

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

November 01, 2012

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

**OR**

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

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

**Commission File Number: 001-16545**

**Atlas Air Worldwide Holdings, Inc.**

(Exact name of registrant as specified in its charter)

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**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 October 19, 2012, there were 26,443,441 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)*

	September 30, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 315,789	\$ 187,111
Short-term investments	9,266	8,097
Accounts receivable, net of allowance of \$2,970 and \$1,931, respectively	104,874	93,213
Prepaid maintenance	31,354	35,902
Deferred taxes	19,950	10,580
Prepaid expenses and other current assets	47,562	58,934
<b>Total current assets</b>	<b>528,795</b>	<b>393,837</b>
<b>Property and Equipment</b>		
Flight equipment	1,868,837	1,466,384
Ground equipment	37,676	33,788
Less: accumulated depreciation	(169,794)	(159,123)
Purchase deposits for flight equipment	273,066	407,184
<b>Property and equipment, net</b>	<b>2,009,785</b>	<b>1,748,233</b>
<b>Other Assets</b>		
Long-term investments and accrued interest	135,702	135,735
Deposits and other assets	108,423	73,232
Intangible assets, net	36,703	39,961
<b>Total Assets</b>	<b>\$ 2,819,408</b>	<b>\$ 2,390,998</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 30,794	\$ 27,352
Accrued liabilities	160,261	175,298
Current portion of long-term debt	135,641	70,007
<b>Total current liabilities</b>	<b>326,696</b>	<b>272,657</b>
<b>Other Liabilities</b>		
Long-term debt	910,520	680,009
Deferred taxes	232,678	178,069
Other liabilities	120,844	118,888
<b>Total other liabilities</b>	<b>1,264,042</b>	<b>976,966</b>
Commitments and contingencies		
<b>Equity</b>		
Stockholders' Equity		

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Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 27,671,173 and 27,462,116 shares issued, 26,442,333 and 26,304,764, shares outstanding (net of treasury stock), as of September 30, 2012 and December 31, 2011, respectively	277	275
Additional paid-in-capital	538,461	525,670
Treasury stock, at cost; 1,228,840 and 1,157,352 shares, respectively	(44,817)	(41,499)
Accumulated other comprehensive loss	(14,763)	(15,683)
Retained earnings	746,294	668,749
<b>Total stockholders' equity</b>	<b>1,225,452</b>	<b>1,137,512</b>
Noncontrolling interest	3,218	3,863
<b>Total equity</b>	<b>1,228,670</b>	<b>1,141,375</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,819,408</b>	<b>\$ 2,390,998</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
<b>Operating Revenue</b>				
ACMI	\$ 177,722	\$ 163,406	\$ 492,846	\$ 469,883
AMC charter	117,377	122,581	376,685	316,230
Commercial charter	108,078	70,353	305,852	206,956
Dry leasing	3,057	3,065	8,864	6,742
Other	3,017	3,471	9,013	10,246
<b>Total Operating Revenue</b>	<b>409,251</b>	<b>362,876</b>	<b>1,193,260</b>	<b>1,010,057</b>
<b>Operating Expenses</b>				
Aircraft fuel	99,080	103,663	311,414	278,188
Salaries, wages and benefits	71,386	61,911	215,640	185,173
Maintenance, materials and repairs	40,524	47,770	136,875	144,699
Aircraft rent	44,133	41,055	126,309	120,976
Passenger and ground handling services	18,711	7,836	50,100	21,338
Depreciation and amortization	16,612	9,964	44,792	27,069
Navigation fees, landing fees and other rent	15,153	12,813	44,090	36,756
Travel	14,746	11,284	42,189	30,328
Gain on disposal of aircraft	(1,058)	(163)	(2,417)	(464)
Other	27,699	23,243	85,306	68,383
<b>Total Operating Expenses</b>	<b>346,986</b>	<b>319,376</b>	<b>1,054,298</b>	<b>912,446</b>
<b>Operating Income</b>	<b>62,265</b>	<b>43,500</b>	<b>138,962</b>	<b>97,611</b>
<b>Non-operating Expenses (Income)</b>				
Interest income	(4,833)	(5,004)	(14,629)	(15,200)
Interest expense	17,004	9,801	46,598	30,009
Capitalized interest	(4,052)	(6,982)	(16,356)	(18,584)
Loss on early extinguishment of debt	143		285	
Other (income) expense, net	(331)	(121)	454	(485)
<b>Total Non-operating Expenses (Income)</b>	<b>7,931</b>	<b>(2,306)</b>	<b>16,352</b>	<b>(4,260)</b>
Income before income taxes	54,334	45,806	122,610	101,871
Income tax expense	19,759	17,464	45,899	38,595
<b>Net Income</b>	<b>34,575</b>	<b>28,342</b>	<b>76,711</b>	<b>63,276</b>
Less: Net income (loss) attributable to noncontrolling interests	717	136	(834)	706
<b>Net Income Attributable to Common Stockholders</b>	<b>\$ 33,858</b>	<b>\$ 28,206</b>	<b>\$ 77,545</b>	<b>\$ 62,570</b>

**Earnings per share:**

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Basic	\$ 1.28	\$ 1.07	\$ 2.94	\$ 2.39
Diluted	\$ 1.27	\$ 1.07	\$ 2.92	\$ 2.37
<b>Weighted average shares:</b>				
Basic	26,443	26,291	26,410	26,201
Diluted	26,580	26,452	26,527	26,416

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
<b>Net Income</b>	\$ 34,575	\$ 28,342	\$ 76,711	\$ 63,276
<b>Other comprehensive income (loss):</b>				
Interest rate derivatives:				
Net change in fair value		(22,203)	(713)	(23,011)
Reclassification into earnings	817		1,849	
Income tax benefit (expense)	(286)	8,060	(398)	8,353
Foreign currency translation:				
Translation adjustment	173	(607)	250	(435)
Income tax benefit (expense)	137	202	121	172
Other comprehensive income (loss)	841	(14,548)	1,109	(14,921)
<b>Comprehensive Income</b>	<b>35,416</b>	<b>13,794</b>	<b>77,820</b>	<b>48,355</b>
Less: Comprehensive income (loss) attributable to noncontrolling interests	875	69	(645)	714
<b>Comprehensive Income Attributable to Common Stockholders</b>	<b>\$ 34,541</b>	<b>\$ 13,725</b>	<b>\$ 78,465</b>	<b>\$ 47,641</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements*



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

	<b>For the Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>
<b>Operating Activities:</b>		
Net Income Attributable to Common Stockholders	\$ 77,545	\$ 62,570
Net income (loss) attributable to noncontrolling interests	(834)	706
Net Income	76,711	63,276
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and amortization	51,509	32,911
Accretion of debt securities discount	(6,454)	(6,208)
Provision for (release of) allowance for doubtful accounts	897	(17)
Loss on early extinguishment of debt	285	
Gain on disposal of aircraft	(2,417)	(464)
Deferred taxes	45,346	14,882
Stock-based compensation expense	12,243	9,497
Changes in:		
Accounts receivable	(334)	(4,573)
Prepaid expenses and other current assets	38,991	(21,801)
Deposits and other assets	(10,315)	(12,622)
Accounts payable and accrued liabilities	(9,256)	43,757
Net cash provided by operating activities	197,206	118,638
<b>Investing Activities:</b>		
Capital expenditures	(26,732)	(20,838)
Purchase deposits and delivery payments for flight equipment	(312,494)	(184,521)
Changes in restricted cash		(120,252)
Investment in short-term investments	(1,179)	
Proceeds from short-term investments	4,342	4,662
Proceeds from disposal of aircraft	2,715	1,165
Net cash used for investing activities	(333,348)	(319,784)
<b>Financing Activities:</b>		
Proceeds from debt issuance	639,628	120,250
Proceeds from stock option exercises		4,733
Purchase of treasury stock	(3,318)	(9,198)
Excess tax benefit from stock-based compensation expense	550	3,128
Payment of debt issuance costs	(24,808)	(2,024)
Payments of debt	(347,232)	(87,243)
Net cash provided by financing activities	264,820	29,646
Net increase (decrease) in cash and cash equivalents	128,678	(171,500)
Cash and cash equivalents at the beginning of period	187,111	588,852
Cash and cash equivalents at the end of period	\$ 315,789	\$ 417,352

*See accompanying Notes to Unaudited Consolidated Financial Statements*



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

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Balance at December 31, 2010</b>	\$ 270	\$ (32,248)	\$ 505,297	\$ 458	\$ 572,666	\$ 1,046,443	\$ 3,647	\$ 1,050,090
Net Income					62,570	62,570	706	63,276
Other comprehensive income (loss)				(14,929)		(14,929)	8	(14,921)
Comprehensive Income (Loss)						47,641	714	48,355
Stock option and restricted stock compensation			9,497			9,497		9,497
Purchase of 136,967 shares of treasury stock		(9,198)				(9,198)		(9,198)
Exercise of 122,354 employee stock options	1		4,732			4,733		4,733
Issuance of 379,766 shares of restricted stock	4		(4)					
Tax benefit on restricted stock and stock options			3,128			3,128		3,128
<b>Balance at September 30, 2011</b>	\$ 275	\$ (41,446)	\$ 522,650	\$ (14,471)	\$ 635,236	\$ 1,102,244	\$ 4,361	\$ 1,106,605

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Balance at December 31, 2011</b>	\$ 275	\$ (41,499)	\$ 525,670	\$ (15,683)	\$ 668,749	\$ 1,137,512	\$ 3,863	\$ 1,141,375
Net Income					77,545	77,545	(834)	76,711
Other comprehensive income (loss)				920		920	189	1,109
Comprehensive Income (Loss)						78,465	(645)	77,820
Stock option and restricted stock compensation			12,243			12,243		12,243
Purchase of 71,488 shares of treasury stock		(3,318)				(3,318)		(3,318)
Issuance of 209,057 shares of restricted stock	2		(2)					
Tax benefit on restricted stock and stock options			550			550		550
<b>Balance at September 30, 2012</b>	\$ 277	\$ (44,817)	\$ 538,461	\$ (14,763)	\$ 746,294	\$ 1,225,452	\$ 3,218	\$ 1,228,670

*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, 2012**

#### **1. Basis of Presentation**

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

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

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

The accompanying unaudited consolidated financial statements and related notes (the Financial Statements ) have been prepared in accordance with the U.S. Securities and Exchange Commission (the SEC ) requirements for quarterly reports on Form 10-Q, and consequently, exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). All significant intercompany accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes included in the AAWW Annual Report on Form 10-K for the year ended December 31, 2011, which included additional disclosures and a summary of our significant accounting policies. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of September 30, 2012, the results of operations for the three and nine months ended September 30, 2012 and 2011, comprehensive income for the three and nine months ended September 30, 2012 and 2011, cash flows for the nine months ended September 30, 2012 and 2011, and shareholders equity as of and for the nine months ended September 30, 2012 and 2011.

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

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

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

#### **2. Recently Adopted Accounting Pronouncements**

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

#### **3. DHL Investment and Polar**

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

As of September 30, 2012, Polar operates six 747-400 freighter aircraft that are subleased from us. An additional three aircraft are operated by Atlas to support the Polar network and DHL through an alliance agreement whereby Atlas

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

<b>Revenue and Expenses:</b>	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
ACMI revenue from Polar	\$ 67,489	\$ 61,089	\$ 189,169	\$ 167,739
Other revenue from Polar	\$ 2,837	\$ 2,837	\$ 8,512	\$ 8,512
Ground handling and airport fees paid to Polar	\$ 1,129	\$ 280	\$ 3,315	\$ 840
<b>Accounts receivable/payable as of:</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>		
Receivables from Polar	\$ 4,009	\$ 2,944		
Payables to Polar	\$ 882	\$ 121		
<b>Aggregate Carrying Value of Polar Investment as of:</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>		
	\$ 4,870	\$ 4,870		

**4. Financial Instruments**

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

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

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

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

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

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

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



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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.

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

	<b>September 30, 2012</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	\$ 315,789	\$ 315,789	\$ 315,789	\$	\$
Short-term investments	9,266	9,266			9,266
Long-term investments and accrued interest	135,702	170,649			170,649
	<b>\$ 460,757</b>	<b>\$ 495,704</b>	<b>\$ 315,789</b>	<b>\$</b>	<b>\$ 179,915</b>
<b>Liabilities</b>					
Term loans	\$ 461,465	\$ 475,564	\$	\$	\$ 475,564
Ex-Im Bank guaranteed notes	282,101	283,263			283,263
1998 EETCs	115,741	131,155			131,155
1999 EETCs	134,415	143,768			143,768
2000 EETCs	52,439	57,237			57,237
	<b>\$ 1,046,161</b>	<b>\$ 1,090,987</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,090,987</b>

	<b>December 31, 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	\$ 187,111	\$ 187,111	\$ 187,111	\$	\$
Short-term investments	8,097	8,097			8,097
Long-term investments and accrued interest	135,735	167,765			167,765
	<b>\$ 330,943</b>	<b>\$ 362,973</b>	<b>\$ 187,111</b>	<b>\$</b>	<b>\$ 175,862</b>
<b>Liabilities</b>					
Interest rate derivatives	\$ 24,887	\$ 24,887	\$	\$ 24,887	\$
Term loans	420,436	420,436			420,436
1998 EETCs	128,974	145,418			145,418
1999 EETCs	145,410	156,430			156,430
2000 EETCs	55,196	60,502			60,502
	<b>\$ 774,903</b>	<b>\$ 807,673</b>	<b>\$</b>	<b>\$ 24,887</b>	<b>\$ 782,786</b>

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

September 30, 2012

December 31, 2011

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	Carrying Value	Gross Unrealized Gain (Loss)	Fair Value	Carrying Value	Gross Unrealized Gain (Loss)	Fair Value
<b>Debt securities</b>						
Due after one but within five years	\$ 280	\$ (1)	\$ 279	\$	\$	\$
Due after five but within ten years	\$ 135,422	\$ 34,948	\$ 170,370	\$ 135,735	\$ 32,030	\$ 167,765
<b>Total</b>	\$ 135,702	\$ 34,947	\$ 170,649	\$ 135,735	\$ 32,030	\$ 167,765

***Interest Rate Derivatives***

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

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

As of December 31, 2011, the fair value of those forward-starting interest rate swaps was \$24.9 million, offset by cash collateral of \$19.9 million, resulting in a net carrying value of \$5.0 million included within Accrued liabilities. We recorded unrealized pre-tax losses of \$0.7 million and after-tax losses of \$0.5 million in Other comprehensive loss for changes in the fair value of our forward-starting interest rate swaps for the nine months ended September 30, 2012.

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

As of September 30, 2012, there was \$23.8 million of unamortized realized loss related to the forward-starting interest rate swaps remaining in Accumulated other comprehensive income (loss). We recognized \$0.8 million and \$1.8 million of realized loss in earnings as a component of Interest expense for the three and nine months ended September 30, 2012, respectively. Realized losses expected to be reclassified into earnings within the next 12 months are \$3.1 million as of September 30, 2012.

**5. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

	September 30, 2012	December 31, 2011
Maintenance	\$ 58,710	\$ 54,239
Salaries, wages and benefits	27,578	43,698
Aircraft fuel	21,027	25,583
Other	52,946	51,778
Accrued liabilities	\$ 160,261	\$ 175,298

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

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

On May 29, 2012, we borrowed \$142.0 million under the Ex-Im Bank Facility as a variable-rate loan secured by a mortgage against one 747-8F (aircraft tail number N850GT). On June 19, 2012, we refinanced the loan through the issuance of twelve-year fixed-rate notes in the amount of \$142.0 million (the First 2012 Ex-Im Guaranteed Notes). The First 2012 Ex-Im Guaranteed Notes accrue interest at a fixed rate of 2.02% with principal and interest payable quarterly.

On July 24, 2012, we borrowed \$142.7 million under the Ex-Im Bank Facility as a variable-rate loan secured by a mortgage against one 747-8F (aircraft tail number N851GT). On July 31, 2012, we refinanced the loan through the issuance of twelve-year fixed-rate notes in the amount of \$142.7 million (the Second 2012 Ex-Im Bank Guaranteed Notes). The Second 2012 Ex-Im Bank Guaranteed Notes accrue interest at a fixed rate of 1.73% with principal and interest payable quarterly.

***Term Loans***

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On March 30, 2012, we entered into a five-year term loan facility with CIT Bank. The facility is comprised of four separate term loans, in the aggregate amount of \$35.7 million that are collectively referred to as the First 2012 CIT Term

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Loans . The First 2012 CIT Term Loans are secured by mortgages on two 747-400 (aircraft tail numbers N464MC and N465MC) and two 767-300ER (aircraft tail numbers N640GT and N641GT) passenger aircraft. The balances outstanding under the First 2012 CIT Term Loans accrue interest at a fixed interest rate of 6.91%, with principal and interest payable monthly. On May 15, 2012, we entered into a five-year term loan with CIT Bank for \$8.5 million (the Second 2012 CIT Term Loan ). The Second 2012 CIT Term Loan is secured by a mortgage on a 767-300ER (aircraft tail number N642GT) passenger aircraft. The balance outstanding under the Second 2012 CIT Term Loan accrues interest at a fixed interest rate of 6.89%, with principal and interest payable monthly. In connection with entry into the First and Second 2012 CIT Term Loans, we paid usual and customary fees. The First and Second 2012 CIT Term Loans contain customary covenants, events of default and are cross-defaulted and cross-collateralized. In addition, the First and Second CIT Term Loans are cross-defaulted to certain of our other debt facilities.

On September 5, 2012, we entered into a \$26.0 million seven-year term loan with Landesbank Hessen-Thüringen Girozentrale (the Helaba Bank Term Loan ). The Helaba Bank Term Loan is secured by a mortgage on a 737-800 (aircraft tail number MSN 29681) passenger aircraft. In connection with entry into the Helaba Bank Term Loan, we paid usual and customary fees. The Helaba Bank Term Loan accrues interest at a fixed rate of 4.27% with principal and interest payable semi-annually and contains customary covenants and events of default.

## **7. Segment Reporting**

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

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

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

The AMC Charter segment primarily provides full planeload charter flights to the U.S. Military Air Mobility Command ( AMC ). In addition to cargo flights, the AMC Charter segment includes passenger flights, which we began providing in the second quarter of 2011. We also earn commissions on subcontracting certain flying of oversized cargo and less than full planeload missions, or in connection with flying cargo into areas of military conflict where we cannot perform the services on our own. Revenue from the AMC Charter business is typically derived from one-year contracts on a cost-plus basis with the AMC. Our current AMC contract runs from October 1, 2012 through September 30, 2013. Although we are responsible for the direct operating costs of the aircraft, the price paid for fuel consumed during AMC flights is fixed by the U.S. Military. We receive reimbursement from the AMC each month if the price of fuel paid by us to vendors for AMC missions exceeds the fixed price. Alternatively, if the price of fuel paid by us is less than the fixed price, we pay the difference to the AMC each month.

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

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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:

	For the Three Months		For the Nine Months Ended	
	Ended	Ended	Ended	Ended
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>Operating Revenue:</b>				
ACMI	\$ 177,722	\$ 163,406	\$ 492,846	\$ 469,883
AMC Charter	117,377	122,581	376,685	316,230
Commercial Charter	108,078	70,353	305,852	206,956
Dry Leasing	3,057	3,065	8,864	6,742
Other	3,017	3,471	9,013	10,246
<b>Total Operating Revenue</b>	<b>\$ 409,251</b>	<b>\$ 362,876</b>	<b>\$ 1,193,260</b>	<b>\$ 1,010,057</b>
<b>Direct Contribution:</b>				
ACMI	\$ 51,625	\$ 40,503	\$ 116,573	\$ 101,268
AMC Charter	25,437	21,888	76,002	55,887
Commercial Charter	3,602	7,223	15,559	25,091
Dry Leasing	1,378	1,387	3,967	3,400
<b>Total Direct Contribution for Reportable Segments</b>	<b>82,042</b>	<b>71,001</b>	<b>212,101</b>	<b>185,646</b>
<b>Add back (subtract):</b>				
Unallocated income and expenses	(28,623)	(25,358)	(91,623)	(84,239)
Loss on early extinguishment of debt	(143)		(285)	
Gain on disposal of aircraft	1,058	163	2,417	464
<b>Income before Income Taxes</b>	<b>54,334</b>	<b>45,806</b>	<b>122,610</b>	<b>101,871</b>
<b>Add back (subtract):</b>				
Interest income	(4,833)	(5,004)	(14,629)	(15,200)
Interest expense	17,004	9,801	46,598	30,009
Capitalized interest	(4,052)	(6,982)	(16,356)	(18,584)
Loss on early extinguishment of debt	143		285	
Other (income) expense, net	(331)	(121)	454	(485)
<b>Operating Income</b>	<b>\$ 62,265</b>	<b>\$ 43,500</b>	<b>\$ 138,962</b>	<b>\$ 97,611</b>

We are exposed to a significant concentration of revenue to the AMC and Polar (see Note 3). No other customer accounted for 10.0% or more of our Total Operating Revenue. Accounts receivable from the AMC were \$17.0 million and \$21.5 million at September 30, 2012 and December 31, 2011, respectively. We have not experienced credit issues with either of these customers.

**8. Commitments and Contingencies**

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In 2006, we entered into an agreement with The Boeing Company ( Boeing ) providing for the purchase of 12 747-8F aircraft (the Boeing 747-8F Agreement ). In September 2011, we exercised our termination rights in connection with three early build 747-8F aircraft, reducing our order to nine. In addition, the Boeing 747-8F Agreement provided us with rights to purchase up to an additional 13 747-8F aircraft.

As of September 30, 2012, we purchased and took delivery of five of the nine aircraft on order. Estimated remaining expenditures under the Boeing 747-8F Agreement as of September 30, 2012, including estimated amounts for contractual price escalations and delivery payments, are \$209.4 million for the remainder of 2012 and \$212.5 million in 2013.

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

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

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

The court in the antitrust class actions has heard and decided a number of procedural motions. Among those was the plaintiffs' motion to join Polar Air Cargo Worldwide, Inc. as an additional defendant, which the court granted on April 13, 2011. There was substantial pre-trial written discovery and document production, and a number of depositions were taken. The case is currently in the class certification phase, with additional depositions occurring. The plaintiffs' motion for class certification was filed on October 28, 2011, and the Company filed its response on May 25, 2012. We are unable to reasonably predict the court's ruling on the motion or the ultimate outcome of the litigation.

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

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

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

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$9.7 million and \$5.3 million, respectively, plus interest based on September 30, 2012 exchange rates.

In both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. Furthermore, we may seek appropriate indemnity from the shipper in each claim as necessary. In the pending claim for \$9.7 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 \$6.3 million as of September 30, 2012 and \$6.5 million as of December 31, 2011, and are included in Deposits and other assets.



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

### ***Trademark Matters***

Since 2005, we have been involved in ongoing litigation in Europe against Atlas Transport, an unrelated and unaffiliated entity, over the use of the name Atlas. Following application by us to register the mark ATLAS AIR in the European Union (EU), opposition from Atlas Transport and follow-up filings by us, the Office for Harmonization in the Internal Market (OHIM), which handles trademark matters in the EU, declared Atlas Transport's own trademark ATLAS partially invalid because of the prior existence of our Benelux trademark registration. In 2008, OHIM's First Board of Appeal upheld the lower panel's decision, and Atlas Transport appealed that decision to the EU General Court (formally the Court of First Instance), which upheld the court's decision on May 18, 2011. Atlas Transport appealed that ruling to the European Court of Justice (ECJ). On March 9, 2012, the ECJ denied the appeal, bringing to an end that aspect of the OHIM proceedings. On May 14, 2012, the Company filed a request for OHIM to resume another aspect of proceedings, which had been suspended.

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

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

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

### ***Other***

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

## **10. Earnings Per Share**

Basic earnings per share (EPS) represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period. Anti-dilutive options that were out of the money for the three and nine months ended September 30, 2012 and 2011 were de minimis and excluded.

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The calculations of basic and diluted EPS were as follows:

	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2012	
<b>Numerator:</b>				
Net Income Attributable to Common Stockholders	\$ 33,858	\$ 28,206	\$ 77,545	\$ 62,570
<b>Denominator:</b>				
Basic EPS weighted average shares outstanding	26,443	26,291	26,410	26,201
Effect of dilutive stock options and restricted stock	137	161	117	215
Diluted EPS weighted average shares outstanding	26,580	26,452	26,527	26,416
<b>EPS:</b>				
Basic	\$ 1.28	\$ 1.07	\$ 2.94	\$ 2.39
Diluted	\$ 1.27	\$ 1.07	\$ 2.92	\$ 2.37

Diluted shares reflect the potential dilution that could occur from stock options and restricted shares using the treasury stock method. The calculation does not include restricted shares and units in which performance or market conditions were not satisfied of 0.4 million for the three and nine months ended September 30, 2012 and 0.3 million for the three and nine months ended September 30, 2011.

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

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

	Interest Rate Derivatives	Foreign Currency Translation	Total
Balance as of December 31, 2011	\$ (15,853)	\$ 170	\$ (15,683)
Net change in fair value	(713)		(713)
Reclassification into earnings	1,849		1,849
Translation adjustment		122	122
Tax effect	(398)	60	(338)
Balance as of September 30, 2012	\$ (15,115)	\$ 352	\$ (14,763)

**12. Income Taxes**

Our effective income tax rates were 36.4% and 38.1% for the three months ended September 30, 2012 and 2011, respectively, and were 37.4% and 37.9% for the nine months ended September 30, 2012 and 2011, respectively. The effective rates differ from the U.S. federal statutory rate due to the income tax impact of global operations, U.S. state income taxes, the non-deductibility of certain expenses for tax purposes, and the relationship of these items to our projected operating results for the year. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

In June and July 2012, we resolved income tax examinations in Hong Kong for the periods 2001 through 2010. The resolution of these income tax examinations favorably impacted the effective income tax rate for the third quarter and for the full year of 2012.

**13. Subsequent Event**

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On October 1, 2012, we purchased a 747-8F (aircraft tail number N852GT) and borrowed \$142.8 million under the Ex-Im Bank Facility as a variable-rate loan secured by a mortgage against that aircraft. On October 10, 2012, we refinanced the loan through the issuance of twelve-year fixed-rate notes in the amount of \$142.8 million (the Third 2012 Ex-Im Bank Guaranteed Notes). The Third 2012 Ex-Im Bank Guaranteed Notes accrue interest at a fixed rate of 1.56% with principal and interest payable quarterly.

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

The following discussion and analysis should be read in conjunction with our unaudited Financial Statements appearing in this report and our audited consolidated financial statements and related notes included in our 2011 Annual Report on Form 10-K.

**Background**

**Certain Terms Glossary**

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

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

**Business Overview**

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

Our primary service offerings encompass the following:

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

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

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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;

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

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

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

Delivering superior service quality to our valued customers;

Aggressively managing our fleet with a focus on modern, efficient aircraft;

Diversifying our service offerings;

Focusing on securing long-term customer contracts;

Driving significant and ongoing efficiencies and productivity improvements;

Selectively pursuing and evaluating future acquisitions and alliances; and

Building our brand and increasing our market share.

See Business Overview and Business Strategy in our 2011 Annual Report on Form 10-K for additional information.

## **Business Developments**

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

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

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

Between March and June 2012, we began CMI flying the first three of five 767 freighters owned by DHL in its North American network. In July 2012, we began flying the fourth and expect the fifth to be placed in service during the fourth quarter of 2012.

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

In June 2012, we began ACMI flying a 747-400F aircraft for Etihad Airways ( Etihad ). Under the ACMI agreement, we provided Etihad with the first 747-400F aircraft in its global network.

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

In October 2012, we purchased our sixth 747-8F aircraft and placed it into ACMI service with Polar and DHL, replacing a 747-400 aircraft. We have also placed our seventh 747-8F aircraft with Polar and DHL under an ACMI agreement and expect it to be delivered and placed in service during the fourth quarter of 2012.

In May 2011, we began flying passenger charters for the U.S. Military. These charters are generally similar to our AMC cargo charters in that the AMC pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs. In May 2012, we placed in service a third 767-300ER passenger aircraft. This increased the size of our passenger service for the AMC to two 747-400 and three 767-300ER passenger aircraft. The increase in AMC passenger Block Hours was due to flying more domestic and international AMC missions, which more than offset the decrease in demand for AMC cargo Block Hours during 2012.

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Commercial Charter Block Hours have increased significantly during 2012, reflecting the deployment of 747-400 cargo aircraft in lieu of retired 747-200 aircraft, an additional 747-400 cargo aircraft into South America and 747-400 aircraft from ACMI during remarketing periods. However, Commercial Charter Yields have been negatively impacted by increased global air cargo capacity and softer demand. In addition to providing passenger charters to the AMC, we are utilizing our new passenger aircraft for both public and private Commercial Charter passenger flights.

In July 2012, Titan purchased a Boeing 737-300 cargo aircraft that is being dry leased to a customer on a long-term basis.

**Results of Operations****Three Months Ended September 30, 2012 and 2011****Operating Statistics**

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

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Block Hours</b>				
ACMI	28,451	26,426	2,025	7.7%
AMC Charter:				
Cargo	2,283	4,566	(2,283)	(50.0)%
Passenger	3,882	467	3,415	NM
Commercial Charter	5,331	3,358	1,973	58.8%
Other	277	366	(89)	(24.3)%
Total Block Hours	40,224	35,183	5,041	14.3%
<b>Revenue Per Block Hour</b>				
ACMI	\$ 6,247	\$ 6,184	\$ 63	1.0%
AMC Charter	\$ 19,039	\$ 24,355	\$ (5,316)	(21.8)%
Cargo	\$ 19,853	\$ 24,186	\$ (4,333)	(17.9)%
Passenger	\$ 18,561	\$ 26,013	\$ (7,452)	(28.6)%
Commercial Charter	\$ 20,273	\$ 20,951	\$ (678)	(3.2)%
<b>Fuel</b>				
<b>AMC</b>				
Average fuel cost per gallon	\$ 2.67	\$ 3.97	\$ (1.30)	(32.7)%
Fuel gallons consumed (000s)	15,357	16,108	(751)	(4.7)%
<b>Commercial Charter</b>				
Average fuel cost per gallon	\$ 3.29	\$ 3.20	\$ 0.09	2.8%
Fuel gallons consumed (000s)	17,637	12,414	5,223	42.1%
<b>Segment Operating Fleet (average aircraft equivalents during the period)</b>				
<b>ACMI*</b>				
747-8F Cargo	4.7		4.7	NM
747-400 Cargo	16.5	20.5	(4.0)	(19.5)%
747-200 Cargo		0.1	(0.1)	NM
767-200 Cargo	3.8		3.8	NM
747-400 Passenger	1.0	1.0		NM
Total	26.0	21.6	4.4	20.4%
<b>AMC Charter</b>				



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747-400 Cargo	2.7	1.8	0.9	50.0%
747-200 Cargo		3.5	(3.5)	NM
747-400 Passenger	1.8	1.0	0.8	80.0%
767-300 Passenger	2.9		2.9	NM
Total	7.4	6.3	1.1	17.5%

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	2012	2011	Increase / (Decrease)	Percent Change
<b>Commercial Charter</b>				
747-400 Cargo	5.9	2.1	3.8	181.0%
747-200 Cargo		1.4	(1.4)	NM
747-400 Passenger	0.2		0.2	NM
767-300 Passenger	0.1		0.1	NM
Total	6.2	3.5	2.7	77.1%
<b>Dry Leasing</b>				
757-200 Cargo	1.0	1.0		NM
737-300 Cargo	0.8		0.8	NM
737-800 Passenger	2.0	2.0		NM
Total	3.8	3.0	0.8	26.7%
<b>Total Operating Aircraft</b>	43.4	34.4	9.0	26.2%
<b>Out-of-service**</b>		0.5	(0.5)	NM

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

\*\* All of our out-of-service aircraft in 2011 were 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):

	2012	2011	Increase / (Decrease)	Percent Change
<b>Operating Revenue</b>				
ACMI	\$ 177,722	\$ 163,406	\$ 14,316	8.8%
AMC Charter	117,377	122,581	(5,204)	(4.2)%
Commercial Charter	108,078	70,353	37,725	53.6%
Dry Leasing	3,057	3,065	(8)	NM
Other	3,017	3,471	(454)	(13.1)%
Total Operating Revenue	\$ 409,251	\$ 362,876	\$ 46,375	12.8%

ACMI revenue increased \$14.3 million, or 8.8%, primarily due to the entry of 747-8F aircraft into service and increased CMI flying, partially offset by the redeployment of 747-400 aircraft into other segments. ACMI Revenue per Block Hour was \$6,247 for the third quarter of 2012, compared to \$6,184 in 2011, an increase of \$63 per Block Hour, or 1.0% reflecting the impact of higher rates for the 747-8F aircraft, which began flying during the fourth quarter of 2011, with additional aircraft beginning to fly in both the second and third quarters of 2012, partially offset by the impact of lower rates for CMI flying. ACMI Block Hours were 28,451 for the third quarter of 2012, compared to 26,426 in 2011, representing an increase of 2,025 Block Hours, or 7.7%. The increase in Block Hours was primarily driven by the start-up of CMI flying of four 767 cargo aircraft for DHL during 2012 and an increase in the CMI flying of modified 747-400 freighter aircraft ( Dreamlifters ) for Boeing.

AMC Charter revenue decreased \$5.2 million, or 4.2%, primarily driven by a reduction in AMC Charter Cargo revenue and a decrease in the pegged fuel price, partially offset by increased AMC Charter Passenger flying. AMC Charter Block Hours were 6,165 for the third quarter of 2012 compared to 5,033 in 2011, an increase of 1,132 Block Hours, or 22.5%. The increase in AMC Charter Block Hours was due to 3,415 incremental AMC Charter Passenger Block Hours from flying four additional passenger aircraft in 2012 resulting in \$59.9 million of increased revenue, partially offset by a decrease of 2,283 AMC Charter Cargo Block Hours driven by reduced cargo demand from the AMC. AMC Charter Revenue per Block Hour was \$19,039 for the third quarter of 2012 compared to \$24,355 in 2011, a decrease of \$5,316 per Block Hour,

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or 21.8%, due to a decrease in AMC Charter Cargo Revenue per Block Hour and a higher volume of passenger flying on smaller 767 aircraft. AMC Charter Cargo Revenue per Block Hour was \$19,853 for the third quarter of 2012 compared to \$24,186 in 2011, a decrease of \$4,333 per Block Hour, or 17.9%. This decrease was driven by a lower average pegged fuel price impacting the third quarter of 2012 and a reduction in the number of one-way AMC missions. For the third quarter of 2012, the AMC average pegged fuel price was \$2.67 per gallon compared to \$3.97 in 2011. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense. These decreases were partially offset by an increase in premiums earned on flying additional, more efficient 747-400 cargo aircraft during the third quarter of 2012 in place of less efficient 747-200 aircraft in 2011.

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*Commercial Charter revenue* increased \$37.7 million, or 53.6%, due to an increase in Block Hours, partially offset by a decrease in Revenue per Block Hour. Commercial Charter Block Hours were 5,331 in the third quarter of 2012, compared to 3,358 in 2011, representing an increase of 1,973 Block Hours, or 58.8%. The increase in Block Hours was primarily due to the deployment of 747-400 cargo aircraft in lieu of retired 747-200 aircraft, an additional 747-400 cargo aircraft in South America and 747-400 aircraft from ACMI during remarketing periods. Revenue per Block Hour was \$20,273 in the third quarter of 2012, compared to \$20,951 in 2011, a decrease of \$678 per Block Hour, or 3.2%, which reflects the impact of lower Yields on increased global air cargo capacity combined with softer demand during the third quarter of 2012 compared to 2011 and a reduction in Commercial Charter return legs due to fewer AMC one-way missions.

*Dry Leasing revenue* was relatively unchanged.

**Operating Expenses**

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Operating Expenses</b>				
Aircraft fuel	\$ 99,080	\$ 103,663	\$ (4,583)	(4.4)%
Salaries, wages and benefits	71,386	61,911	9,475	15.3%
Maintenance, materials and repairs	40,524	47,770	(7,246)	(15.2)%
Aircraft rent	44,133	41,055	3,078	7.5%
Passenger and ground handling services	18,711	7,836	10,875	138.8%
Depreciation and amortization	16,612	9,964	6,648	66.7%
Navigation fees, landing fees and other rent	15,153	12,813	2,340	18.3%
Travel	14,746	11,284	3,462	30.7%
Gain on disposal of aircraft	(1,058)	(163)	895	NM
Other	27,699	23,243	4,456	19.2%
<b>Total Operating Expenses</b>	<b>\$ 346,986</b>	<b>\$ 319,376</b>		

*Aircraft fuel* decreased \$4.6 million, or 4.4%, due to approximately \$20.8 million in fuel price decreases, partially offset by \$16.2 million in increased consumption. The average fuel price per gallon for the AMC Charter business was \$2.67 in the third quarter of 2012, compared to \$3.97 in 2011, a decrease of 32.7%. AMC fuel consumption decreased by 0.8 million gallons, or 4.7%, primarily reflecting the use of more efficient, twin-engine 767 passenger aircraft and 747-400 cargo aircraft during the third quarter of 2012 in comparison to less efficient 747-200 cargo aircraft used in 2011, partially offset by an increase in Block Hours operated. Commercial Charter fuel consumption increased by 5.2 million gallons, or 42.1%, primarily driven by the increase in Block Hours operated, partially offset by the use of more efficient 747-400 aircraft during the third quarter of 2012 in place of less efficient 747-200 aircraft in 2011. The average fuel price per gallon for the Commercial Charter business was \$3.29 for the third quarter of 2012, compared to \$3.20 in 2011, an increase of 2.8%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$9.5 million, or 15.3%, primarily driven by higher Block Hours, increased wages for crew and hiring additional employees to support our new aircraft.

*Maintenance, materials and repairs* decreased \$7.2 million, or 15.2%, driven by a reduction in maintenance expense of \$7.7 million for 747-200 aircraft and \$3.8 million for 747-400 aircraft, partially offset by an increase of \$4.3 million for other aircraft. Heavy Maintenance expense on 747-400 aircraft decreased approximately \$2.6 million primarily due to a decrease in engine overhaul expense compared to 2011. Heavy Maintenance expense on 747-200 aircraft decreased approximately \$5.6 million due to the retirement of this fleet during the first quarter of 2012. Non-heavy Maintenance expense on 747-400 aircraft decreased \$1.8 million. Line Maintenance expense increased \$0.6 million for 747-400 aircraft and \$4.3 million for 747-8F and 767 aircraft. Line Maintenance expense decreased \$2.1 million on 747-200 aircraft due to the retirement of this fleet during the first quarter of 2012. Heavy airframe maintenance events and engine overhauls for the three months ended September 30 were:

	2012	2011	Increase / (Decrease)
<b>Heavy Maintenance Events</b>			
747-400 C Checks	2	2	
747-400 D Checks	1	1	
747-200 C Checks		2	(2)
CF6-80 engine overhauls	3	4	(1)

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*Aircraft rent* increased \$3.1 million, or 7.5%, primarily due to subcontracting certain Commercial Charter flights with our ACMI customers during the third quarter of 2012, partially offset by our return of a 747-400 passenger aircraft in December 2011.

*Passenger and ground handling services* increased \$10.9 million, or 138.8%, primarily due to passenger catering and contract services for flight attendants related to increased passenger flying during 2012. We reclassified passenger catering and contract services for flight attendants from Other operating expenses to Passenger and ground handling services and reclassified previously reported amounts to conform to the current period's presentation.

*Depreciation and amortization* increased \$6.6 million, or 66.7%, due to additional operating aircraft in 2012.

*Navigation fees, landing fees and other rent* increased \$2.3 million, or 18.3%, primarily due to increased flying during the third quarter of 2012.

*Travel* increased \$3.5 million, or 30.7%, primarily due to increased travel for flight attendants and crew related to increased flying during the third quarter of 2012.

*Gain on disposal of aircraft* resulted from the sale of a retired 747-200 engine during 2012.

*Other* increased \$4.5 million, or 19.2%, primarily due to increases in commissions on AMC Charter flying, taxes on domestic passenger flights and increased insurance due to additional operating aircraft.

**Non-operating Expenses (Income)**

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Non-operating Expenses (Income)</b>				
Interest income	\$ (4,833)	\$ (5,004)	\$ (171)	(3.4)%
Interest expense	17,004	9,801	7,203	73.5%
Capitalized interest	(4,052)	(6,982)	(2,930)	(42.0)%
Loss on early extinguishment of debt	143		143	NM
Other (income) expense, net	(331)	(121)	210	173.6%

*Interest expense* increased \$7.2 million, or 73.5%, primarily due to an increase in our average debt balances related to financing three 747-8F aircraft in the fourth quarter of 2011, one in the second quarter of 2012 and one in the third quarter of 2012.

*Capitalized interest* decreased \$2.9 million, or 42.0%, resulting from 747-8F aircraft that entered service.

*Income taxes.* Our effective income tax rates were 36.4% for the three months ended September 30, 2012 and 38.1% for the three months ended September 30, 2011. In July 2012, we resolved income tax examinations in Hong Kong for the periods 2002 through 2010 that favorably impacted the effective income tax rate during the third quarter of 2012.

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

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Direct Contribution:</b>				
ACMI	\$ 51,625	\$ 40,503	\$ 11,122	27.5%
AMC Charter	25,437	21,888	3,549	16.2%
Commercial Charter	3,602	7,223	(3,621)	(50.1)%
Dry Leasing	1,378	1,387	(9)	(0.6)%
Total Direct Contribution	\$ 82,042	\$ 71,001	\$ 11,041	15.6%
Unallocated income and expenses	\$ 28,623	\$ 25,358	\$ 3,265	12.9%

***ACMI Segment***

Direct Contribution related to the ACMI segment increased \$11.1 million, or 27.5%, primarily due to higher rates per Block Hour and lower maintenance expense for our new 747-8F aircraft flown during 2012. Partially offsetting these improvements was an increase in crew costs.

***AMC Charter Segment***

Direct Contribution related to the AMC Charter segment increased \$3.5 million, or 16.2%, primarily due to increased passenger Block Hours and lower Heavy Maintenance from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft flown during the third quarter of 2011. Partially offsetting these items were a decrease in cargo Block Hours resulting from lower AMC cargo demand, a reduction in the number of one-way AMC missions and increases in crew costs, volume-driven operating expenses and aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft.

***Commercial Charter Segment***

Direct Contribution related to the Commercial Charter segment decreased \$3.6 million, or 50.1%, primarily due to a decrease in Revenue per Block Hour, partially offset by increased Block Hours. The decrease in Commercial Charter Revenue per Block Hour was driven by an increase in global air cargo capacity combined with softer demand and a reduction in Commercial Charter return legs due to fewer AMC one-way missions. The increase in Block Hours was primarily due to the deployment of 747-400 cargo aircraft in lieu of retired 747-200 aircraft, an additional 747-400 cargo aircraft in South America and 747-400 aircraft from ACMI during remarketing periods. In addition, Commercial Charter Direct Contribution was negatively impacted by increases in volume-driven operating expenses, crew costs and aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft.

***Dry Leasing Segment***

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

***Unallocated income and expenses***

Unallocated income and expenses increased \$3.3 million, or 12.9%, primarily due to a reduction in capitalized interest on 747-8F aircraft that entered service and an increase in ground staff costs to support new aircraft types introduced into the fleet in 2012.

***Nine Months Ended September 30, 2012 and 2011*****Operating Statistics**

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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.



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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Block Hours</b>				
ACMI	78,698	76,313	2,385	3.1%
<b>AMC Charter:</b>				
Cargo	8,152	13,443	(5,291)	(39.4)%
Passenger	9,121	644	8,477	NM
Commercial Charter	14,761	9,736	5,025	51.6%
Other	908	797	111	13.9%
Total Block Hours	111,640	100,933	10,707	10.6%
<b>Revenue Per Block Hour</b>				
ACMI	\$ 6,262	\$ 6,157	\$ 105	1.7%
AMC Charter	\$ 21,808	\$ 22,448	\$ (641)	(2.9)%
Cargo	\$ 23,771	\$ 22,204	\$ 1,567	7.1%
Passenger	\$ 20,053	\$ 27,550	\$ (7,497)	(27.2)%
Commercial Charter	\$ 20,720	\$ 21,257	\$ (537)	(2.5)%
<b>Fuel</b>				
<b>AMC</b>				
Average fuel cost per gallon	\$ 3.27	\$ 3.56	\$ (0.29)	(8.1)%
Fuel gallons consumed (000s)	44,909	45,571	(662)	(1.5)%
<b>Commercial Charter</b>				
Average fuel cost per gallon	\$ 3.34	\$ 3.25	\$ 0.09	2.8%
Fuel gallons consumed (000s)	49,256	35,663	13,593	38.1%
<b>Segment Operating Fleet (average aircraft equivalents during the period)</b>				
<b>ACMI*</b>				
747-8F Cargo	3.7		3.7	NM
747-400 Cargo	16.7	20.4	(3.7)	(18.1)%
747-200 Cargo		0.2	(0.2)	NM
767-200 Cargo	1.8		1.8	NM
747-400 Passenger	1.1	1.0	0.1	10.0%
Total	23.3	21.6	1.7	7.9%
<b>AMC Charter</b>				
747-400 Cargo	3.1	1.3	1.8	138.5%
747-200 Cargo	0.2	3.9	(3.7)	(94.9)%
747-400 Passenger	1.7	0.5	1.2	240.0%
767-300 Passenger	2.3		2.3	NM
Total	7.3	5.7	1.6	28.1%
<b>Commercial Charter</b>				
747-400 Cargo	5.3	1.9	3.4	178.9%
747-200 Cargo	0.2	1.5	(1.3)	(86.7)%
747-400 Passenger	0.2		0.2	NM
767-300 Passenger	0.2		0.2	NM
Total	5.9	3.4	2.5	73.5%
<b>Dry Leasing</b>				
757-200 Cargo	1.0	1.0		NM
737-300 Cargo	0.3		0.3	NM
737-800 Passenger	2.0	1.0	1.0	100.0%

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Total	3.3	2.0	1.3	65.0%
<b>Total Operating Aircraft</b>	39.8	32.7	7.1	21.7%
<b>Out-of-service**</b>		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.

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

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Operating Revenue</b>				
ACMI	\$ 492,846	\$ 469,883	\$ 22,963	4.9%
AMC Charter	376,685	316,230	60,455	19.1%
Commercial Charter	305,852	206,956	98,896	47.8%
Dry Leasing	8,864	6,742	2,122	31.5%
Other	9,013	10,246	(1,233)	(12.0)%
<b>Total Operating Revenue</b>	<b>\$ 1,193,260</b>	<b>\$ 1,010,057</b>	<b>\$ 183,203</b>	<b>18.1%</b>

*ACMI revenue* increased \$23.0 million, or 4.9%, primarily due to the entry of 747-8F aircraft into service and increased CMI flying, partially offset by the redeployment of 747-400 aircraft into other segments. ACMI Revenue per Block Hour was \$6,262 in 2012, compared to \$6,157 in 2011, an increase of \$105 per Block Hour, or 1.7%. The increase in Revenue per Block Hour primarily reflects the impact of higher rates for 747-8F aircraft, which began flying during the fourth quarter of 2011, with additional aircraft beginning to fly in both the second and third quarters of 2012. Partially offsetting this increase was the impact of lower rates for CMI flying in 2012. ACMI Block Hours were 78,698 for the first three quarters of 2012, compared to 76,313 in 2011, an increase of 2,385 Block Hours, or 3.1%. The increase in Block Hours was primarily driven by the start-up of CMI flying of four 767 cargo aircraft for DHL during 2012 and an increase in CMI flying of Dreamlifters for Boeing. Partially offsetting these increases were the return of two 747-400 cargo aircraft during the second quarter of 2012, which were temporarily redeployed to other segments. The two aircraft were subsequently redeployed to Etihad in June 2012 and DHL in July 2012.

*AMC Charter revenue* increased \$60.5 million, or 19.1%, driven by increased AMC Charter Passenger flying that began in May 2011, partially offset by a reduction in AMC Charter Cargo revenue. AMC Charter Block Hours were 17,273 in 2012 compared to 14,087 in 2011, an increase of 3,186 Block Hours, or 22.6%. The increase in AMC Charter Block Hours was due to 8,477 incremental AMC Charter Passenger Block Hours from flying four additional passenger aircraft in 2012 resulting in \$165.2 million of increased revenue, partially offset by a decrease of 5,291 AMC Charter Cargo Block Hours driven by reduced cargo demand from the AMC. AMC Charter Revenue per Block Hour was \$21,808 in 2012 compared to \$22,448 in 2011, a decrease of \$641 per Block Hour, or 2.9%, due to a higher volume of passenger flying on smaller 767 aircraft, a decrease in the average pegged fuel price and a reduction in the number of one-way AMC missions. Partially offsetting these items were premiums earned on flying additional, more efficient 747-400 cargo aircraft during the first three quarters of 2012 in place of less efficient 747-200 aircraft in 2011. For the first three quarters of 2012, the AMC average pegged fuel price was \$3.27 per gallon compared to \$3.56 in 2011. The pegged fuel price is set by the AMC and the impact to revenue from changes in the pegged fuel price is generally offset by a corresponding impact to fuel expense.

*Commercial Charter revenue* increased \$98.9 million, or 47.8%, due to an increase in Block Hours, partially offset by a decrease in Revenue per Block Hour. Commercial Charter Block Hours were 14,761 in 2012, compared to 9,736 in 2011, representing an increase of 5,025 Block Hours, or 51.6%. The increase in Block Hours was primarily due to the deployment of 747-400 cargo aircraft in lieu of retired 747-200 aircraft, an additional 747-400 cargo aircraft in South America and 747-400 aircraft from ACMI during remarketing periods. In addition, we were able to utilize our passenger aircraft for sporting event, concert tour and other private charters. Revenue per Block Hour was \$20,720 in the first three quarters of 2012, compared to \$21,257 in 2011, a decrease of \$537 per Block Hour, or 2.5%, which reflects the impact of lower Yields on increased global air cargo capacity and softer demand during 2012 compared to 2011 and the impact of a reduction in Commercial Charter return legs due to fewer AMC one-way missions.

*Dry Leasing revenue* increased \$2.1 million, or 31.5%, primarily due to dry leasing two additional aircraft in the second quarter of 2011.

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

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Operating Expenses</b>				
Aircraft fuel	\$ 311,414	\$ 278,188	\$ 33,226	11.9%
Salaries, wages and benefits	215,640	185,173	30,467	16.5%
Maintenance, materials and repairs	136,875	144,699	(7,824)	(5.4)%
Aircraft rent	126,309	120,976	5,333	4.4%
Passenger and ground handling services	50,100	21,338	28,762	134.8%
Depreciation and amortization	44,792	27,069	17,723	65.5%
Navigation fees, landing fees and other rent	44,090	36,756	7,334	20.0%
Travel	42,189	30,328	11,861	39.1%
Gain on disposal of aircraft	(2,417)	(464)	1,953	NM
Other	85,306	68,383	16,923	24.7%
<b>Total Operating Expenses</b>	<b>\$ 1,054,298</b>	<b>\$ 912,446</b>		

*Aircraft fuel* increased \$33.2 million, or 11.9%, due to approximately \$44.3 million in increased consumption, partially offset by \$11.1 million in fuel price decreases. Commercial Charter fuel consumption increased by 13.6 million gallons, or 38.1%, primarily driven by the increase in Block Hours operated, partially offset by the use of more efficient 747-400 aircraft during the first nine months of 2012 in comparison to less efficient 747-200 aircraft used in 2011. The average fuel price per gallon for the Commercial Charter business was \$3.34 for the first nine months of 2012, compared to \$3.25 in 2011, an increase of 2.8%. AMC fuel consumption decreased by 0.7 million gallons, or 1.5%, reflecting the increase in Block Hours operated, partially offset by the use of more efficient, twin-engine 767 passenger aircraft and 747-400 cargo aircraft during the first nine months of 2012 in place of less efficient 747-200 cargo aircraft in 2011. The average fuel price per gallon for the AMC Charter business was \$3.27 for the first nine months of 2012, compared to \$3.56 in 2011, a decrease of 8.1%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

*Salaries, wages and benefits* increased \$30.5 million, or 16.5%, primarily driven by higher Block Hours, increased wages for crew and hiring additional employees to support our new aircraft.

*Maintenance, materials and repairs* decreased by \$7.8 million, or 5.4%, driven by a reduction in maintenance expense of \$26.0 million for 747-200 aircraft, partially offset by increases of \$7.7 million for 747-400 aircraft and \$10.5 million for other aircraft. Heavy Maintenance expense on 747-400 aircraft increased approximately \$2.0 million due to an increase in the number of C Checks and additional maintenance expense on engines, partially offset by a reduction in D Checks compared to 2011. Heavy Maintenance expense on 747-200 aircraft decreased approximately \$16.7 million due to the retirement of this fleet during the first quarter of 2012. Non-heavy Maintenance expense on 747-400 aircraft increased \$0.1 million. Line Maintenance expense increased \$5.6 million for 747-400 aircraft and \$10.5 million for 747-8F and 767 aircraft. Line Maintenance expense decreased \$9.3 million on 747-200 aircraft due to the retirement of this fleet during the first quarter of 2012. Heavy airframe maintenance events and engine overhauls for the first nine months ended September 30 were:

	2012	2011	Increase / (Decrease)
<b>Heavy Maintenance Events</b>			
747-400 C Checks	11	6	5
747-400 D Checks	3	5	(2)
747-200 C Checks		4	(4)
CF6-80 engine overhauls	14	12	2
CF6-50 engine overhauls		2	(2)

*Aircraft rent* increased \$5.3 million, or 4.4%, primarily due to subcontracting certain Commercial Charter flights with our ACMI customers during the second and third quarters of 2012, partially offset by the purchase of engines in 2012 that were previously leased.



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*Passenger and ground handling services* increased \$28.8 million, or 134.8%, primarily due to increased passenger catering and contract services for flight attendants related to increased passenger flying, which began in May 2011. We reclassified passenger catering and contract services for flight attendants from Other operating expenses to Passenger and ground handling services and reclassified previously reported amounts to conform to the current period's presentation.

*Depreciation and amortization* increased \$17.7, or 65.5%, primarily due to additional operating aircraft in 2012.

*Navigation fees, landing fees and other rent* increased \$7.3 million, or 20.0%, primarily due to increased flying during 2012.

*Travel* increased \$11.9 million, or 39.1%, primarily due to increased travel for flight attendants and crew related to increased flying during 2012.

*Gain on disposal of aircraft* resulted from the sale of retired 747-200 airframes and engines during 2012.

*Other* increased \$16.9 million, or 24.7%, primarily due to increases in commissions for higher AMC Charter Revenue, taxes on domestic passenger flights, increased insurance due to additional operating aircraft and increased flight simulator training for our 767 crew.

**Non-operating Expenses (Income)**

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Non-operating Expenses (Income)</b>				
Interest income	\$ (14,629)	\$ (15,200)	\$ (571)	(3.8)%
Interest expense	46,598	30,009	16,589	55.3%
Capitalized interest	(16,356)	(18,584)	(2,228)	(12.0)%
Loss on early extinguishment of debt	285		285	NM
Other (income) expense, net	454	(485)	(939)	NM

*Interest expense* increased \$16.6 million, or 55.3%, primarily due to an increase in our average debt balances related to the financing of three 747-8F aircraft during the fourth quarter of 2011 and two 747-8F aircraft during the first nine months of 2012.

*Capitalized interest* decreased \$2.2 million, or 12.0%, resulting from 747-8F aircraft that entered service.

*Other (income) expense, net* decreased \$0.9 million, primarily due to an unrealized loss on a foreign currency denominated deposit in Brazil. See Note 9 for further discussion.

*Income taxes.* Our effective income tax rates were 37.4% for the nine months ended September 30, 2012 and 37.9% for the nine months ended September 30, 2011. In June and July 2012, we resolved income tax examinations in Hong Kong for the periods 2001 through 2010 that favorably impact the effective income tax rate for 2012.

**Segments**

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

	2012	2011	Increase / (Decrease)	Percent Change
<b>Direct Contribution:</b>				
ACMI	\$ 116,573	\$ 101,268	\$ 15,305	15.1%
AMC Charter	76,002	55,887	20,115	36.0%

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Commercial Charter	15,559	25,091	(9,532)	(38.0)%
Dry Leasing	3,967	3,400	567	16.7%
Total Direct Contribution	\$ 212,101	\$ 185,646	\$ 26,455	14.3%
Unallocated income and expenses	\$ 91,623	\$ 84,239	\$ 7,384	8.8%

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### ***ACMI Segment***

Direct Contribution related to the ACMI segment increased \$15.3 million, or 15.1%, primarily due to higher rates per Block Hour and lower maintenance expense for our new 747-8F aircraft flown during the first three quarters of 2012. Partially offsetting these improvements was an increase in crew costs.

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

Direct Contribution related to the AMC Charter segment increased \$20.1 million, or 36.0%, primarily due to increased passenger Block Hours, as well as lower Heavy Maintenance from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft flown during the third quarter of 2011. Partially offsetting these items were a decrease in cargo Block Hours resulting from lower AMC cargo demand, a reduction in the number of one-way AMC missions and increases in crew costs, volume-driven operating expenses and aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft.

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

Direct Contribution related to the Commercial Charter segment decreased \$9.5 million, or 38.0%, primarily due to a reduction in Revenue per Block Hour driven by an increase in global air cargo capacity combined with softer demand, a reduction in Commercial Charter return legs due to fewer AMC one-way missions and the higher cost of operating an inefficient 747-200 fleet size during the first quarter of 2012. Partially offsetting these items was an increase in Block Hours, primarily due to the deployment of 747-400 aircraft in lieu of retired 747-200 aircraft, an additional 747-400 cargo aircraft in South America and 747-400 aircraft from ACMI during remarketing periods. In addition, Commercial Charter Direct Contribution was negatively impacted by increases in aircraft ownership costs from the deployment of 747-400 aircraft into this segment in place of 747-200 aircraft and crew costs.

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

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

### ***Unallocated income and expenses***

Unallocated income and expenses increased \$7.4 million, or 8.8%, primarily due to incremental employee costs related to the retirement of our 747-200 fleet, a reduction in capitalized interest on 747-8F aircraft that entered service and an increase in ground staff costs to support the expansion of our aircraft operating fleet in 2012, partially offset by a reduction in pre-operating expense related to the introduction of new aircraft types in 2011.

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

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

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



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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):

	September 30, 2012	For the Three Months Ended September 30, 2011	Percent Change
<b>Net Income Attributable to Common Stockholders</b>	\$ 33,858	\$ 28,206	20.0%
After-tax impact from:			
Fleet retirement costs*	125		
Pre-operating expenses**		2,291	
Loss on early extinguishment of debt	91		
Gain on disposal of aircraft	(674)	(104)	
<b>Adjusted Net Income Attributable to Common Stockholders</b>	\$ 33,400	\$ 30,393	9.9%
<b>Diluted EPS</b>	\$ 1.27	\$ 1.07	18.7%
After-tax impact from:			
Fleet retirement costs*	0.00		
Pre-operating expenses**		0.09	
Loss on early extinguishment of debt	0.00		
Gain on disposal of aircraft	(0.03)	(0.00)	
<b>Adjusted Diluted EPS</b>	\$ 1.26	\$ 1.15	9.6%
	September 30, 2012	For the Nine Months Ended September 30, 2011	Percent Change
<b>Net Income Attributable to Common Stockholders</b>	\$ 77,545	\$ 62,570	23.9%
After-tax impact from:			
Fleet retirement costs*	2,093		
Pre-operating expenses**		6,834	
Loss on early extinguishment of debt	182		
Gain on disposal of aircraft	(1,540)	(296)	
<b>Adjusted Net Income Attributable to Common Stockholders</b>	78,280	69,108	13.3%
<b>Diluted EPS</b>	\$ 2.92	\$ 2.37	23.2%
After-tax impact from:			
Fleet retirement costs*	0.08		
Pre-operating expenses**		0.26	
Loss on early extinguishment of debt	0.01		
Gain on disposal of aircraft	(0.06)	(0.01)	
<b>Adjusted Diluted EPS</b>	2.95	2.62	12.6%

Items do not sum due to rounding.

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

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

### **Liquidity and Capital Resources**

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

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

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on a 747-8F aircraft. In May and July 2012, we borrowed \$284.7 million under the Ex-Im Bank Facility to finance the delivery of our fourth and fifth 747-8F aircraft. Under the Ex-Im Bank Facility, each of the above aircraft were initially financed as floating-rate loans and subsequently refinanced by the issuance of two separate twelve-year, fixed-rate Ex-Im Bank guaranteed notes.

In March 2012, we entered into the First CIT Term Loan in the aggregate amount of \$35.7 million to finance two 747-400 and two 767-300ER passenger aircraft that we purchased in 2011. In May 2012, we entered into the Second CIT Term Loan for \$8.5 million to finance a third 767-300ER passenger aircraft that we purchased in 2011.

In September 2012, we entered into the Helaba Bank Term Loan in the aggregate amount of \$26.0 million to finance a 737-800 passenger aircraft that we purchased in 2011.

*Operating Activities.* Net cash provided by operating activities for the first nine months of 2012 was \$197.2 million, compared to \$118.6 million for the first nine months of 2011. The increase primarily reflects higher earnings and lower income taxes paid in the first nine months of 2012 compared to 2011.

*Investing Activities.* Net cash used for investing activities was \$333.3 million for the first nine months of 2012, consisting primarily of \$312.5 million of purchase deposit and delivery payments for flight equipment, which included \$16.4 million of capitalized interest on our 747-8F aircraft order, and \$26.7 million of capital expenditures, partially offset by \$4.3 million of proceeds from short-term investments. During the first nine months of 2012, we purchased two 747-8F cargo aircraft, one 737-300 cargo aircraft and one 767-300ER passenger aircraft. Capital expenditures for the first nine months of 2012 were funded through working capital, except for the three aircraft financed as discussed above. Net cash used for investing activities was \$319.8 million for the first nine months of 2011, consisting primarily of \$184.5 million of purchase deposit and delivery payments for flight equipment, which included \$18.6 million of capitalized interest on our 747-8F aircraft order, changes in restricted cash of \$120.3 million and \$20.8 million of capital expenditures, partially offset by \$4.7 million of proceeds from short-term investments.

*Financing Activities.* Net cash provided by financing activities was \$264.8 million for the first nine months of 2012, which primarily reflected the proceeds from debt issuance of \$639.6 million, partially offset by \$347.2 million of payments on debt obligations and \$24.8 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of \$284.7 million in term loans under the Ex-Im Bank Facility with the First and Second 2012 Ex-Im Bank Guaranteed Notes. Net cash used for financing activities was \$29.6 million for the first nine months of 2011, 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.

We consider Cash and cash equivalents, Short-term investments and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations and to fund capital expenditures for 2013. Capital expenditures for the remainder of 2012 are expected to be approximately \$12.5 million, which excludes aircraft and capitalized interest. Our estimated 747-8F aircraft delivery payment requirements for the remainder of 2012 are approximately \$209.4 million. We expect our Cash and cash equivalents, and the Ex-Im Bank Facility to be sufficient to fund our 747-8F aircraft delivery payment requirements for 2012 and 2013. As such, on October 1, 2012, we elected to terminate our \$125.6 million pre-delivery payment financing facility since it is no longer needed to finance our pre-delivery payments.

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 June 2012 that enables us to sell a yet to be determined amount of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and other factors. Our access to capital markets can be adversely impacted by prevailing economic conditions and by financial, business and other factors, some of which are beyond our control. Additionally, our borrowing costs are affected by market conditions and may be adversely impacted by a tightening in credit markets.

We can claim bonus tax depreciation equal to 100% of the cost of qualified assets placed in service during 2011 or 2012 and 50% of the cost of qualified assets placed in service during 2013. Two 747-8F aircraft delivered to us in 2011 and three delivered in 2012 qualified for 100% bonus tax depreciation. In addition, we expect another 747-8F aircraft to be delivered in 2012 to qualify for 100% bonus tax depreciation and two 747-8F aircraft to be delivered in 2013 to qualify for 50% bonus tax depreciation. As a result, we do not expect to pay any significant U.S. federal income tax until 2016 or later. Furthermore, our business operations are subject to income tax in several non-U.S. jurisdictions. We expect GSS to pay U.K. cash income taxes commensurate with its earnings. We do not expect to pay cash income taxes in any other jurisdiction for at least several years.



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

See Note 6 to our Financial Statements for a description of our new debt obligations; the Ex-Im Bank Facility, the three Ex-Im Bank guaranteed notes, the Helaba Bank Term Loan, the First 2012 CIT Term Loan and the Second 2012 CIT Term Loan. See our 2011 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2011 and a description of our debt obligations and amendments thereto.

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

There were no material changes in our off-balance sheet arrangements during the three months ended September 30, 2012.

### **Recent Accounting Pronouncements**

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

### **Forward Looking Statements**

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

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2011. Many of such factors are beyond AAWW's control and are difficult to predict. As a result, AAWW's future actions, financial position, results of operations and the market price for shares of AAWW's common stock could differ materially from those expressed in any forward-looking statements. Readers are therefore cautioned not to place undue reliance on forward-looking statements. AAWW does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, AAWW, whether as a result of new information, future events or otherwise, except as required by law.

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

For additional discussion of our exposure to market risk, refer to Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk included in our 2011 Annual Report on Form 10-K.

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

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

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2012. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

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

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

With respect to the fiscal quarter ended September 30, 2012, the information required in response to this Item is set forth in Note 9 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**

For an update of a risk factor related to our insurance coverage that is set forth in Item 1A Risk Factors of our 2011 Annual Report on Form 10-K, please refer to Item 1A Risk Factors of our quarterly report for the period ended March 31, 2012 on Form 10-Q. For additional risk factors that may cause actual results to differ materially from those anticipated, please refer to our 2011 Annual Report on Form 10-K.

**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 1, 2012

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

Dated: November 1, 2012

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



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

\* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2012 and 2011, (v) Consolidated Statement of Stockholders' Equity for the three and nine months ended September 30, 2012 and 2011 and (vi) Notes to Unaudited Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.