b> | <b>\$ 124,034</b>        | <b>10.5%</b>      |

ACMI revenue increased \$16.2 million, or 2.9%, primarily due to increased 747-8F and CMI flying, partially offset by lower 747-400 flying by certain customers. ACMI Revenue per Block Hour was \$6,792 for the first three quarters of 2014, compared with \$6,482 in 2013, an increase of \$310 per Block Hour, or 4.8%. The increase in Revenue per Block Hour was primarily driven by the impact of higher rates on an increased number of 747-8F aircraft, partially offset by lower rates on certain CMI flying. ACMI Block Hours were 83,770 for the first three quarters of 2014, compared with 85,274 in 2013, a decrease of 1,504 Block Hours, or 1.8%. The decrease in Block Hours was primarily driven by the return of three 747-8F aircraft from British Airways in April and early May of 2014, partially offset by the placement of two additional 747-8F aircraft with DHL in May 2014, the start-up of ACMI 747-8F flying for BST Logistics in February 2014 and Etihad in May 2013, and the start-up of ACMI 747-400 flying for Astral Aviation in September 2013 and Chapman Freeborn in April 2013. Block Hours were also impacted by an increase in CMI flying for Boeing and the start-up of CMI 767-200 passenger aircraft flying for MLW Air during the third quarter of 2013.

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*AMC Charter revenue* decreased \$23.9 million, or 8.3%, primarily driven by the continued reduction in both AMC Charter Cargo Block Hours and Revenue per Block Hour, partially offset by an increase in AMC Passenger Block Hours. AMC Charter Block Hours were 12,871 for the first three quarters of 2014 compared with 13,560 in 2013, a decrease of 689 Block Hours, or 5.1%. The decrease in AMC Charter Block Hours was driven by reduced cargo demand from the AMC, partially offset by incremental passenger flying as former competitors exited the AMC Charter market. AMC Charter Revenue per Block Hour was \$20,506 for the first three quarters of 2014 compared with \$21,227 in 2013, a decrease of \$721 per Block Hour, or 3.4%, primarily due to a decrease in the average AMC pegged fuel price. For the first three quarters of 2014, the average pegged fuel price was \$3.35 per gallon compared with \$3.63 in 2013. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense.

*Commercial Charter revenue* increased \$78.0 million, or 24.9%, primarily due to an increase in both Block Hours and Revenue per Block Hour. Commercial Charter Block Hours were 19,484 in the first three quarters of 2014, compared with 16,360 in 2013, representing an increase of 3,124 Block Hours, or 19.1%. The increase in Block Hours was primarily due to increased demand during the first three quarters of 2014. Revenue per Block Hour was \$20,095 for the first three quarters of 2014, compared with \$19,162 in 2013, an increase of \$933 per Block Hour, or 4.9%. This increase reflects the impact of cargo revenue on subcontracted Commercial Charter flights with no associated Block Hours, partially offset by lower market rates.

*Dry Leasing revenue* increased \$53.8 million, primarily due to the acquisition of three 777-200LRF aircraft in January 2014, two 777-200LRF aircraft in July 2013 and one 777-200LRF aircraft in March 2013 that are being dry leased to customers on a long-term basis.

**Operating Expenses**

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

|  | 2014                | 2013                | Increase /<br>(Decrease) | Percent<br>Change |
|--|---------------------|---------------------|--------------------------|-------------------|
| <b>Operating Expenses</b>                    |                     |                     |                          |                   |
| Aircraft fuel                                | \$ 301,276          | \$ 289,535          | \$ 11,741                | 4.1%              |
| Salaries, wages and benefits                 | 229,637             | 219,216             | 10,421                   | 4.8%              |
| Maintenance, materials and repairs           | 144,516             | 133,152             | 11,364                   | 8.5%              |
| Aircraft rent                                | 104,419             | 118,753             | (14,334)                 | (12.1)%           |
| Navigation fees, landing fees and other rent | 93,368              | 58,851              | 34,517                   | 58.7%             |
| Depreciation and amortization                | 88,401              | 61,840              | 26,561                   | 43.0%             |
| Passenger and ground handling services       | 66,106              | 52,109              | 13,997                   | 26.9%             |
| Travel                                       | 57,698              | 43,485              | 14,213                   | 32.7%             |
| Loss on disposal of aircraft                 | 14,679              | 79                  | 14,600                   | NM                |
| Special charge                               | 9,567               |                     | 9,567                    | NM                |
| Other  | 84,890              | 80,515              | 4,375                    | 5.4%              |
| <b>Total Operating Expenses</b>              | <b>\$ 1,194,557</b> | <b>\$ 1,057,535</b> |                          |                   |

