

ATLAS AIR WORLDWIDE HOLDINGS INC

Form 10-Q

July 30, 2015

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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 June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-16545

Atlas Air Worldwide Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

13-4146982
(IRS Employer

incorporation)

Identification No.)

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

10577
(Zip Code)

(914) 701-8000

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 27, 2015, there were 25,052,851 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)*

| | June 30, 2015 | December 31, 2014 |
|--|----------------------|--------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 514,750 | \$ 298,601 |
| Short-term investments | 24,373 | 17,802 |
| Restricted cash | 15,731 | 14,281 |
| Accounts receivable, net of allowance of \$1,631 and \$1,658, respectively | 152,906 | 162,092 |
| Prepaid maintenance | 15,589 | 20,806 |
| Deferred taxes | 41,862 | 40,923 |
| Prepaid expenses and other current assets | 31,313 | 51,599 |
| Total current assets | 796,524 | 606,104 |
| Property and Equipment | | |
| Flight equipment | 3,489,587 | 3,448,791 |
| Ground equipment | 55,227 | 51,418 |
| Less: accumulated depreciation | (400,368) | (348,036) |
| Purchase deposits for flight equipment | 58,820 | 20,054 |
| Property and equipment, net | 3,203,266 | 3,172,227 |
| Other Assets | | |
| Long-term investments and accrued interest | 106,951 | 120,478 |
| Deposits and other assets | 77,337 | 80,258 |
| Intangible assets, net | 62,918 | 67,410 |
| Total Assets | \$ 4,246,996 | \$ 4,046,477 |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 39,274 | \$ 42,864 |
| Accrued liabilities | 261,342 | 251,594 |
| Current portion of long-term debt | 180,902 | 181,202 |
| Total current liabilities | 481,518 | 475,660 |

Other Liabilities

| | | |
|-------------------|-----------|-----------|
| Long-term debt | 1,812,483 | 1,736,739 |
| Deferred taxes | 370,216 | 350,868 |
| Other liabilities | 67,442 | 65,415 |

| | | |
|-------------------------|-----------|-----------|
| Total other liabilities | 2,250,141 | 2,153,022 |
|-------------------------|-----------|-----------|

Commitments and contingencies**Equity**

Stockholders' Equity

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

Common stock, \$0.01 par value; 50,000,000 shares authorized; 28,938,970 and 28,561,160 shares issued, 25,050,599 and 24,807,718, shares outstanding (net of treasury stock), as of June 30, 2015 and December 31, 2014, respectively

| | | |
|---|-----------|-----------|
| | 289 | 286 |
| Additional paid-in-capital | 618,911 | 573,133 |
| Treasury stock, at cost; 3,888,371 and 3,753,442 shares, respectively | (151,636) | (145,322) |
| Accumulated other comprehensive loss | (9,119) | (9,572) |
| Retained earnings | 1,056,892 | 999,270 |

| | | |
|--------------|-----------|-----------|
| Total equity | 1,515,337 | 1,417,795 |
|--------------|-----------|-----------|

| | | |
|-------------------------------------|---------------------|---------------------|
| Total Liabilities and Equity | \$ 4,246,996 | \$ 4,046,477 |
|-------------------------------------|---------------------|---------------------|

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)*

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-----------------------------------|----------------------|---------------------------------|----------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Operating Revenue | | | | |
| ACMI | \$ 189,255 | \$ 186,720 | \$ 378,302 | \$ 384,861 |
| Charter | 235,436 | 225,234 | 455,574 | 402,607 |
| Dry leasing | 27,401 | 25,524 | 59,320 | 50,200 |
| Other | 3,741 | 3,691 | 7,482 | 6,864 |
| Total Operating Revenue | 455,833 | 441,169 | 900,678 | 844,532 |
| Operating Expenses | | | | |
| Salaries, wages and benefits | 86,862 | 77,948 | 175,635 | 150,803 |
| Aircraft fuel | 96,711 | 103,842 | 174,826 | 185,586 |
| Maintenance, materials and repairs | 41,438 | 50,386 | 100,270 | 109,432 |
| Aircraft rent | 36,811 | 34,826 | 71,072 | 70,236 |
| Depreciation and amortization | 31,936 | 30,381 | 63,966 | 58,536 |
| Navigation fees, landing fees and other rent | 22,666 | 30,906 | 46,169 | 58,032 |
| Travel | 23,830 | 18,774 | 44,643 | 36,056 |
| Passenger and ground handling services | 21,353 | 21,859 | 41,316 | 41,230 |
| Loss on disposal of aircraft | 114 | 14,679 | 1,323 | 14,679 |
| Special charge | 499 | 1,449 | (69) | 9,477 |
| Other | 32,329 | 29,462 | 63,273 | 55,678 |
| Total Operating Expenses | 394,549 | 414,512 | 782,424 | 789,745 |
| Operating Income | 61,284 | 26,657 | 118,254 | 54,787 |
| Non-operating Expenses (Income) | | | | |
| Interest income | (4,425) | (4,719) | (8,913) | (9,446) |
| Interest expense | 25,033 | 26,365 | 49,581 | 52,817 |
| Capitalized interest | (177) | (67) | (203) | (379) |
| Other expense (income), net | (284) | (88) | 391 | 64 |
| Total Non-operating Expenses (Income) | 20,147 | 21,491 | 40,856 | 43,056 |
| Income before income taxes | 41,137 | 5,166 | 77,398 | 11,731 |
| Income tax expense | 12,747 | (23,815) | 19,776 | (21,276) |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Net Income | 28,390 | 28,981 | 57,622 | 33,007 |
| Less: Net income (loss) attributable to noncontrolling interests | | (612) | | (4,530) |
| Net Income Attributable to Common Stockholders | \$ 28,390 | \$ 29,593 | \$ 57,622 | \$ 37,537 |
| Earnings per share: | | | | |
| Basic | \$ 1.13 | \$ 1.17 | \$ 2.31 | \$ 1.49 |
| Diluted | \$ 1.13 | \$ 1.17 | \$ 2.29 | \$ 1.49 |
| Weighted average shares: | | | | |
| Basic | 25,029 | 25,241 | 24,953 | 25,169 |
| Diluted | 25,198 | 25,279 | 25,135 | 25,215 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-----------------------------------|----------------------|---------------------------------|----------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Net Income | \$ 28,390 | \$ 28,981 | \$ 57,622 | \$ 33,007 |
| Other comprehensive income (loss): | | | | |
| Interest rate derivatives: | | | | |
| Net change in fair value | | | | (251) |
| Reclassification to interest expense | 638 | 682 | 1,288 | 1,372 |
| Income tax expense | (244) | (261) | (492) | (506) |
| Foreign currency translation: | | | | |
| Translation adjustment | (285) | 191 | (343) | 349 |
| Other comprehensive income | 109 | 612 | 453 | 964 |
| Comprehensive Income | 28,499 | 29,593 | 58,075 | 33,971 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | | (515) | | (4,352) |
| Comprehensive Income Attributable to Common Stockholders | \$ 28,499 | \$ 30,108 | \$ 58,075 | \$ 38,323 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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

| | For the Six Months Ended | |
|---|---------------------------------|----------------------|
| | June 30, 2015 | June 30, 2014 |
| Operating Activities: | | |
| Net Income | \$ 57,622 | \$ 33,007 |
| Adjustments to reconcile Net Income to net cash provided by operating activities: | | |
| Depreciation and amortization | 73,263 | 67,195 |
| Accretion of debt securities discount | (3,760) | (4,081) |
| Provision for allowance for doubtful accounts | 46 | 232 |
| Special charge, net of cash payments | (715) | 7,171 |
| Loss on disposal of aircraft | 1,323 | 14,679 |
| Deferred taxes | 19,773 | (21,498) |
| Stock-based compensation expense | 9,837 | 5,805 |
| Changes in: | | |
| Accounts receivable | 10,135 | (23,248) |
| Prepaid expenses and other current assets | 8,937 | 27,613 |
| Deposits and other assets | 1,645 | (4,603) |
| Accounts payable and accrued liabilities | (7,009) | 4,854 |
| Net cash provided by operating activities | 171,097 | 107,126 |
| Investing Activities: | | |
| Capital expenditures | (22,117) | (10,653) |
| Purchase deposits and payments for flight equipment | (62,841) | (494,072) |
| Changes in restricted cash | (1,450) | (6,724) |
| Proceeds from short-term investments | 2,394 | 2,060 |
| