

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

November 03, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2011**

**OR**

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

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

**Commission File Number: 001-16545**

**Atlas Air Worldwide Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**13-4146982**

(IRS Employer Identification No.)

**2000 Westchester Avenue, Purchase, New York**

(Address of principal executive offices)

**10577**

(Zip Code)

**(914) 701-8000**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

As of September 30, 2011, there were 26,302,167 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,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|-------------------------------|------------------------------|
| <b>Assets</b>   |                               |                              |
| <b>Current Assets</b>   |                               |                              |
| Cash and cash equivalents   | \$ 417,352                    | \$ 588,852                   |
| Short-term investments  | 7,913                         | 6,211                        |
| Restricted cash   | 120,252                       |                              |
| Accounts receivable, net of allowance of \$1,644 and \$1,900,<br>respectively | 84,802                        | 78,334                       |
| Prepaid maintenance   | 38,154                        | 26,102                       |
| Deferred taxes  | 3,288                         | 3,721                        |
| Prepaid expenses and other current assets                                     | 27,775                        | 24,212                       |
| Total current assets  | 699,536                       | 727,432                      |
| <b>Property and Equipment</b>   |                               |                              |
| Flight equipment  | 897,216                       | 766,681                      |
| Ground equipment  | 32,338                        | 29,124                       |
| Less: accumulated depreciation  | (154,930)                     | (138,851)                    |
| Purchase deposits for flight equipment  | 396,030                       | 336,969                      |
| Property and equipment, net   | 1,170,654                     | 993,923                      |
| <b>Other Assets</b>   |                               |                              |
| Long-term investments and accrued interest                                    | 133,200                       | 127,094                      |
| Deposits and other assets   | 58,934                        | 45,026                       |
| Intangible assets, net  | 41,157                        | 42,627                       |
| <b>Total Assets</b>   | <b>\$ 2,103,481</b>           | <b>\$ 1,936,102</b>          |
| <b>Liabilities and Equity</b>   |                               |                              |
| <b>Current Liabilities</b>  |                               |                              |
| Accounts payable  | \$ 37,571                     | \$ 22,954                    |
| Accrued liabilities   | 196,128                       | 149,892                      |
| Current portion of long-term debt   | 57,819                        | 96,197                       |
| Total current liabilities   | 291,518                       | 269,043                      |
| <b>Other Liabilities</b>  |                               |                              |
| Long-term debt  | 466,174                       | 391,036                      |
| Deferred taxes  | 109,246                       | 103,150                      |
| Other liabilities   | 129,938                       | 122,783                      |
| Total other liabilities   | 705,358                       | 616,969                      |
| Commitments and contingencies   |                               |                              |

**Equity**

## Stockholders' Equity

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

Common stock, \$0.01 par value; 50,000,000 shares authorized;

27,458,043 and 26,955,923 shares issued, 26,302,167 and

25,937,014, shares outstanding (net of treasury stock), at

September 30, 2011 and December 31, 2010, respectively

Additional paid-in-capital

Treasury stock, at cost; 1,155,876 and 1,018,909 shares, respectively

Accumulated other comprehensive income (loss)

Retained earnings

Total stockholders' equity

Noncontrolling interest

Total equity

**Total Liabilities and Equity**

|  |              |              |
|--|--------------|--------------|
|  | 275          | 270          |
|  | 522,650      | 505,297      |
|  | (41,446)     | (32,248)     |
|  | (14,471)     | 458          |
|  | 635,236      | 572,666      |
|  | 1,102,244    | 1,046,443    |
|  | 4,361        | 3,647        |
|  | \$ 1,106,605 | \$ 1,050,090 |
|  | \$ 2,103,481 | \$ 1,936,102 |

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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**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</b>                  | <b>September 30,</b> | <b>September</b>                 | <b>September 30,</b> |
|   | <b>30, 2011</b>                   | <b>2010</b>          | <b>30, 2011</b>                  | <b>2010</b>          |
| <b>Operating Revenue</b>                                  |                                   |                      |                                  |                      |
| ACMI  | \$ 163,406                        | \$ 144,685           | \$ 469,883                       | \$ 383,917           |
| AMC charter   | 122,581                           | 72,506               | 316,230                          | 303,314              |
| Commercial charter  | 70,353                            | 104,044              | 206,956                          | 275,525              |
| Dry leasing   | 3,065                             | 2,157                | 6,742                            | 5,384                |
| Other   | 3,471                             | 3,275                | 10,246                           | 9,940                |
| <b>Total Operating Revenue</b>                            | <b>\$ 362,876</b>                 | <b>\$ 326,667</b>    | <b>\$ 1,010,057</b>              | <b>\$ 978,080</b>    |
| <b>Operating Expenses</b>                                 |                                   |                      |                                  |                      |
| Aircraft fuel   | 103,663                           | 74,221               | 278,188                          | 222,336              |
| Salaries, wages and benefits                              | 61,911                            | 56,244               | 185,173                          | 177,677              |
| Maintenance, materials and repairs                        | 47,770                            | 44,747               | 144,699                          | 115,967              |
| Aircraft rent   | 41,055                            | 38,764               | 120,976                          | 115,097              |
| Landing fees and other rent                               | 12,813                            | 11,487               | 36,756                           | 35,974               |
| Travel  | 11,284                            | 8,941                | 30,328                           | 24,354               |
| Depreciation and amortization                             | 9,964                             | 8,403                | 27,069                           | 26,049               |
| Ground handling and airport fees                          | 6,036                             | 6,423                | 17,141                           | 17,645               |
| Gain on disposal of aircraft                              | (163)                             | (161)                | (464)                            | (3,541)              |
| Other   | 25,043                            | 22,702               | 72,580                           | 80,177               |
| <b>Total Operating Expenses</b>                           | <b>319,376</b>                    | <b>271,771</b>       | <b>912,446</b>                   | <b>811,735</b>       |
| <b>Operating Income</b>                                   | <b>43,500</b>                     | <b>54,896</b>        | <b>97,611</b>                    | <b>166,345</b>       |
| <b>Non-operating Expenses / (Income)</b>                  |                                   |                      |                                  |                      |
| Interest income   | (5,004)                           | (5,490)              | (15,200)                         | (14,620)             |
| Interest expense  | 9,801                             | 10,176               | 30,009                           | 30,396               |
| Capitalized interest                                      | (6,982)                           | (4,401)              | (18,584)                         | (11,007)             |
| Other (income) expense, net                               | (121)                             | (614)                | (485)                            | (9,236)              |
| <b>Total Non-operating Income</b>                         | <b>(2,306)</b>                    | <b>(329)</b>         | <b>(4,260)</b>                   | <b>(4,467)</b>       |
| Income before income taxes                                | 45,806                            | 55,225               | 101,871                          | 170,812              |
| Income tax expense  | 17,464                            | 21,186               | 38,595                           | 70,386               |
| <b>Net Income</b>   | <b>28,342</b>                     | <b>34,039</b>        | <b>63,276</b>                    | <b>100,426</b>       |
| Less: Net income attributable to noncontrolling interests | 136                               | 235                  | 706                              | 176                  |
|   | <b>\$ 28,206</b>                  | <b>\$ 33,804</b>     | <b>\$ 62,570</b>                 | <b>\$ 100,250</b>    |



**Net Income Attributable to Common  
Stockholders****Earnings per share:**

|       |         |         |         |         |
|-------|---------|---------|---------|---------|
| Basic | \$ 1.07 | \$ 1.31 | \$ 2.39 | \$ 3.90 |
|-------|---------|---------|---------|---------|

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Diluted | \$ 1.07 | \$ 1.29 | \$ 2.37 | \$ 3.85 |
|---------|---------|---------|---------|---------|

**Weighted average shares:**

|       |        |        |        |        |
|-------|--------|--------|--------|--------|
| Basic | 26,291 | 25,855 | 26,201 | 25,736 |
|-------|--------|--------|--------|--------|

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 26,452 | 26,143 | 26,416 | 26,038 |
|---------|--------|--------|--------|--------|

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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

|   | <b>For the Nine Months Ended</b> |                               |
|---|----------------------------------|-------------------------------|
|   | <b>September<br/>30, 2011</b>    | <b>September 30,<br/>2010</b> |
| <b>Operating Activities:</b>  |                                  |                               |
| Net Income Attributable to Common Stockholders                                    | \$ 62,570                        | \$ 100,250                    |
| Net income attributable to noncontrolling interests                               | 706                              | 176                           |
| Net Income  | 63,276                           | 100,426                       |
| Adjustments to reconcile Net Income to net cash provided by operating activities: |                                  |                               |
| Depreciation and amortization   | 27,069                           | 26,049                        |
| Amortization of debt discount   | 3,753                            | 4,011                         |
| Amortization of operating lease discount  | 1,789                            | 1,750                         |
| Amortization of debt issuance costs   | 300                              | 219                           |
| Accretion of debt securities discount   | (6,208)                          | (5,979)                       |
| Provision for (release of) allowance for doubtful accounts                        | (17)                             | 75                            |
| Gain on disposal of aircraft  | (464)                            | (3,541)                       |
| Deferred taxes  | 14,882                           | 18,071                        |
| Stock-based compensation expense  | 9,497                            | 10,489                        |
| Changes in:   |                                  |                               |
| Accounts receivable   | (4,573)                          | (5,539)                       |
| Prepaid expenses and other current assets   | (21,801)                         | (6,576)                       |
| Deposits and other assets   | (12,622)                         | (2,200)                       |
| Accounts payable and accrued liabilities  | 43,757                           | 76,838                        |
| Net cash provided by operating activities   | 118,638                          | 214,093                       |
| <b>Investing Activities:</b>  |                                  |                               |
| Capital expenditures  | (205,359)                        | (59,590)                      |
| Changes in restricted cash  | (120,252)                        |                               |
| Investment in debt securities   |                                  | (100,090)                     |
| Proceeds from short-term investments  | 4,662                            | 4,374                         |
| Proceeds from disposal of aircraft  | 1,165                            | 5,018                         |
| Net cash used for investing activities  | (319,784)                        | (150,288)                     |
| <b>Financing Activities:</b>  |                                  |                               |
| Proceeds from stock option exercises  | 4,733                            | 3,522                         |
| Purchase of treasury stock  | (9,198)                          | (5,777)                       |
| Excess tax benefit from stock-based compensation expense                          | 3,128                            | 1,677                         |
| Proceeds from loan  | 120,250                          | 20,637                        |
| Payment of debt issuance costs  | (2,024)                          |                               |
| Payments of debt  | (87,243)                         | (152,316)                     |
| Net cash provided by (used for) financing activities                              | 29,646                           | (132,257)                     |
| Net decrease in cash and cash equivalents   | (171,500)                        | (68,452)                      |

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|  |            |    |         |
|--|------------|----|---------|
| Cash and cash equivalents at the beginning of period | 588,852    |    | 613,740 |
| Cash and cash equivalents at the end of period       | \$ 417,352 | \$ | 545,288 |

*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 per 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 December 31, 2009</b>               | \$ 266          | \$ (26,394)       | \$ 481,074                       | \$ 471  | \$ 430,856           | \$ 886,273                       | \$ 2,484                   | \$ 888,757      |
| Net Income Attributable to Common Stockholders    |                 |                   |                                  |   | 100,250              | 100,250                          | 176                        | 100,426         |
| Other comprehensive income (loss)                 |                 |                   |                                  | 51  |                      | 51                               | 66                         | 117             |
| Comprehensive income                              |                 |                   |                                  |   |                      | 100,301                          |                            | 100,543         |
| Stock option and restricted stock compensation    |                 |                   | 10,489                           |   |                      | 10,489                           |                            | 10,489          |
| Purchase of 124,855 shares of treasury stock      |                 | (5,777)           |                                  |   |                      | (5,777)                          |                            | (5,777)         |
| Exercise of 111,320 employee stock options        |                 |                   | 3,522                            |   |                      | 3,522                            |                            | 3,522           |
| Issuance of 200,137 shares of restricted stock    | 3               |                   | (3)                              |   |                      |                                  |                            |                 |
| Tax benefit on restricted stock and stock options |                 |                   | 1,677                            |   |                      | 1,677                            |                            | 1,677           |
| <b>Balance at September 30, 2010</b>              | \$ 269          | \$ (32,171)       | \$ 496,759                       | \$ 522  | \$ 531,106           | \$ 996,485                       | \$ 2,726                   | \$ 999,211      |

|  | 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/>2010</b>             | \$ 270 | \$ (32,248) | \$ 505,297 | \$ 458      | \$ 572,666 | \$ 1,046,443 | \$ 3,647 | \$ 1,050,090 |
| Net Income<br>Attributable to<br>Common<br>Stockholders |        |             |            |             | 62,570     | 62,570       | 706      | 63,276       |
| Other<br>comprehensive<br>income (loss)                 |        |             |            | (14,929)    |            | (14,929)     | 8        | (14,921)     |
| Comprehensive<br>income                                 |        |             |            |             |            | 47,641       |          | 48,355       |
| Stock option and<br>restricted stock<br>compensation    |        |             | 9,497      |             |            | 9,497        |          | 9,497        |
| Purchase of<br>136,967 shares of<br>treasury stock      |        | (9,198)     |            |             |            | (9,198)      |          | (9,198)      |
| Exercise of<br>122,354<br>employee stock<br>options     | 1      |             | 4,732      |             |            | 4,733        |          | 4,733        |
| Issuance of<br>379,766 shares of<br>restricted stock    | 4      |             | (4)        |             |            |              |          |              |
| Tax benefit on<br>restricted stock<br>and stock options |        |             | 3,128      |             |            | 3,128        |          | 3,128        |
| <b>Balance at<br/>September 30,<br/>2011</b>            | \$ 275 | \$ (41,446) | \$ 522,650 | \$ (14,471) | \$ 635,236 | \$ 1,102,244 | \$ 4,361 | \$ 1,106,605 |

*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, 2011**

**1. Basis of Presentation**

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

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

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

The accompanying unaudited consolidated financial statements and related notes (the Financial Statements ) have been prepared in accordance with the U.S. Securities and Exchange Commission (the SEC ) requirements for quarterly reports on Form 10-Q, and consequently, exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). All significant intercompany accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes included in the AAWW Annual Report on Form 10-K for the year ended December 31, 2010, which included additional disclosures and a summary of our significant accounting policies. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of September 30, 2011, the results of operations for the three and nine months ended September 30, 2011 and 2010, cash flows for the nine months ended September 30, 2011 and 2010, and shareholders equity as of and for the nine months ended September 30, 2011 and 2010.

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

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

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

**2. Recent Accounting Pronouncements**

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

**3. DHL Investment and Polar**

Polar provides air cargo capacity to its customers, including DHL Network Operations (USA), Inc. ( DHL ), through a blocked-space agreement that began on October 27, 2008. The aggregate carrying value of our Polar investment, included within Deposits and other assets, was \$4.9 million at September 30, 2011 and \$5.3 million at December 31, 2010.

Polar currently operates six 747-400 freighter aircraft that are subleased from us. An additional two aircraft are operated by Atlas to support the Polar network and DHL through an alliance agreement whereby Atlas provides ACMI

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services to Polar. We also provide incremental charter capacity to Polar on an as-needed basis. Atlas and Polar have entered into various agreements under which we provide Polar with crew, maintenance and insurance for the subleased aircraft. Collectively, these service agreements and the subleases are referred to as Express Network ACMI. We provide Polar with certain management and administrative services under a shared services agreement. In addition, Polar and Atlas provide each other with sales and ground support services under a general sales and services agreement. The following table summarizes our transactions with Polar:

|   | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| <b>Revenue and Expenses:</b>              |                            |                    |                           |                    |
| ACMI revenue from Polar                   | \$ 61,089                  | \$ 47,212          | \$ 167,739                | \$ 138,952         |
| Other revenue from Polar                  | \$ 2,837                   | \$ 2,837           | \$ 8,512                  | \$ 8,512           |
| Ground handling and airport fees to Polar | \$ 280                     | \$ 519             | \$ 840                    | \$ 1,645           |

|   | September 30, 2011 | December 31, 2010 |
|---|--------------------|-------------------|
| <b>Accounts receivable/payable as of:</b> |                    |                   |
| Receivables from Polar                    | \$ 3,116           | \$ 8,009          |
| Payables to Polar                         | \$ 4,329           | \$ 2,945          |

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

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

|   | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|---|----------------------------|--------------------|---------------------------|--------------------|
|   | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| <b>Revenue as a % of Total Operating Revenue:</b> |                            |                    |                           |                    |
| AMC   | 33.8%                      | 22.2%              | 31.3%                     | 31.0%              |
| Polar   | 17.6%                      | 15.3%              | 17.4%                     | 15.1%              |

|  | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2011         | September 30, 2010 | September 30, 2011        | September 30, 2010 |
| <b>Revenue as a % of Total ACMI Revenue:</b> |                            |                    |                           |                    |
| Polar  | 37.4%                      | 32.6%              | 35.7%                     | 36.2%              |

**Accounts receivable as a % of Total Accounts**

|   | September 30, 2011 | December 31, 2010 |
|---|--------------------|-------------------|
| <b>receivable, net of allowance, as of:</b> |                    |                   |
| AMC   | 24.9%              | 10.5%             |
| Polar                                       | 3.7%               | 10.2%             |

**5. Debt**

On September 30, 2011, we borrowed \$120.3 million for the pending purchase of our first 747-8F aircraft under a twelve-year term loan with a final payment of \$32.6 million due in September 2023 (the September 2011 Term Loan ). The proceeds from the September 2011 Term Loan were pledged as collateral to the lender and classified as Restricted cash at September 30, 2011. The proceeds were subsequently released upon delivery of our first 747-8F aircraft on November 2, 2011. The September 2011 Term Loan, which is secured by a mortgage against aircraft tail number



N853GT, contains customary covenants and events of default and accrues interest at a fixed rate of 6.16%, payable quarterly. In addition, upon the occurrence and during the continuance of an event of default, the September 2011 Term Loan is cross-defaulted to our aircraft pre-delivery deposit ( PDP ) financing facility.

**6. Financial Instruments**

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

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

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Level 2 Other inputs that are observable directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, or inactive quoted prices for identical assets or liabilities in inactive markets;

Level 3 Unobservable inputs reflecting assumptions about the inputs used in pricing the asset or liability. We endeavor to utilize the best available information in measuring 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, certificates of deposit, current portion of debt securities and money market funds. The carrying value for 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 was based on a discounted cash flow analysis using the contractual cash flows of the investments and a discount rate derived from unadjusted quoted interest rates for debt securities of comparable risk. Such debt securities represent investments in Pass-Through Trust Certificates related to enhanced equipment trust certificates ( EETCs ) issued by Atlas in 1998, 1999 and 2000. Interest on debt securities and accretion of discounts using the effective interest method are included in Interest income.

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

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

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

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

|  | <b>September 30, 2011</b> |                   |                   |                  |                   |
|--|---------------------------|-------------------|-------------------|------------------|-------------------|
|  | <b>Carrying 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                  | \$ 417,352                | \$ 417,352        | \$ 417,352        | \$               | \$                |
| Short-term investments                     | 7,913                     | 7,913             |                   |                  | 7,913             |
| Restricted cash                            | 120,252                   | 120,252           | 120,252           |                  |                   |
| Long-term investments and accrued interest | 133,200                   | 162,313           |                   |                  | 162,313           |
|  | <b>\$ 678,717</b>         | <b>\$ 707,830</b> | <b>\$ 537,604</b> | <b>\$</b>        | <b>\$ 170,226</b> |
| <b>Liabilities</b>                         |                           |                   |                   |                  |                   |
| Interest rate derivatives                  | \$ 23,011                 | \$ 23,011         | \$                | \$ 23,011        | \$                |
| 1998 EETCs                                 | 133,121                   | 142,071           |                   |                  | 142,071           |
| 1999 EETCs                                 | 148,942                   | 150,889           |                   |                  | 150,889           |
| 2000 EETCs                                 | 56,035                    | 58,476            |                   |                  | 58,476            |
| Term loans                                 | 185,895                   | 185,895           |                   |                  | 185,895           |
|  | <b>\$ 547,004</b>         | <b>\$ 560,342</b> | <b>\$</b>         | <b>\$ 23,011</b> | <b>\$ 537,331</b> |



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|  | December 31, 2010 |            |            |            |            |
|--|-------------------|------------|------------|------------|------------|
|  | Carrying<br>Value | Fair Value | Level 1    | Level<br>2 | Level 3    |
| <b>Assets</b>                              |                   |            |            |            |            |
| Cash and cash equivalents                  | \$ 588,852        | \$ 588,852 | \$ 588,852 | \$         | \$         |
| Short-term investments                     | 6,211             | 6,211      |            |            | 6,211      |
| Long-term investments and accrued interest | 127,094           | 157,787    |            |            | 157,787    |
|  | \$ 722,157        | \$ 752,850 | \$ 588,852 | \$         | \$ 163,998 |
| <b>Liabilities</b>                         |                   |            |            |            |            |
| 1998 EETCs                                 | \$ 145,012        | \$ 164,379 | \$         | \$         | \$ 164,379 |
| 1999 EETCs                                 | 159,043           | 171,478    |            |            | 171,478    |
| 2000 EETCs                                 | 58,485            | 65,230     |            |            | 65,230     |
| PDP financing facility                     | 46,871            | 46,861     |            |            | 46,861     |
| Term loans                                 | 77,822            | 79,198     |            |            | 79,198     |
|  | \$ 487,233        | \$ 527,146 | \$         | \$         | \$ 527,146 |

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

|                                     | September 30, 2011 |                              |               | December 31, 2010 |                              |               |
|-------------------------------------|--------------------|------------------------------|---------------|-------------------|------------------------------|---------------|
|                                     | Carrying<br>Value  | Gross<br>Unrealized<br>Gains | Fair<br>Value | Carrying<br>Value | Gross<br>Unrealized<br>Gains | Fair<br>Value |
| <b>Debt securities</b>              |                    |                              |               |                   |                              |               |
| Due after five but within ten years | \$ 133,200         | \$ 29,113                    | \$ 162,313    | \$ 73,356         | \$ 18,363                    | \$ 91,719     |
| Due after ten years                 |                    |                              |               | 53,738            | 12,330                       | 66,068        |
| <b>Total</b>                        | \$ 133,200         | \$ 29,113                    | \$ 162,313    | \$ 127,094        | \$ 30,693                    | \$ 157,787    |

**Interest Rate Derivatives**

We are exposed to changes in interest rates for projected issuances of debt related to the future financing of the Boeing 747-8F aircraft that we have on order. We use forward-starting interest rate swaps to effectively fix the interest rate for anticipated 747-8F financings in 2011. The use of forward-starting interest rate swaps effectively converts our floating-rate forecasted debt issuance to a fixed rate basis. When entering into forward-starting interest rate swaps, we become exposed to both credit risk and market risk. We are subject to counterparty credit risk when the value of the forward-starting interest rate swaps are a gain and the risk exists that the counterparty will fail to perform under the terms of the contract. We are subject to market risk with respect to changes in the underlying benchmark interest rate that impacts the fair value of the forward-starting interest rate swaps. We manage our counterparty credit risk by only entering into forward-starting interest rate swaps with major financial institutions with investment-grade credit ratings. We manage our market risk by matching the terms of each forward-starting interest rate swap with a specified expected debt issuance. We do not use derivative instruments for trading or speculative purposes.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives and strategies for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedged transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed. Both at the inception of the hedge and on an ongoing basis, we assess whether the derivatives used in a projected transaction are highly effective in offsetting changes in cash flows or the fair value of hedged items.

In May 2011, we entered into two forward-starting interest rate swaps with a total notional value of \$237.5 million to hedge the risk of changes in quarterly interest payments due to fluctuations in the forward 90-day LIBOR swap rate for anticipated fixed-rate debt issuances in 2011. We designated these forward-starting interest rate swaps as cash flow hedges. Changes in the fair value of the effective portion of the forward-starting interest rate swaps are recorded as a gain or loss in other comprehensive income (loss) until the underlying hedged item is recognized in net income. We classify both the net earnings and cash flow impact from these forward-starting interest rate swaps consistent with the underlying hedged item. In the event the debt is not issued and the forward-starting interest rate swaps are terminated, any gain or loss from the termination would be recorded in net income immediately. Hedging ineffectiveness and a net earnings impact would occur if the change in the value of the hedge did not offset the change in the value of the underlying hedged item.

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The forward-starting interest rate swaps outstanding as of September 30, 2011 relate to anticipated debt issuances in the fourth quarter of 2011. As of September 30, 2011, the fair value of these forward-starting interest rate swaps was \$23.0 million, offset by cash collateral of \$15.6 million, resulting in a net carrying value of \$7.4 million included within Accrued liabilities.

We recorded unrealized pre-tax and after-tax losses of \$22.2 million and \$14.1 million in Other comprehensive loss for changes in the fair value of our forward-starting interest rate swaps for the three months ended September 30, 2011 and \$23.0 million and \$14.7 million for the nine months ended September 30, 2011. There was no ineffectiveness associated with these hedges during the three and nine months ended September 30, 2011.

**7. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

|                              | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------|-------------------------------|------------------------------|
| Maintenance                  | \$ 75,359                     | \$ 57,552                    |
| Salaries, wages and benefits | 41,252                        | 33,542                       |
| Aircraft fuel                | 26,360                        | 17,710                       |
| Other                        | 53,157                        | 41,088                       |
| Accrued liabilities          | \$ 196,128                    | \$ 149,892                   |

**8. Segment Reporting**

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

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

The ACMI segment provides aircraft, crew, maintenance and insurance services to customers. Also included in the ACMI segment are the results of operations for CMI, which we began providing in the second quarter of 2010. CMI provides crew, maintenance and insurance services, with the customer providing the aircraft. Under both services, the customers utilize an insured and maintained aircraft with crew in exchange for a guaranteed monthly level of operation at a predetermined rate for a defined period of time. The customer bears the commercial revenue risk and the obligation for other direct operating costs, including fuel. The Direct Contribution from Express Network ACMI flying is reflected as ACMI.

The AMC Charter segment provides full-planeload charter flights to the U.S. Military. In addition to cargo flights, the AMC Charter segment includes passenger flights, which we began providing in the second quarter of 2011. We also earn commissions on subcontracting certain flying of oversized cargo, or in connection with flying cargo into areas of military conflict where we cannot perform these services on our own. Revenue from the AMC Charter business is typically derived from one-year contracts on a cost-plus basis with the AMC. Our current AMC contract

runs from January 1, 2011 through December 31, 2011. Although we are responsible for the direct operating costs of the aircraft, the price paid for fuel consumed during AMC flights is fixed by the U.S. Military. We receive reimbursement from the AMC each month if the price of fuel paid by us to vendors for AMC missions exceeds the fixed price. Alternatively, if the price of fuel paid by us is less than the fixed price, we pay the difference to the AMC each month.

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The Commercial Charter segment provides aircraft charters to freight forwarders, airlines and other air cargo customers. Charters are often paid in advance and we typically bear the direct operating costs.

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

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

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

|  | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
|--|-----------------------------------|----------------------|----------------------------------|----------------------|
|  | <b>September</b>                  | <b>September 30,</b> | <b>September</b>                 | <b>September 30,</b> |
|  | <b>30, 2011</b>                   | <b>2010</b>          | <b>30, 2011</b>                  | <b>2010</b>          |
| <b>Operating Revenue:</b>                                |                                   |                      |                                  |                      |
| ACMI   | \$ 163,406                        | \$ 144,685           | \$ 469,883                       | \$ 383,917           |
| AMC Charter  | 122,581                           | 72,506               | 316,230                          | 303,314              |
| Commercial Charter                                       | 70,353                            | 104,044              | 206,956                          | 275,525              |
| Dry Leasing  | 3,065                             | 2,157                | 6,742                            | 5,384                |
| Other  | 3,471                             | 3,275                | 10,246                           | 9,940                |
| <b>Total Operating Revenue</b>                           | <b>\$ 362,876</b>                 | <b>\$ 326,667</b>    | <b>\$ 1,010,057</b>              | <b>\$ 978,080</b>    |
| <b>Direct Contribution:</b>                              |                                   |                      |                                  |                      |
| ACMI   | \$ 38,924                         | \$ 34,809            | \$ 97,990                        | \$ 87,097            |
| AMC Charter  | 21,709                            | 18,819               | 55,651                           | 95,096               |
| Commercial Charter                                       | 7,142                             | 26,205               | 24,772                           | 78,372               |
| Dry Leasing  | 1,387                             | 1,565                | 3,400                            | 3,692                |
| <b>Total Direct Contribution for Reportable Segments</b> | <b>69,162</b>                     | <b>81,398</b>        | <b>181,813</b>                   | <b>264,257</b>       |
| Add back (subtract):                                     |                                   |                      |                                  |                      |
| Unallocated income and expenses                          | (23,519)                          | (26,334)             | (80,406)                         | (96,986)             |
| Gain on disposal of aircraft                             | 163                               | 161                  | 464                              | 3,541                |
| <b>Income before Income Taxes</b>                        | <b>45,806</b>                     | <b>55,225</b>        | <b>101,871</b>                   | <b>170,812</b>       |
| Add back (subtract):                                     |                                   |                      |                                  |                      |
| Interest income  | (5,004)                           | (5,490)              | (15,200)                         | (14,620)             |
| Interest expense   | 9,801                             | 10,176               | 30,009                           | 30,396               |
| Capitalized interest                                     | (6,982)                           | (4,401)              | (18,584)                         | (11,007)             |
| Other (income) expense, net                              | (121)                             | (614)                | (485)                            | (9,236)              |
| <b>Operating Income</b>                                  | <b>\$ 43,500</b>                  | <b>\$ 54,896</b>     | <b>\$ 97,611</b>                 | <b>\$ 166,345</b>    |

**9. Commitments and Contingencies**

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



the Boeing 747-8F Agreement provides us with rights to purchase up to an additional 14 747-8F aircraft, of which one is being held under option.

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

As a result of the announced delays, Boeing proposed a revised delivery and payment schedule in September 2011. Estimated expenditures under the proposed schedule as of September 30, 2011, including estimated amounts for contractual price escalations and advance payments, are \$546.1 million for the remainder of 2011, \$454.9 million in 2012 and \$211.8 million in 2013. Although we do not agree with the payment schedule that Boeing has proposed, we made an advance payment of \$210.4 million in October 2011, while reserving all rights with respect to such payment. The proposed delivery schedule provides that our first three 747-8F aircraft are to be delivered in the fourth quarter of 2011, one of which was

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delivered on November 2, 2011. We accepted this delivery, subject to a reservation of rights regarding certain matters under the purchase agreement.

### **10. Labor and Legal Proceedings**

#### **Labor**

The pilots, flight engineers and dispatchers of Atlas and Polar are represented by the International Brotherhood of Teamsters (the IBT). These employees represented approximately 54.1% of our workforce as of September 30, 2011. We are subject to risks of work interruption or stoppage as permitted by the Railway Labor Act of 1926 (the Railway Labor Act) and may incur additional administrative expenses associated with union representation of our employees.

The collective bargaining agreement for Atlas pilots and flight engineers became amendable in 2006. The collective bargaining agreement for Polar pilots and flight engineers became amendable in 2007. While both units have filed Railway Labor Act Section 6 notices to begin negotiations for amended agreements, those negotiations were placed on hold in favor of completing the merger of the two crew forces. In 2004, we initiated steps to merge the represented crewmember bargaining units of Atlas and Polar. The respective collective bargaining agreements provide for a seniority integration process and the negotiation of a single collective bargaining agreement (SCBA). This seniority list integration process was completed in 2006.

We received the integrated seniority lists and the parties have concluded negotiations for a five-year SCBA. In accordance with both the Atlas and Polar contracts, an arbitrator was assigned to resolve the few open contract issues that remained after we concluded negotiations. Those issues were submitted to the arbitrator in December 2010 for final and binding interest arbitration. The arbitrator issued a final ruling resulting in a new SCBA, with an effective date of September 8, 2011, which will not become amendable until September 2016. Under the terms of the new SCBA, the merger of the pilots and flight engineers of Atlas and Polar results in a single workforce that will serve both Atlas and Polar.

In 2009, the IBT was certified as the collective bargaining representative of the dispatchers employed by Atlas and Polar. Formal negotiations began in 2009 between the IBT and us regarding the first collective bargaining agreement for these dispatchers. Other than the crewmembers and dispatchers, there are no other Atlas or Polar employees represented by a union.

#### **Legal Proceedings**

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

In 2010, Old Polar entered into a plea agreement with the United States Department of Justice (the DOJ) relating to the previously disclosed DOJ investigation concerning alleged manipulation by cargo carriers of fuel surcharges and other rate components for air cargo services (the DOJ Investigation). Under the terms of the agreement, approved by the United States District Court for the District of Columbia, Old Polar will pay a fine of \$17.4 million, payable in five annual installments, the first of which was made in November 2010. The fine relates to an alleged agreement by Old Polar with respect to fuel surcharges on cargo shipped from the United States to Australia during the time period from January 2000 through April 2003.

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

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

The court in the antitrust class actions has heard and decided a number of procedural motions. Among those was the plaintiffs' motion to join Polar Air Cargo Worldwide, Inc. as an additional defendant, which the court granted on

April 13,

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2011. The case is currently in the class certification discovery phase. There has been substantial pre-trial written discovery and document production, and a number of depositions have been taken. The plaintiffs' motion for class certification was filed on October 28, 2011, and the Company intends to oppose the motion. We are unable to predict the court's ruling on the motion or the ultimate outcome of the litigation.

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

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

***Brazilian Customs Claim***

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$10.8 million and \$5.9 million, respectively, plus interest based on September 30, 2011 exchange rates.

In both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. Furthermore, we may seek appropriate indemnity from the shipper in each claim as necessary. In the pending claim for \$10.8 million, we received an administrative decision dismissing the claim in its entirety, which remains subject to a mandatory appeal by the Brazil customs authorities. As required to defend such claims, we have made deposits pending resolution of these matters. The balances were \$6.6 million at September 30, 2011 and \$6.8 million at December 31, 2010, and are included in Deposits and other assets.

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

***Trademark Matters***

Since 2005, we have been involved in ongoing litigation in Europe against Atlas Transport, an unrelated and unaffiliated entity, over the use of the name "Atlas". Following application by us to register the mark "ATLAS AIR" in the European Union (EU), opposition from Atlas Transport and follow-up filings by us, the Office for Harmonization in the Internal Market (OHIM), which handles trademark matters in the EU, declared Atlas Transport's own trademark "ATLAS" partially invalid because of the prior existence of our Benelux trademark registration. In 2008, OHIM's First Board of Appeal upheld the lower panel's decision, and Atlas Transport appealed that decision to the EU General Court (formally the Court of First Instance), which upheld the court's decision on May 18, 2011. Atlas Transport has recently appealed that ruling to the European Court of Justice.

In 2007, Atlas Transport also filed a lawsuit in the Netherlands challenging the validity of our Benelux trademark. In 2009, following completion of its proceedings, the court issued a judgment in favor of us. Atlas Transport has appealed that decision to the Dutch Court of Appeal, but the judgment took effect immediately upon entry.

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

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



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

**11. Earnings Per Share**

Basic earnings per share ( EPS ) represents net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represents 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. There were no anti-dilutive restricted shares and options that were out of the money and excluded for the three and nine months ended September 30, 2011 and 2010.

The calculations of basic and diluted EPS were as follows:

|   | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
|---|-----------------------------------|----------------------|----------------------------------|----------------------|
|   | <b>September</b>                  | <b>September 30,</b> | <b>September</b>                 | <b>September 30,</b> |
|   | <b>30, 2011</b>                   | <b>2010</b>          | <b>30, 2011</b>                  | <b>2010</b>          |
| <b>Numerator:</b>                                     |                                   |                      |                                  |                      |
| Net Income Attributable to Common Stockholders        | \$ 28,206                         | \$ 33,804            | \$ 62,570                        | \$ 100,250           |
| <b>Denominator:</b>                                   |                                   |                      |                                  |                      |
| Basic EPS weighted average shares outstanding         | 26,291                            | 25,855               | 26,201                           | 25,736               |
| Effect of dilutive stock options and restricted stock | 161                               | 288                  | 215                              | 302                  |
| Diluted EPS weighted average shares outstanding       | 26,452                            | 26,143               | 26,416                           | 26,038               |
| <b>EPS:</b>   |                                   |                      |                                  |                      |
| Basic   | \$ 1.07                           | \$ 1.31              | \$ 2.39                          | \$ 3.90              |
| Diluted   | \$ 1.07                           | \$ 1.29              | \$ 2.37                          | \$ 3.85              |

Diluted shares reflect the potential dilution that could occur from stock options and restricted shares using the treasury stock method. The calculation does not include restricted shares and units in which performance or market conditions were not satisfied of 0.3 million for both the three and nine months ended September 30, 2011, and 0.2 million and 0.3 million for the three and nine months September 30, 2010, respectively.

**12. Comprehensive Income**

Comprehensive income includes changes in the fair value of certain financial derivative instruments, which qualify for hedge accounting, and other items. The differences between net income attributable to common stockholders and comprehensive income were as follows:

|  | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
|--|-----------------------------------|----------------------|----------------------------------|----------------------|
|  | <b>September</b>                  | <b>September 30,</b> | <b>September</b>                 | <b>September 30,</b> |
|  | <b>30, 2011</b>                   | <b>2010</b>          | <b>30, 2011</b>                  | <b>2010</b>          |
| Net Income Attributable to Common Stockholders | \$ 28,206                         | \$ 33,804            | \$ 62,570                        | \$ 100,250           |

|  |           |           |           |            |
|--|-----------|-----------|-----------|------------|
| Unrealized loss on interest rate derivatives                       | (22,203)  |           | (23,011)  |            |
| Other  | (516)     | 97        | (439)     | 68         |
| Income taxes related to items of Other comprehensive income (loss) | 8,238     | (26)      | 8,521     | (17)       |
| Total other comprehensive income (loss)                            | (14,481)  | 71        | (14,929)  | 51         |
| Comprehensive income   | \$ 13,725 | \$ 33,875 | \$ 47,641 | \$ 100,301 |

### 13. Income Taxes

Our effective income tax rates were 38.1% and 38.4% for the three months ended September 30, 2011 and 2010, respectively, and were 37.9% and 41.2% for the nine months ended September 30, 2011 and 2010, respectively. The changes in the effective rates from 2010 to 2011 were primarily due to non-deductible litigation settlements in 2010. The effective rates differ from the U.S. federal statutory rate due to the income tax impact of global operations, U.S. state income taxes, the non-deductibility of certain expenses for tax purposes, and the relationship of these items to our projected operating results for the year.

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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 2010 Annual Report on Form 10-K.

**Background**

**Certain Terms Glossary**

The following represents terms and statistics specific to the airline and cargo industries. They are used by management to evaluate and measure operations, results, productivity and efficiency.

|                        |  |
|------------------------|--|
| Block Hour             | The time interval between when an aircraft departs the terminal until it arrives at the destination terminal.  |
| C Check                | High-level or heavy airframe maintenance checks, which are more intensive in scope than line maintenance, are generally performed between 18 and 24 months depending on aircraft type. |
| D Check                | High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed every six to nine years depending on aircraft type.                 |
| Revenue Per Block Hour | An amount calculated by dividing operating revenues by Block Hours.  |
| Yield                  | The average amount a customer pays to fly one tonne of cargo one mile.   |

**Business Overview**

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

Our primary service offerings encompass the following:

ACMI, whereby we provide outsourced aircraft operating solutions, including the provision of an aircraft, crew, maintenance and insurance, while customers assume fuel, demand and Yield risk. Included within ACMI is the provision of Express Network ACMI, whereby we provide 747-400 aircraft to Polar that service the requirements of DHL's global express operations and meet the needs of other Polar customers;

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

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

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



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

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

Delivering superior service quality to our valued customers;

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

Diversifying our service offerings;

Focusing on securing long-term customer contracts with attractive terms;

Driving significant ongoing efficiencies and productivity improvements;

Selectively pursuing and evaluating future acquisitions and alliances; and

Building our brand and increasing our market share.

See [Business Overview](#) and [Business Strategy](#) in our 2010 Annual Report on Form 10-K for additional information.

## **Business Developments**

Our ACMI results for the first three quarters of 2011, compared to the same period in 2010, were positively impacted by the following events that occurred during 2010 and 2011:

In May 2010, we began to fly on a CMI basis for SonAir Serviço Aéreo, S.A. ( SonAir ), an agent of the United States-Africa Energy Association. SonAir is a wholly owned subsidiary of the Sonangol Group, the multinational energy company of Angola. This passenger service, known as the Houston Express , operates three weekly nonstop roundtrip flights between Houston, Texas and Luanda, Angola on two customized 747-400 passenger aircraft provided by SonAir.

In July 2010, we began to fly CMI service for Boeing to operate their Dreamlifter fleet of four modified 747-400 aircraft. These aircraft transport major sub-assemblies for the Boeing 787 Dreamliner aircraft from suppliers around the world to Boeing production facilities in the United States.

In October 2010, we began ACMI flying for a second 747-400 aircraft for Panalpina Air & Ocean Ltd ( Panalpina ). This aircraft is based at Panalpina's European hub in Luxembourg.

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

In September 2011, we signed an ACMI agreement with Panalpina for two of our new 747-8F aircraft. These aircraft will replace the two 747-400 aircraft currently in use by Panalpina when they are delivered during 2012.

In September 2011, we signed a CMI agreement with DHL to operate five 767 freighters owned by DHL in its North American network. This service is expected to begin with one aircraft in the first quarter of 2012 and to expand to five aircraft by the third quarter of 2012.

On November 2, 2011, we took delivery of the first of three 747-8F aircraft that we placed with British Airways Plc under an ACMI agreement through GSS. The remaining two aircraft are scheduled to enter service during the fourth quarter of 2011. The 747-8F aircraft are replacing 747-400 aircraft, which will be redeployed and placed into service with other customers.

AMC demand was exceptionally strong during the first five months of 2010, primarily due to the surge in U.S. Military activity in Afghanistan. During that period, we flew a significant number of missions in support of the U.S. Military's deployment of mine resistant, ambush-protected, all-terrain vehicles ( M-ATV ) from the U.S. to Afghanistan and averaged approximately 1,800 Block Hours a month. We also earned a premium rate for utilizing additional 747-400 aircraft to meet most of this demand. In the third quarter of 2011, we have had stronger demand for AMC Charters, averaging just under 1,700 Block Hours a month compared to the third quarter of 2010, when we averaged

just over 1,200 Block Hours per month.

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In May 2011, we began flying passenger charters for the U.S. Military. These charters are similar to our existing AMC Charters in that the AMC pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs. This service utilizes the 747-400 passenger aircraft we leased in January 2011 under a one-year lease. During June and August 2011, we purchased two 767-300ER passenger aircraft for this operation. During August and September 2011, we purchased two 747-400 passenger aircraft, one of which will replace the leased 747-400 passenger aircraft when the lease expires. These aircraft will provide capacity to meet expected growth in this operation.

Commercial Charter Yields and volumes have been impacted by the return of aircraft capacity in the Asian markets during the first three quarters of 2011. As a result, the Commercial Charter Yields were not able to fully absorb the rise in aviation fuel prices that occurred during 2011. However, we were able to mitigate most of the impact from this increase in the South American markets through Yields and fuel surcharges. Our Commercial Charter Block Hours were impacted by our redeployment of 747-400 aircraft to support increased ACMI flying in 2011. In addition, softer demand out of Asia resulted in fewer opportunities to utilize the return legs of one-way AMC missions for Commercial Charters during the third quarter of 2011.

In January and February 2011, we leased two 747-400 Boeing converted freighters for an average of approximately three and a half years, which were placed in service in April and May of 2011. These two aircraft provide us with increased capacity in both AMC Charter and Commercial Charter to replace aircraft that were reallocated to ACMI during 2011.

In April and June 2011, Titan purchased two Boeing 737-800 passenger aircraft. Both aircraft are dry leased to customers on a long-term basis.

**Results of Operations****Three Months Ended September 30, 2011 and 2010****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:

|                               | 2011     | 2010     | Increase /<br>(Decrease) | Percent<br>Change |
|-------------------------------|----------|----------|--------------------------|-------------------|
| <b>Block Hours</b>            |          |          |                          |                   |
| ACMI                          | 26,426   | 24,251   | 2,175                    | 9.0%              |
| AMC Charter                   | 5,033    | 3,729    | 1,304                    | 35.0%             |
| Commercial Charter            | 3,358    | 5,090    | (1,732)                  | (34.0)%           |
| Other                         | 366      | 207      | 159                      | 76.8%             |
| Total Block Hours             | 35,183   | 33,277   | 1,906                    | 5.7%              |
| <b>Revenue Per Block Hour</b> |          |          |                          |                   |
| ACMI                          | \$ 6,184 | \$ 5,966 | \$ 218                   | 3.7%              |
| AMC Charter                   | 24,355   | 19,444   | 4,911                    | 25.3%             |
| Commercial Charter            | 20,951   | 20,441   | 510                      | 2.5%              |
| <b>Fuel</b>                   |          |          |                          |                   |
| <b>AMC</b>                    |          |          |                          |                   |
| Average fuel cost per gallon  | \$ 3.97  | \$ 2.68  | \$ 1.29                  | 48.1%             |
| Fuel gallons consumed (000s)  | 16,108   | 12,280   | 3,828                    | 31.2%             |
| <b>Commercial Charter</b>     |          |          |                          |                   |
| Average fuel cost per gallon  | \$ 3.20  | \$ 2.32  | \$ 0.88                  | 37.9%             |
| Fuel gallons consumed (000s)  | 12,414   | 17,786   | (5,372)                  | (30.2)%           |



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|  | <b>2011</b> | <b>2010</b> | <b>Increase /<br/>(Decrease)</b> | <b>Percent<br/>Change</b> |
|--|-------------|-------------|----------------------------------|---------------------------|
| <b>Fleet (average during the period)</b> |             |             |                                  |                           |
| ACMI*                                    | 21.6        | 19.0        | 2.6                              | 13.7%                     |
| AMC Charter                              | 6.3         | 4.3         | 2.0                              | 46.5%                     |
| Commercial Charter                       | 3.5         | 5.9         | (2.4)                            | (40.7)%                   |
| Dry Leasing                              | 3.0         | 1.0         | 2.0                              | 200.0%                    |
| Operating Aircraft                       | 34.4        | 30.2        | 4.2                              | 13.9%                     |
| Out-of-service**                         | 0.5         |             | 0.5                              | NM                        |

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

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

**Operating Revenue**

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

|                          | <b>2011</b> | <b>2010</b> | <b>Increase /<br/>(Decrease)</b> | <b>Percent<br/>Change</b> |
|--------------------------|-------------|-------------|----------------------------------|---------------------------|
| <b>Operating Revenue</b> |             |             |                                  |                           |
| ACMI                     | \$ 163,406  | \$ 144,685  | \$ 18,721                        | 12.9%                     |
| AMC Charter              | 122,581     | 72,506      | 50,075                           | 69.1%                     |
| Commercial Charter       | 70,353      | 104,044     | (33,691)                         | (32.4)%                   |
| Dry Leasing              | 3,065       | 2,157       | 908                              | 42.1%                     |
| Other                    | 3,471       | 3,275       | 196                              | 6.0%                      |
| Total Operating Revenue  | \$ 362,876  | \$ 326,667  | \$ 36,209                        | 11.1%                     |

ACMI revenue increased \$18.7 million, or 12.9%, due to increases in Block Hours and Revenue per Block Hour. ACMI Block Hours were 26,426 in the third quarter of 2011, compared to 24,251 in 2010, representing an increase of 2,175 Block Hours, or 9.0%. The increase in Block Hours was primarily driven by flying a second aircraft for Panalpina beginning in October 2010 and two incremental aircraft for DHL beginning in March 2011. In addition, we started CMI Dreamlifter flights for Boeing in July 2010. In the third quarter of 2011, there was an average of 21.5 747-400 aircraft and 0.1 747-200 aircraft supporting ACMI compared to an average of 19.0 747-400 aircraft and no 747-200 aircraft in 2010. Revenue per Block Hour was \$6,184 for the third quarter of 2011, compared to \$5,966 for the third quarter of 2010, an increase of \$218 per Block Hour, or 3.7%. The increase in Revenue per Block Hour primarily reflects contractual rate increases in existing customer contracts and higher rates on new contracts.

AMC Charter revenue increased \$50.1 million, or 69.1%, due to increases in Block Hours and Revenue per Block Hour. AMC Charter Block Hours were 5,033 in the third quarter of 2011 compared to 3,729 in 2010, an increase of 1,304 Block Hours, or 35.0%. The increase in AMC Block Hours was primarily due to an increase in AMC cargo demand to support U.S. Military activity and the addition of 467 Block Hours for AMC passenger missions, which we began flying in May 2011. In the third quarter of 2011, there was an average of 2.8 747-400 aircraft and 3.5 747-200 aircraft supporting AMC Charter compared to an average of 0.6 747-400 aircraft and 3.7 747-200 aircraft in 2010. AMC Charter Revenue per Block Hour increased from \$19,444 for the third quarter of 2010 to \$24,355 in 2011, an increase of \$4,911 per Block Hour, or 25.3%, primarily due to an increase in the average pegged fuel price and higher

rates per Block Hour on 747-400 aircraft utilized during the third quarter of 2011. For the third quarter of 2011, the AMC average pegged fuel price was \$3.97 per gallon compared to an average pegged fuel price of \$2.68 for the third quarter of 2010.

*Commercial Charter revenue* decreased \$33.7 million, or 32.4%, due to a decrease in Block Hours partially offset by an increase in Revenue per Block Hour. Commercial Charter Block Hours were 3,358 in the third quarter of 2011, compared to 5,090 in 2010, representing a decrease of 1,732 Block Hours, or 34.0%. The decrease in Block Hours was primarily due to our redeployment of 747-400 aircraft to support increased ACMI flying in 2011. In addition, softer demand out of Asia resulted in a reduction of the utilization of the return legs of AMC one-way missions for Commercial Charters compared to the third quarter of 2010. There was an average of 2.1 747-400 aircraft and 1.4 747-200 aircraft supporting Commercial Charter in the third quarter of 2011, compared to an average of 3.7 747-400 aircraft and 2.2 747-200 aircraft in

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2010. Revenue per Block Hour was \$20,951 in the third quarter of 2011, compared to \$20,441 in 2010, an increase of \$510 per Block Hour, or 2.5%. The increase in Revenue per Block Hour was primarily driven by the recovery of increased aircraft fuel costs in the South American markets during the third quarter of 2011, partially offset by lower Yields on Commercial Charters out of Asia.

**Operating Expenses**

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

|                                    | 2011              | 2010              | Increase /<br>(Decrease) | Percent<br>Change |
|------------------------------------|-------------------|-------------------|--------------------------|-------------------|
| <b>Operating Expenses</b>          |                   |                   |                          |                   |
| Aircraft fuel                      | \$ 103,663        | \$ 74,221         | \$ 29,442                | 39.7%             |
| Salaries, wages and benefits       | 61,911            | 56,244            | 5,667                    | 10.1%             |
| Maintenance, materials and repairs | 47,770            | 44,747            | 3,023                    | 6.8%              |
| Aircraft rent                      | 41,055            | 38,764            | 2,291                    | 5.9%              |
| Landing fees and other rent        | 12,813            | 11,487            | 1,326                    | 11.5%             |
| Travel                             | 11,284            | 8,941             | 2,343                    | 26.2%             |
| Depreciation and amortization      | 9,964             | 8,403             | 1,561                    | 18.6%             |
| Ground handling and airport fees   | 6,036             | 6,423             | (387)                    | (6.0)%            |
| Gain on disposal of aircraft       | (163)             | (161)             | 2                        | (1.2)%            |
| Other                              | 25,043            | 22,702            | 2,341                    | 10.3%             |
| <b>Total Operating Expenses</b>    | <b>\$ 319,376</b> | <b>\$ 271,771</b> |                          |                   |

*Aircraft fuel* increased \$29.4 million, or 39.7%, as a result of approximately \$33.3 million in fuel price increases partially offset by \$3.8 million in decreased consumption. The average fuel price per gallon for the AMC Charter business was \$3.97 in the third quarter of 2011, compared to \$2.68 in 2010, an increase of 48.1%. AMC fuel consumption increased by 3.8 million gallons, or 31.2%, commensurate with the increase in Block Hours operated. The average fuel price per gallon for the Commercial Charter business was \$3.20 for the third quarter of 2011, compared to \$2.32 in 2010, an increase of 37.9%. Fuel consumption for this business decreased by 5.4 million gallons, or 30.2%, commensurate with the decrease in Block Hours operated. We do not incur fuel expense in our ACMI business as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$5.7 million, or 10.1%, primarily driven by higher Block Hours.

*Maintenance, materials and repairs* increased \$3.0 million, or 6.8%, due to approximately \$2.7 million of increased line and other non-heavy maintenance expense and approximately \$3.1 million of increased heavy airframe check expense. Partially offsetting these increases was approximately \$2.8 million of reductions in engine overhaul expense. Heavy maintenance events and engine overhauls for the three months ended September 30, 2011 and 2010 were:

| Events                  | 2011 | 2010 | Increase /<br>(Decrease) |
|-------------------------|------|------|--------------------------|
| 747-200 C Checks        | 2    |      | 2                        |
| 747-400 C Checks        | 2    | 1    | 1                        |
| 747-400 D Checks        | 1    | 2    | (1)                      |
| CF6-50 engine overhauls |      | 2    | (2)                      |
| CF6-80 engine overhauls | 4    | 5    | (1)                      |

*Aircraft rent* increased \$2.3 million, or 5.9%, primarily due to the leasing of additional aircraft and spare engines in 2011.

*Landing fees and other rent* increased \$1.3 million, or 11.5%, primarily due to flying to more costly locations in 2011 and additional equipment rental.



*Travel* increased \$2.3 million, or 26.2%, primarily due to the increased cost of international crew travel related to higher airfares and increased flying. Ground staff travel also increased as a result of on-boarding new aircraft and maintenance activities.

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*Depreciation and amortization* increased \$1.6 million, or 18.6%, due to additional aircraft and spare parts in 2011.

*Other operating expenses* increased \$2.3 million, or 10.3%, primarily due to commissions related to increased AMC Charter Revenue, and contract services for flight attendants and passenger catering.

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

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

|  | 2011       | 2010       | Increase /<br>(Decrease) | Percent<br>Change |
|--|------------|------------|--------------------------|-------------------|
| <b>Non-operating Expenses / (Income)</b> |            |            |                          |                   |
| Interest income                          | \$ (5,004) | \$ (5,490) | \$ (486)                 | (8.9)%            |
| Interest expense                         | 9,801      | 10,176     | (375)                    | (3.7)%            |
| Capitalized interest                     | (6,982)    | (4,401)    | 2,581                    | 58.6%             |
| Other (income) expense, net              | (121)      | (614)      | (493)                    | (80.3)%           |

*Capitalized interest* increased \$2.6 million, or 58.6%, primarily due to higher interest rates on PDP balances outstanding during the period.

*Income taxes.* Our effective income tax rates were 38.1% for the three months ended September 30, 2011 and 38.4% for the three months ended September 30, 2010. Our effective rates differ from the U.S. federal statutory rate primarily due to the income tax impact of global operations, U.S. state income taxes, the non-deductibility of certain expenses for tax purposes, and the relationship of these items to our projected operating results for the year.

**Segments**

The following table compares the Direct Contribution for our reportable segments (see Note 8 to our Financial Statements for the reconciliation to Operating income) for the three months ended September 30 (in thousands):

|                                 | 2011      | 2010      | Increase /<br>(Decrease) | Percent<br>Change |
|---------------------------------|-----------|-----------|--------------------------|-------------------|
| <b>Direct Contribution:</b>     |           |           |                          |                   |
| ACMI                            | \$ 38,924 | \$ 34,809 | \$ 4,115                 | 11.8%             |
| AMC Charter                     | 21,709    | 18,819    | 2,890                    | 15.4%             |
| Commercial Charter              | 7,142     | 26,205    | (19,063)                 | (72.7)%           |
| Dry Leasing                     | 1,387     | 1,565     | (178)                    | (11.4)%           |
| Total Direct Contribution       | \$ 69,162 | \$ 81,398 | \$ (12,236)              | (15.0)%           |
| Unallocated income and expenses | \$ 23,519 | \$ 26,334 | \$ (2,815)               | (10.7)%           |

**ACMI Segment**

Direct Contribution related to the ACMI segment increased \$4.1 million, or 11.8%, primarily due to increases in Block Hours and Yields, partially offset by an increase in volume-driven operating expenses. During the third quarter of 2011, there was an average of 21.5 747-400 aircraft and 0.1 747-200 aircraft supporting ACMI compared to an average of 19.0 747-400 aircraft and no 747-200 aircraft supporting ACMI in 2010. The increase in Block Hours was driven by flying a second aircraft for Panalpina beginning in October 2010 and two incremental aircraft for DHL beginning in March 2011. In addition, we started CMI Dreamlifter flights for Boeing in July 2010. The increase in ACMI Yields primarily reflects contractual rate increases in existing contracts and higher rates on new customer contracts. ACMI Direct Contribution was also impacted by increased aircraft ownership costs, crew expenses and line maintenance driven by the increased flying.

***AMC Charter Segment***

Direct Contribution related to the AMC Charter segment increased \$2.9 million, or 15.4%, primarily due to increases in Block Hours and Yields from premiums earned on flying more 747-400s during the third quarter of 2011, partially offset by an increase in volume-driven operating expenses and an increase in heavy maintenance expense. During the third quarter of 2011, there was an average of 2.8 747-400 aircraft and 3.5 747-200 aircraft supporting AMC Charter compared to an average of 0.6 747-400 aircraft and 3.7 747-200 aircraft supporting AMC Charter in 2010.

**Table of Contents****Commercial Charter Segment**

Direct Contribution related to the Commercial Charter segment decreased \$19.1 million, or 72.7%, primarily due to a decrease in Block Hours and lower Commercial Charter Yields that were negatively impacted by softer demand during the third quarter of 2011. In addition, Commercial Charter Direct Contribution was impacted by our redeployment of 747-400 aircraft to support increased ACMI flying in 2011 and a reduction of the utilization of the return legs of AMC one-way missions for Commercial Charters compared to the third quarter of 2010. Partially offsetting the decrease in revenue was a decrease in volume-driven operating costs due to the reduction in Commercial Charter Block Hours flown. Direct Contribution was also impacted by lower fuel consumption, which was partially offset by fuel price increases. During the third quarter of 2011, there was an average of 2.1 747-400 aircraft and 1.4 747-200 aircraft supporting Commercial Charter compared to an average of 3.7 747-400 aircraft and 2.2 747-200 aircraft supporting Commercial Charter in 2010.

**Dry Leasing Segment**

Direct Contribution related to the Dry Leasing segment was relatively unchanged.

**Unallocated income and expenses**

Unallocated income and expenses decreased \$2.8 million, or 10.7%, primarily due to \$2.6 million of increased capitalized interest on our PDPs in 2011.

**Nine Months Ended September 30, 2011 and 2010****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:

|                               | 2011     | 2010     | Increase /<br>(Decrease) | Percent<br>Change |
|-------------------------------|----------|----------|--------------------------|-------------------|
| <b>Block Hours</b>            |          |          |                          |                   |
| ACMI                          | 76,313   | 65,405   | 10,908                   | 16.7%             |
| AMC Charter                   | 14,087   | 14,323   | (236)                    | (1.6)%            |
| Commercial Charter            | 9,736    | 13,032   | (3,296)                  | (25.3)%           |
| Other                         | 797      | 569      | 228                      | 40.1%             |
| Total Block Hours             | 100,933  | 93,329   | 7,604                    | 8.1%              |
| <b>Revenue Per Block Hour</b> |          |          |                          |                   |
| ACMI                          | \$ 6,157 | \$ 5,870 | \$ 287                   | 4.9%              |
| AMC Charter                   | 22,448   | 21,177   | 1,271                    | 6.0%              |
| Commercial Charter            | 21,257   | 21,142   | 115                      | 0.5%              |
| <b>Fuel</b>                   |          |          |                          |                   |
| <b>AMC</b>                    |          |          |                          |                   |
| Average fuel cost per gallon  | \$ 3.56  | \$ 2.68  | \$ 0.88                  | 32.8%             |
| Fuel gallons consumed (000s)  | 45,571   | 44,030   | 1,541                    | 3.5%              |
| <b>Commercial Charter</b>     |          |          |                          |                   |
| Average fuel cost per gallon  | \$ 3.25  | \$ 2.32  | \$ 0.93                  | 40.1%             |
| Fuel gallons consumed (000s)  | 35,663   | 45,060   | (9,397)                  | (20.9)%           |

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|  | 2011 | 2010 | Increase /<br>(Decrease) | Percent<br>Change |
|--|------|------|--------------------------|-------------------|
| <b>Fleet (average during the period)</b> |      |      |                          |                   |
| ACMI*                                    | 21.6 | 17.5 | 4.1                      | 23.4%             |
| AMC Charter                              | 5.7  | 5.9  | (0.2)                    | (3.4)%            |
| Commercial Charter                       | 3.4  | 4.9  | (1.5)                    | (30.6)%           |
| Dry Leasing                              | 2.0  | 0.7  | 1.3                      | 185.7%            |
| Operating Aircraft                       | 32.7 | 29.0 | 3.7                      | 12.8%             |
| Out-of-service**                         | 0.5  | 0.2  | 0.3                      | 150.0%            |

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

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

**Operating Revenue**

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

|                          | 2011         | 2010       | Increase /<br>(Decrease) | Percent<br>Change |
|--------------------------|--------------|------------|--------------------------|-------------------|
| <b>Operating Revenue</b> |              |            |                          |                   |
| ACMI                     | \$ 469,883   | \$ 383,917 | \$ 85,966                | 22.4%             |
| AMC Charter              | 316,230      | 303,314    | 12,916                   | 4.3%              |
| Commercial Charter       | 206,956      | 275,525    | (68,569)                 | (24.9)%           |
| Dry Leasing              | 6,742        | 5,384      | 1,358                    | 25.2%             |
| Other                    | 10,246       | 9,940      | 306                      | 3.1%              |
| Total Operating Revenue  | \$ 1,010,057 | \$ 978,080 | \$ 31,977                | 3.3%              |

ACMI revenue increased \$86.0 million, or 22.4%, due to increases in Block Hours and Revenue per Block Hour. ACMI Block Hours were 76,313 in the first nine months of 2011, compared to 65,405 in 2010, an increase of 10,908 Block Hours, or 16.7%. The increase in Block Hours was primarily driven by flying a second aircraft for Panalpina beginning in October 2010 and two incremental aircraft for DHL beginning in March 2011. In addition, we started CMI passenger flights for SonAir in May 2010 and CMI Dreamlifter flights for Boeing in July 2010. In the first nine months of 2011, there was an average of 21.4 747-400 aircraft and 0.2 747-200 aircraft supporting ACMI compared to an average of 17.5 747-400 aircraft and no 747-200 aircraft for the comparable period in 2010. Revenue per Block Hour was \$6,157 for the first nine months of 2011, compared to \$5,870 in 2010, an increase of \$287 per Block Hour, or 4.9%. The increase in Revenue per Block Hour primarily reflects contractual rate increases in existing customer contracts and higher rates on new customer contracts.

AMC Charter revenue increased \$12.9 million, or 4.3%, primarily due to an increase in Revenue per Block Hour. AMC Charter Revenue per Block Hour increased from \$21,177 for the first nine months of 2010 to \$22,448 in 2011, an increase of \$1,271 per Block Hour, or 6.0%, primarily due to an increase in the pegged fuel price in 2011. For the first nine months of 2011, the AMC average pegged fuel price was \$3.56 per gallon compared to an average pegged fuel price of \$2.68 in 2010. Partially offsetting this increase was a decrease in the premiums earned on M-ATV missions flown on our 747-400 aircraft in 2010. AMC Charter Block Hours were 14,087 in the first nine months of 2011 compared to 14,323 in 2010, a decrease of 236 Block Hours, or 1.6%. AMC demand was exceptionally strong

through the first five months of 2010 primarily due to a surge in AMC demand to support U.S. Military activity in Afghanistan. During that period, we flew a significant number of missions to support the U.S. Military's deployment of M-ATVs from the U.S. to Afghanistan. Partially offsetting the overall decline in Block Hours for the first nine months of 2011 was an increase in AMC cargo demand for the third quarter of 2011, as well as the addition of 644 Block Hours for AMC passenger missions, which we began flying in May 2011. In the first nine months of 2011, there was an average of 1.8 747-400 aircraft and 3.9 747-200 aircraft supporting AMC Charter compared to an average of 1.9 747-400 aircraft and 4.0 747-200 aircraft in 2010.

*Commercial Charter revenue* decreased \$68.6 million, or 24.9%, due to a decrease in Block Hours. Commercial Charter Block Hours were 9,736 in the first nine months of 2011, compared to 13,032 in 2010, representing a decrease of 3,296 Block Hours, or 25.3%. The decrease in Block Hours was primarily due to our redeployment of 747-400 aircraft to support increased ACMI flying in 2011. In addition, softer demand out of Asia in 2011 resulted in a reduction of the utilization of the return legs of AMC one-way missions for Commercial Charters compared to 2010. There was an average

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of 1.9 747-400 aircraft and 1.5 747-200 aircraft supporting Commercial Charter in the first nine months of 2011, compared to an average of 3.2 747-400 aircraft and 1.7 747-200 aircraft in 2010. Commercial Charter Revenue per Block Hour was relatively unchanged when compared to the first nine months of 2010.

**Operating Expenses**

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

|                                    | 2011              | 2010              | Increase /<br>(Decrease) | Percent<br>Change |
|------------------------------------|-------------------|-------------------|--------------------------|-------------------|
| <b>Operating Expenses</b>          |                   |                   |                          |                   |
| Aircraft fuel                      | \$ 278,188        | \$ 222,336        | \$ 55,852                | 25.1%             |
| Salaries, wages and benefits       | 185,173           | 177,677           | 7,496                    | 4.2%              |
| Maintenance, materials and repairs | 144,699           | 115,967           | 28,732                   | 24.8%             |
| Aircraft rent                      | 120,976           | 115,097           | 5,879                    | 5.1%              |
| Landing fees and other rent        | 36,756            | 35,974            | 782                      | 2.2%              |
| Travel                             | 30,328            | 24,354            | 5,974                    | 24.5%             |
| Depreciation and amortization      | 27,069            | 26,049            | 1,020                    | 3.9%              |
| Ground handling and airport fees   | 17,141            | 17,645            | (504)                    | (2.9)%            |
| Gain on disposal of aircraft       | (464)             | (3,541)           | (3,077)                  | (86.9)%           |
| Other                              | 72,580            | 80,177            | (7,597)                  | (9.5)%            |
| <b>Total Operating Expenses</b>    | <b>\$ 912,446</b> | <b>\$ 811,735</b> |                          |                   |

*Aircraft fuel* increased \$55.9 million, or 25.1%, as a result of approximately \$75.5 million in fuel price increases partially offset by \$19.6 million from decreased consumption. The average fuel price per gallon for the AMC Charter business was \$3.56 in the first nine months of 2011, compared to \$2.68 in 2010, an increase of 32.8%. AMC fuel consumption increased by 1.5 million gallons, or 3.5%, as a greater proportion of flying in 2010 utilized more fuel efficient 747-400 aircraft for M-ATV missions. The average fuel price per gallon for the Commercial Charter business was \$3.25 for the first nine months of 2011, compared to \$2.32 in 2010, an increase of 40.1%. Fuel consumption for this business decreased by 9.4 million gallons, or 20.9%, commensurate with the decrease in Block Hours operated. We do not incur fuel expense in our ACMI business as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$7.5 million, or 4.2%, primarily driven by higher Block Hours.

*Maintenance, materials and repairs* increased by \$28.7 million, or 24.8%, primarily due to approximately \$13.1 million of increased line maintenance expense and other non-heavy maintenance expense, approximately \$9.4 million of heavy airframe check expense and approximately \$6.2 million of engine overhaul expense. Heavy maintenance events and engine overhauls for the nine months ended September 30, 2011 and 2010 were:

| Events                  | 2011 | 2010 | Increase /<br>(Decrease) |
|-------------------------|------|------|--------------------------|
| 747-200 C Checks        | 4    | 2    | 2                        |
| 747-400 C Checks        | 6    | 7    | (1)                      |
| 747-400 D Checks        | 5    | 4    | 1                        |
| CF6-50 engine overhauls | 2    | 2    |                          |
| CF6-80 engine overhauls | 12   | 13   | (1)                      |

*Aircraft rent* increased \$5.9 million, or 5.1%, primarily due to the leasing of additional aircraft and spare engines in 2011.

*Travel* increased \$6.0 million, or 24.5%, primarily due to the increased cost of international crew travel resulting from higher airfares and increased flying. Ground staff travel also increased related to on-boarding new aircraft, maintenance activities and the increased cost of international travel.

*Depreciation and amortization* increased \$1.0, or 3.9%, primarily due to additional aircraft in 2011.

*Gain on disposal of aircraft* resulted from the sale of retired airframes and engines during the first three quarters of 2011 compared to the sale of three previously held-for-sale spare engines and retired engines in 2010.



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*Other operating expenses* decreased \$7.6 million, or 9.5%, primarily related to a net accrual for legal settlements of \$16.2 million in 2010, as well as a reduction in legal fees in 2011. Partially offsetting these decreases was an increase in contract services for flight attendants and passenger catering, freight related to the movement of 747-200 spare parts and engines to be utilized on aircraft in lieu of incurring more costly repairs, and commissions related to increased AMC Charter revenue.

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

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

|  | 2011        | 2010        | Increase /<br>(Decrease) | Percent<br>Change |
|--|-------------|-------------|--------------------------|-------------------|
| <b>Non-operating Expenses / (Income)</b> |             |             |                          |                   |
| Interest income                          | \$ (15,200) | \$ (14,620) | \$ 580                   | 4.0%              |
| Interest expense                         | 30,009      | 30,396      | (387)                    | (1.3)%            |
| Capitalized interest                     | (18,584)    | (11,007)    | 7,577                    | 68.8%             |
| Other (income) expense, net              | (485)       | (9,236)     | (8,751)                  | (94.7)%           |

*Capitalized interest* increased by \$7.6 million, or 68.8%, primarily due to higher interest rates on PDP balances outstanding during the period.

*Other (income) expense, net* decreased by \$8.8 million, due to a litigation settlement received in 2010.

*Income taxes.* Our effective income tax rates were 37.9% and 41.2% for the nine months ended September 30, 2011 and 2010, respectively. The change in the effective rate from 2010 to 2011 was primarily due to non-deductible litigation settlements in 2010. Our effective rates differ from the U.S. federal statutory rate primarily due to the income tax impact of global operations, U.S. state income taxes, the non-deductibility of certain expenses for tax purposes, and the relationship of these items to our projected operating results for the year.

**Segments**

The following table compares the Direct Contribution for our reportable segments (see Note 8 to our Financial Statements for the reconciliation to Operating income) for the nine months ended September 30 (in thousands):

|                                 | 2011       | 2010       | Increase /<br>(Decrease) | Percent<br>Change |
|---------------------------------|------------|------------|--------------------------|-------------------|
| <b>Direct Contribution:</b>     |            |            |                          |                   |
| ACMI                            | \$ 97,990  | \$ 87,097  | \$ 10,893                | 12.5%             |
| AMC Charter                     | 55,651     | 95,096     | (39,445)                 | (41.5)%           |
| Commercial Charter              | 24,772     | 78,372     | (53,600)                 | (68.4)%           |
| Dry Leasing                     | 3,400      | 3,692      | (292)                    | (7.9)%            |
| Total Direct Contribution       | \$ 181,813 | \$ 264,257 | \$ (82,444)              | (31.2)%           |
| Unallocated income and expenses | \$ 80,406  | \$ 96,986  | \$ (16,580)              | (17.1)%           |

**ACMI Segment**

Direct Contribution related to the ACMI segment increased \$10.9 million, or 12.5%, primarily due to increases in Block Hours and ACMI Yields. During the first nine months of 2011, there was an average of 21.4 747-400 aircraft and 0.2 747-200 aircraft supporting ACMI compared to an average of 17.5 747-400 aircraft and no 747-200 aircraft supporting ACMI in 2010. The increase in Block Hours was primarily driven by flying a second aircraft for Panalpina beginning in October 2010 and two incremental aircraft for DHL beginning in March 2011. In addition, we started CMI passenger flights for SonAir in May 2010 and CMI Dreamliner flights for Boeing in July 2010. The increase in ACMI Yields primarily reflects contractual rate increases in existing customer contracts and higher rates on new

customer contracts. ACMI Direct Contribution was also impacted by increased aircraft ownership costs, crew and line maintenance expenses driven by the increased flying and an increase in heavy maintenance.

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***AMC Charter Segment***

Direct Contribution related to the AMC Charter segment decreased \$39.4 million, or 41.5%, primarily due to the reduction in premiums earned on M-ATV missions flown on our 747-400 aircraft during 2010 and an increase in heavy and line maintenance expenses. During the first nine months of 2011, there was an average of 1.8 747-400 aircraft and 3.9 747-200 aircraft supporting AMC Charter operations compared to an average of 1.9 747-400 aircraft and 4.0 747-200 aircraft supporting the AMC Charter business in 2010.

***Commercial Charter Segment***

Direct Contribution related to the Commercial Charter segment decreased \$53.6 million, or 68.4%, primarily due to a decrease in Block Hours and lower Commercial Charter Yields that were negatively impacted by the return of aircraft capacity to the Asian markets and softer demand. Direct Contribution was also impacted by the higher cost of fuel, which was partially offset by lower fuel consumption in Commercial Charter during 2011. Partially offsetting the decrease in revenue was an improvement in volume-driven operating costs due to the reduction in Commercial Charter Block Hours flown. We also experienced lower ownership costs from the redeployment of 747-400 aircraft to the ACMI segment in the first nine months of 2011. During the first nine months of 2011, there was an average of 1.9 747-400 aircraft and 1.5 747-200 aircraft supporting Commercial Charter compared to an average of 3.2 747-400 aircraft and 1.7 747-200 aircraft supporting Commercial Charter in 2010.

***Dry Leasing Segment***

Direct Contribution related to the Dry Leasing segment was relatively unchanged.

***Unallocated income and expenses***

Unallocated income and expenses decreased \$16.6 million, or 17.1%, primarily due to a net accrual for legal settlements of \$16.2 million in 2010 and \$7.6 million of increased capitalized interest on our PDPs in 2011. Partially offsetting these items was an \$8.8 million litigation settlement received in 2010.

***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 EPS, which exclude certain items. These non-GAAP measures may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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

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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<br/>30,<br/>2011</b> | <b>September<br/>30,<br/>2010</b> | <b>Percent<br/>Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 28,206                         | \$ 33,804                         | (16.6%)                   |
| After-tax impact from:   |                                   |                                   |                           |
| Gain on disposal of aircraft                                   | (104)                             | (101)                             |                           |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 28,102                         | \$ 33,703                         | (16.6%)                   |
| <b>Diluted EPS</b>   | \$ 1.07                           | \$ 1.29                           | (17.1%)                   |
| After-tax impact from:   |                                   |                                   |                           |
| Gain on disposal of aircraft                                   |                                   |                                   |                           |
| <b>Adjusted Diluted EPS</b>                                    | \$ 1.07                           | \$ 1.29                           | (17.1%)                   |

|  | <b>For the Nine Months Ended</b>  |                                   |                           |
|--|-----------------------------------|-----------------------------------|---------------------------|
|  | <b>September<br/>30,<br/>2011</b> | <b>September<br/>30,<br/>2010</b> | <b>Percent<br/>Change</b> |
| <b>Net Income Attributable to Common Stockholders</b>          | \$ 62,570                         | \$ 100,250                        | (37.6%)                   |
| After-tax impact from:   |                                   |                                   |                           |
| Net accrual for legal settlements                              |                                   | 16,200                            |                           |
| Litigation settlement received                                 |                                   | (5,513)                           |                           |
| Gain on disposal of aircraft                                   | (296)                             | (2,231)                           |                           |
| <b>Adjusted Net Income Attributable to Common Stockholders</b> | \$ 62,274                         | \$ 108,706                        | (42.7%)                   |
| <b>Diluted EPS</b>   | \$ 2.37                           | \$ 3.85                           | (38.4%)                   |
| After-tax impact from:   |                                   |                                   |                           |
| Net accrual for legal settlements                              |                                   | 0.62                              |                           |
| Litigation settlement received                                 |                                   | (0.21)                            |                           |
| Gain on disposal of aircraft                                   | (0.01)                            | (0.09)                            |                           |
| <b>Adjusted Diluted EPS</b>                                    | \$ 2.36                           | \$ 4.17                           | (43.4%)                   |

**Liquidity and Capital Resources**

At September 30, 2011, we had cash and cash equivalents of \$417.4 million, compared to \$588.9 million at December 31, 2010, a decrease of \$171.5 million, or 29.1%. The decrease was driven by net cash used for investing activities of \$319.8 million and net cash used for financing activities of \$29.6 million, partially offset by cash provided by operating activities of \$118.6 million.

In February 2011, we entered into a twelve-year term loan commitment in the amount of \$240 million with a syndicate of four banks (the 2011 Term Loan Commitment). The 2011 Term Loan Commitment, when drawn, will be

collateralized by a mortgage on two future 747-8F aircraft deliveries, which we expect to be delivered during the fourth quarter of 2011.

In April 2011, we repaid \$46.9 million of our PDP financing facility.

On September 30, 2011, we borrowed \$120.3 million under the September 2011 Term Loan and the proceeds were classified as Restricted cash as of September 30, 2011. On November 2, 2011, the proceeds were released to us when we took delivery of our first 747-8F aircraft.

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In October 2011, we paid \$210.4 million in PDPs to Boeing under a proposed payment and delivery schedule, while reserving all rights with respect to such payment.

*Operating Activities.* Net cash provided by operating activities for the first nine months of 2011 was \$118.6 million, compared to \$214.1 million for 2010. The decrease was primarily due to changes in Accounts payable and accrued liabilities, and Prepaid expenses and other current assets.

*Investing Activities.* Net cash used for investing activities was \$319.8 million for the first nine months of 2011, consisting primarily of capital expenditures of \$205.4 million, which included capitalized interest on our 747-8F aircraft order of \$18.6 million and changes in restricted cash of \$120.3 million, partially offset by proceeds from short-term investments of \$4.7 million. Capital expenditures for the first nine months of 2011 included the acquisition of two 747-400, two 767-300ER and two 737-300 passenger aircraft. Capital expenditures for the first nine months of 2011 were funded through working capital. Net cash used for investing activities was \$150.3 million for the first nine months of 2010, consisting primarily of capital expenditures of \$59.6 million, which included capitalized interest on our Boeing 747-8F aircraft order of \$11.0 million, and \$100.1 million of investments in debt securities, partially offset by proceeds from the sale of aircraft of \$5.0 million. Capital expenditures for the first nine months of 2010 were funded through working capital, although we subsequently funded \$8.1 million for the 757-200SF, which we purchased with a term loan.

*Financing Activities.* Net cash provided by financing activities was \$29.6 million for the first nine months of 2011, which primarily reflects the proceeds from a loan of \$120.3 million and proceeds from stock option exercises of \$4.7 million, partially offset by \$87.2 million of payments on debt obligations and \$9.2 million in purchases of treasury stock to settle employment taxes on the vesting of restricted stock. Net cash used for financing activities was \$132.3 million for the first nine months of 2010, which primarily reflected \$152.3 million of payments on debt obligations and \$5.8 million in purchases of treasury stock to settle employment taxes on the vesting of restricted stock.

We consider Cash and cash equivalents, Short-term investments and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations and to fund capital expenditures during 2011. Capital expenditures for the remainder of 2011 are expected to be approximately \$43.0 million, which excludes PDPs, aircraft and capitalized interest. Our estimated 747-8F aircraft PDP and delivery payment requirements for the remainder of 2011 are approximately \$546.1 million, of which \$210.4 million was paid in October 2011. We expect our Restricted cash, PDP financing facility and 2011 Term Loan Commitment to be sufficient to fund our 747-8F aircraft PDP and delivery payment requirements for 2011.

We may access external sources of capital from time to time depending on our cash requirements, assessments of current and anticipated market conditions, and the after-tax cost of capital. To that end, we filed a shelf registration statement with the SEC in 2009 that enables us to sell up to \$500 million of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and other factors. Approximately \$112.6 million of net proceeds from our stock offering in the fourth quarter of 2009 was drawn down from this shelf registration statement. Our access to capital markets can be adversely impacted by prevailing economic conditions and by financial, business and other factors, some of which are beyond our control. Additionally, our borrowing costs are affected by market conditions and may be adversely impacted by a tightening in credit markets.

Our U.S. cash income tax payments in 2011 will be commensurate with our earnings, applicable income tax deductions and limitations on the utilization of net operating losses. As a result of recently enacted tax legislation, we can deduct 100% of the cost of qualified assets placed in service during 2011 or 2012 and 50% of the cost of qualified assets placed in service during 2013. Based on the existing estimated delivery schedule, we expect a substantial portion of our order for new 747-8F aircraft will qualify for this bonus tax depreciation, which would reduce or eliminate our U.S. federal income tax payments starting in the year we take delivery of qualified aircraft. As a result, we expect to receive a refund of almost all U.S. federal cash income tax paid in 2010 and 2011. Furthermore, our business operations are subject to income tax in several non-U.S. jurisdictions, but we believe that these operations will not result in any significant non-U.S. income tax payments in 2011.

***Contractual Obligations and Debt Agreements***

See Note 5 to our Financial Statements for a description of our new debt obligation, the September 2011 Term Loan. See our 2010 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2010 and a description of our debt obligations and amendments thereto.

On February 11, 2011, we entered into the 2011 Term Loan Commitment in the amount of \$240 million for a period of twelve years with a syndicate of four banks. The 2011 Term Loan Commitment, when drawn, will be

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collateralized by a mortgage on two future 747-8F aircraft deliveries. In connection with entering into the 2011 Term Loan Commitment, we have agreed to pay usual and customary commitment and other fees. Borrowings under the 2011 Term Loan Commitment will accrue interest at a variable rate, payable quarterly, at LIBOR plus a margin and contains customary covenants and events of default. Upon the occurrence and during the continuance of an event of default, the 2011 Term Loan Commitment is cross-defaulted to our PDP financing facilities.

**Off-Balance Sheet Arrangements**

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

There were no material changes in our off-balance sheet arrangements during the three months ended September 30, 2011.

**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 may, should, expect, anticipate, intend, plan, continue, project, estimate and similar expressions used in this Report that do not relate to historical facts are intended to identify forward-looking statements.

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2010. 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 2010 Annual Report on Form 10-K.

***Interest Rate Risk***

During the second quarter of 2011, we began to hedge the variability of forecasted interest payments associated with changes in interest rates through the date of an anticipated debt issuance in 2011 using forward-starting interest swaps. In May 2011, we entered into two forward-starting interest rate swaps with a total notional value of \$237.5 million with terms





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calling for us to receive interest quarterly at a variable rate equal to the forward 90-day LIBOR swap rate and to pay interest quarterly at a fixed rate. The forward-starting interest swaps effectively fix the interest rate on \$237.5 million of an anticipated debt issuance in 2011.

Assuming a hypothetical ten percent increase in interest rates at September 30, 2011, the fair value of the forward-starting interest rate swaps would increase by approximately \$3.6 million to a net liability of \$19.4 million. Conversely, assuming a hypothetical ten percent decrease in interest rates at September 30, 2011, the fair value of the forward-starting interest rate swaps would decrease by approximately \$3.5 million to a net liability of \$26.5 million.

When entering into forward-starting interest rate swaps, we become exposed to both counterparty credit risk and market risk. We are subject to counterparty credit risk when the value of the forward-starting interest rate swap represents a gain and the risk exists that the counterparty will fail to perform under the terms of the contract. We manage our counterparty credit risk by only entering into forward-starting interest rate swaps with major financial institutions with investment-grade credit ratings. We are subject to market risk with respect to changes in the underlying benchmark interest rate that impacts the fair value of the forward-starting interest rate swaps. We manage market risk by matching the terms of the forward-starting interest rate swaps with the critical terms of the expected debt issuance.

**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, 2011. 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, 2011 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, 2011, 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 2010 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 2010 Annual Report on Form 10-K.

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

Aviation insurance premiums historically have fluctuated based on factors that include the loss history of the industry in general, and the insured carrier in particular. Future terrorist attacks and other adverse events involving aircraft could result in increases in insurance costs and could affect the price and availability of such coverage. We have, as have most other U.S. airlines, purchased our war-risk coverage through a special program administered by the U.S. federal government. The FAA is currently providing war-risk hull and cargo loss, crew and third-party liability insurance through September 30, 2012. If the federal war-risk coverage program terminates or provides significantly less coverage in the future, we could face a significant increase in the cost of war-risk coverage, and because of competitive pressures in the industry, our ability to pass this additional cost on to customers may be limited.

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

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

**ITEM 6. EXHIBITS**

a. Exhibits

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

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**SIGNATURES**

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

Atlas Air Worldwide Holdings, Inc.

Dated: November 3, 2011

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

Dated: November 3, 2011

/s/ Spencer Schwartz  
Spencer Schwartz  
Senior Vice President and Chief Financial  
Officer  
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**Table of Contents****EXHIBIT INDEX****Exhibit  
Number****Description**

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| 10.1    | Amendment No. 2, dated as of July 1, 2011, to the Employment Agreement between Atlas Air, Inc. and William J. Flynn.                                   |
| 10.2    | Amendment No. 2, dated as of July 1, 2011, to the Employment Agreement between Atlas Air, Inc. and John W. Dietrich.                                   |
| 10.3    | Atlas Air Worldwide Holdings, Inc. Annual Incentive Program for Senior Executives, amended as of July 1, 2011.   |
| 10.4    | Atlas Air Worldwide Holdings, Inc. Benefits Program for Executive Vice Presidents and Senior Vice Presidents, amended and restated as of July 1, 2011. |
| 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 Sheet at September 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Operations for the quarters and nine months ended September 30, 2011 and 2010, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, (iv) Consolidated Statement of Stockholders Equity for the nine months ended September 30, 2011 and 2010 and (v) 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.