*Aircraft fuel* increased \$11.7 million, or 4.1%, primarily due to an increase in Commercial Charter fuel consumption, partially offset by reduced AMC Charter fuel consumption and fuel price. Commercial Charter fuel consumption

increased by 10.5 million gallons, or 19.7%, primarily driven by the increase in Block Hours operated. The average fuel price per gallon for the Commercial Charter business was relatively unchanged. AMC fuel consumption decreased by 3.2 million gallons, or 9.5%, primarily reflecting the decrease in Block Hours operated. The average fuel price per gallon for the AMC Charter business was \$3.35 for the first three quarters of 2014, compared with \$3.63 in 2013, a decrease of 7.7%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$10.4 million, or 4.8%, primarily driven by higher Block Hours and an increase in ground staff costs due to key initiatives.

*Maintenance, materials and repairs* increased \$11.4 million, or 8.5%, primarily driven by an increase of \$10.9 million for 747-8F and 747-400 aircraft. Heavy Maintenance expense on 747-8F increased \$7.0 million primarily due to an increase in the number of C Checks in 2014 and other maintenance activities. Heavy maintenance on 747-400 aircraft decreased \$1.7 million due to a reduction in the number of engine overhauls, resulting from our engine acquisition program, and 747-400 C Checks, partially offset by an increase in the number of 747-400 D Checks. Line Maintenance expense on 747-400 aircraft and 747-8F aircraft increased \$5.3 million primarily due to more repairs to rotatable parts and increased flying in 2014. Heavy airframe maintenance events and engine overhauls for the nine months ended September 30 were:



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|                                 | 2014 | 2013 | Increase<br>/<br>(Decrease) |
|---------------------------------|------|------|-----------------------------|
| <b>Heavy Maintenance Events</b> |      |      |                             |
| 747-400 C Checks                | 9    | 12   | (3)                         |
| 747-8 C Checks                  | 4    |      | 4                           |
| 747-400 D Checks                | 5    | 1    | 4                           |
| 767 C Checks                    | 2    | 3    | (1)                         |
| CF6-80 engine overhauls         | 8    | 12   | (4)                         |

*Aircraft rent* decreased \$14.3 million, or 12.1%, primarily due to the early termination of operating leases for two 747-400BCFs that we parked in December 2013 to reduce capacity.

*Navigation fees, landing fees and other rent* increased \$34.5 million, or 58.7%, primarily due to an increase in purchased capacity from subcontracting certain Commercial Charter flights. We reclassified purchased capacity from Aircraft rent to Navigation fees, landing fees and other rent and we reclassified previously reported amounts to conform to the current period's presentation.

*Depreciation and amortization* increased \$26.6, or 43.0%, due to additional aircraft operating in the first three quarters of 2014.

*Passenger and ground handling services* increased \$14.0 million, or 26.9%, primarily due to an increase in cargo and passenger flying.

*Travel* increased \$14.2 million, or 32.7%, primarily due to higher rates related to crewmember travel to higher cost locations, as well as increased flying.

*Special charge* in 2014 represents a \$4.9 million reserve related to a GSS receivable for a loan made to its 51% U.K. shareholder, a \$3.9 million expense recorded for termination benefits for certain GSS employees, a \$0.5 million adjustment to the early termination of operating leases for two 747-400BCFs that we parked in December 2013 to reduce capacity, and \$0.2 million in professional fees related to GSS restructuring activities (see Note 4 to our Financial Statements).

*Loss on disposal of aircraft* in 2014 resulted from the trade-in of used spare engines for new engines as part of our engine acquisition program.

**Non-operating Expenses (Income)**

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

|  | 2014       | 2013       | Increase /<br>(Decrease) | Percent<br>Change |
|--|------------|------------|--------------------------|-------------------|
| <b>Non-operating Expenses (Income)</b> |            |            |                          |                   |
| Interest income                        | \$(14,034) | \$(15,003) | \$ (969)                 | (6.5)%            |
| Interest expense                       | 78,777     | 61,711     | 17,066                   | 27.7%             |
| Capitalized interest                   | (423)      | (1,985)    | (1,562)                  | (78.7)%           |
| Loss on early extinguishment of debt   |            | 5,518      | (5,518)                  | NM                |

|                             |     |       |       |    |
|-----------------------------|-----|-------|-------|----|
| Other expense (income), net | 831 | 1,415 | (584) | NM |
|-----------------------------|-----|-------|-------|----|

*Interest expense* increased \$17.1 million, or 27.7%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases in 2013 and 2014.

*Capitalized interest* decreased \$1.6 million, or 78.7%, resulting from 747-8F aircraft that entered service in 2013.

*Loss on early extinguishment of debt* was primarily related to the refinancing of term loans in 2013.

*Income taxes.* Our effective income tax rates were a benefit of 19.7% for the nine months ended September 30, 2014 and an expense of 14.7% for the nine months ended September 30, 2013. The effective rate for the nine months ended

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September 30, 2014 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$24.0 million related to ETI from offshore leasing of certain of our aircraft, losses associated with GSS for which we have recognized a limited tax benefit and our assertion, beginning in 2013, to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. The effective rate for the nine months ended September 30, 2013 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$14.2 million related to ETI from offshore leasing of certain of our aircraft and our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S.

**Segments**

The following table compares the Direct Contribution for our reportable segments (see Note 9 to our Financial Statements for the reconciliation to Operating income) for the nine months ended September 30 (in thousands):

|                                      | 2014       | 2013       | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------------------|------------|------------|--------------------------|-------------------|
| <b>Direct Contribution:</b>          |            |            |                          |                   |
| ACMI                                 | \$ 143,554 | \$ 157,594 | \$ (14,040)              | (8.9)%            |
| AMC Charter                          | 42,691     | 40,144     | 2,547                    | 6.3%              |
| Commercial Charter                   | (17,731)   | (15,023)   | (2,708)                  | (18.0)%           |
| Dry Leasing                          | 25,630     | 8,294      | 17,336                   | 209.0%            |
| Total Direct Contribution            | \$ 194,144 | \$ 191,009 | \$ 3,135                 | 1.6%              |
| Unallocated income and expenses, net | \$ 119,273 | \$ 108,304 | \$ 10,969                | 10.1%             |

**ACMI Segment**

ACMI Direct Contribution decreased \$14.0 million, or 8.9%, primarily due to an increase in maintenance expense on 747-8F aircraft and lower 747-400 flying by certain ACMI customers, partially offset by increased 747-8F and CMI flying.

**AMC Charter Segment**

AMC Charter Direct Contribution increased \$2.5 million, or 6.3%, primarily due to an increase in the volume of passenger flying, partially offset by a decrease in cargo flying, and increased crewmember travel and ground handling expenses from flying to higher cost locations.

**Commercial Charter Segment**

Commercial Charter Direct Contribution decreased \$2.7 million, or 18.0%, primarily due to increased maintenance expense and increases in crewmember travel and ground handling expenses from flying to higher cost locations. Partially offsetting these items was higher aircraft utilization driven by increased demand and our decision to reduce capacity at the end of 2013. Our Commercial Charter quarterly results are subject to seasonal and other fluctuations, and the Direct Contribution for any quarter is not necessarily indicative of the results that may be expected for the entire year.

***Dry Leasing Segment***

Dry Leasing Direct Contribution increased \$17.3 million, primarily due to the addition of three 777-200LRF aircraft in January 2014, two 777-200LRF aircraft in July 2013, and one 777-200LRF aircraft in March 2013 that are being leased to customers on a long-term basis.

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

Unallocated income and expenses, net increased \$11.0 million, or 10.1%, primarily driven by an increase in ground staff costs due to key initiatives.

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

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

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

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

|  | <b>For the Three Months Ended</b> |                               |                           |
|--|-----------------------------------|-------------------------------|---------------------------|
|  | <b>September 30,<br/>2014</b>     | <b>September 30,<br/>2013</b> | <b>Percent<br/>Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 27,576                         | \$ 23,741                     | 16.2%                     |
| After-tax impact from:   |                                   |                               |                           |
| Loss on disposal of aircraft                                   |                                   | 319                           |                           |
| Special charge (a)   | (135)                             |                               |                           |
| Loss on early extinguishment of debt (b)                       |                                   | 4,524                         |                           |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 27,441                         | \$ 28,584                     | (4.0%)                    |
| <b>Diluted EPS</b>   | \$ 1.10                           | \$ 0.94                       | 17.0%                     |
| After-tax impact from:   |                                   |                               |                           |
| Loss on disposal of aircraft                                   |                                   | 0.01                          |                           |
| Special charge (a)   | (0.01)                            |                               |                           |
| Loss on early extinguishment of debt (b)                       |                                   | 0.18                          |                           |
| <b>Adjusted Diluted EPS</b>                                    | \$ 1.09                           | \$ 1.13                       | (3.5%)                    |

|  | <b>For the Nine Months Ended</b> |                               |                           |
|--|----------------------------------|-------------------------------|---------------------------|
|  | <b>September 30,<br/>2014</b>    | <b>September 30,<br/>2013</b> | <b>Percent<br/>Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 65,113                        | \$ 63,879                     | 1.9%                      |
| After-tax impact from:   |                                  |                               |                           |
| ETI tax benefit  | (24,013)                         | (14,160)                      |                           |
| Loss on disposal of aircraft                                   | 9,389                            | 50                            |                           |
| Special charge (a)   | 3,905                            |                               |                           |
| Accrual for legal matters                                      | 300                              |                               |                           |
| Loss on early extinguishment of debt (b)                       |                                  | 5,157                         |                           |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 54,694                        | \$ 54,926                     | (0.4%)                    |
| <b>Diluted EPS</b>   | \$ 2.59                          | \$ 2.48                       | 4.4%                      |
| After-tax impact from:   |                                  |                               |                           |

|  |         |         |      |
|--|---------|---------|------|
| ETI tax benefit                          | (0.95)  | (0.55)  |      |
| Loss on disposal of aircraft             | 0.37    |         |      |
| Special charge (a)                       | 0.16    |         |      |
| Accrual for legal matters                | 0.01    |         |      |
| Loss on early extinguishment of debt (b) |         | 0.20    |      |
| <b>Adjusted Diluted EPS</b>              | \$ 2.17 | \$ 2.13 | 1.9% |

Items do not sum due to rounding.

- a) Included in Special charge in 2014 were employee termination benefits, a loan reserve, professional fees and tax adjustments related to GSS, and an adjustment to lease termination costs for two 747-400BCFs.
- b) Loss on early extinguishment of debt was related to the financing of 747-8F aircraft.

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### **Liquidity and Capital Resources**

Significant liquidity events in the first three quarters of 2014 were as follows:

#### *Treasury Stock Transactions*

During the three months ended September 30, 2014, we paid \$15.0 million to repurchase 458,937 shares under an open market repurchase program. See Note 11 to our Financial Statements for a discussion of our stock repurchase program.

#### *Debt Transactions*

In January 2014, we entered into six separate term loans in the aggregate amount of \$432.0 million to finance the purchase of three 777-200LRF aircraft that are Dry Leased to a customer on a long-term basis.

In January 2014, we refinanced a bridge loan with an Ex-Im Bank guaranteed note in the amount of \$140.6 million secured by a mortgage on a 747-8F aircraft.

*Operating Activities.* Net cash provided by operating activities for the first three quarters of 2014 was \$168.5 million, compared with \$205.1 million for the first three quarters of 2013. The decrease primarily reflects changes in the timing of working capital.

*Investing Activities.* Net cash used for investing activities was \$524.5 million for the first three quarters of 2014, consisting primarily of \$502.8 million of purchase deposits and delivery payments for flight equipment, \$17.5 million of core capital expenditures, excluding flight equipment, and a \$7.1 million increase in restricted cash. Purchase deposits and delivery payments for flight equipment are primarily related to the purchase of three 777-200LRF cargo aircraft. All Capital expenditures for the first three quarters of 2014 were funded through working capital, except for the aircraft financed as discussed above. Net cash used for investing activities was \$574.7 million for the first three quarters of 2013, consisting primarily of \$562.0 million of purchase deposits and delivery payments for flight equipment, which included \$2.0 million of capitalized interest, and \$24.9 million of core capital expenditures, excluding flight equipment, and a \$5.9 million increase in restricted cash, partially offset by \$9.1 million of proceeds from insurance.

*Financing Activities.* Net cash provided by financing activities was \$296.4 million for the first three quarters of 2014, which primarily reflected the proceeds from debt issuance of \$572.6 million and \$13.0 million of maintenance reserves received, partially offset by \$252.5 million of payments on debt obligations, \$19.5 million of treasury stock purchases and \$17.1 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of the \$103.6 million bridge loan with the 2014 Ex-Im Guaranteed Note. Net cash provided by financing activities was \$240.8 million for the first three quarters of 2013, which primarily reflected the proceeds from debt issuance of \$709.5 million and a \$21.9 million refund from an accelerated share repurchase, partially offset by \$371.1 million of payments on debt obligations, \$80.9 million related to the purchase of treasury stock, \$21.9 million related to prepayments under accelerated share repurchase transactions and \$19.7 million of debt issuance costs. We reclassified maintenance reserves received from operating activities to financing activities and reclassified previously reported amounts to conform to the current period's presentation.

We consider Cash and cash equivalents, Short-term investments, Restricted cash and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations and to fund any other capital outflows during the remainder of 2014. Core capital expenditures for the remainder of 2014 are expected to be approximately \$16.0

million, which excludes flight equipment and capitalized interest.

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

We do not expect to pay any significant U.S. federal income tax until 2018 or later. Our business operations are subject to income tax in several foreign jurisdictions. We do not expect to pay any significant cash income taxes in foreign



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jurisdictions for at least several years. We currently do not intend to repatriate cash from certain foreign subsidiaries that is indefinitely reinvested outside the U.S. Any repatriation of cash from these subsidiaries or certain changes in U.S. tax laws could result in additional tax expense.

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

See Note 6 to our Financial Statements for a description of our 2014 debt obligations: the 2014 Term Loans and the 2014 Ex-Im Guaranteed Note. See our 2013 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2013 and a description of our debt obligations and amendments thereto.

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

There were no material changes in our off-balance sheet arrangements during the three months ended September 30, 2014.

### **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, seek, project, estimate and similar expressions used in this Report that do not relate to historical facts are intended to identify forward-looking statements.

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2013. 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 2013 Annual Report on Form 10-K.

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

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

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2014. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

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

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2014 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 September 30, 2014, 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 2013 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 2013 Annual Report on Form 10-K.

***Insurance coverage may become more expensive and difficult to obtain and may not be adequate to insure all of our risks. In addition, if our Dry Lease customers have inadequate insurance coverage or fail to fulfill their indemnification obligations, it could have a material adverse impact on our business, results of operations and financial condition.***

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. 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. Like some other airlines, we have purchased war-risk coverage through a special program administered by the U.S. federal government. The U.S. Federal Aviation Administration is currently providing war-risk hull and cargo loss, crew and third-party liability insurance through December 11, 2014. Unless the U.S. Congress enacts legislation extending the program, U.S. federal government coverage will end on that date. If the federal war-risk coverage program is terminated or extended with less coverage, we could face an 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. It is also unlikely that we would be able to secure the full scope of war-risk insurance coverage as we have today.

We participate in an insurance pooling arrangement with DHL and its partners. This allows us to obtain aviation hull and liability and hull deductible coverage at reduced rates. If we are no longer included in this arrangement for any reason or if pool members have coverage incidents, we may incur higher insurance costs.

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

Lessees are required under our Dry Leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain all-risk hull and war-risk hull insurance on the aircraft at agreed upon levels. If our lessees' insurance is not sufficient to cover all types of claims that may be asserted against us or if our lessees fail to fulfill their indemnification obligations, we would be required to pay any amounts in excess

of our insurance coverage, which could have a material adverse impact on our business, results of operations and financial condition.

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

We made the following repurchases of shares of our common stock during the quarter ended September 30, 2014:

| Period  | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Plans<br>or Programs | Maximum Number (or<br>Approximate<br>Dollar<br>Value) of Shares<br>that<br>May Yet Be Purchased<br>Under the Plans<br>or<br>Programs |
|---|--|---------------------------------|---|--|
| July 1, 2014 through July 31, 2014              |  |                                 |   |  |
| August 1, 2014 through August 31, 2014          | 458,937                                | \$ 32.68                        | 2,882,757   | \$ 45,000,000  |
| September 1, 2014 through<br>September 30, 2014 |  |                                 |   |  |
| Total   | 458,937                                | \$ 32.68                        | 2,882,757   | \$ 45,000,000  |

See Note 11 to our Financial Statements for a discussion of our stock repurchase program.

**ITEM 6. EXHIBITS**

## a. Exhibits

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

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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: November 6, 2014

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

Dated: November 6, 2014

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

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

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3(ii)                     | By-Laws of Atlas Air Worldwide Holdings, Inc., incorporated herein by reference to Exhibit 3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2014. |
| 31.1                      | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer, furnished herewith.  |
| 31.2                      | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer, furnished herewith.  |
| 32.1                      | Section 1350 Certifications, furnished herewith.  |
| 101.INS                   | XBRL Instance Document. *   |
| 101.SCH                   | XBRL Taxonomy Extension Schema Document. *  |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document. *  |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document. *   |
| 101.LAB                   | XBRL Taxonomy Extension Labels Linkbase Document. *   |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document. *   |

\* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, (v) Consolidated Statement of Stockholders' Equity as of and for the three and nine months ended September 30, 2014 and 2013 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.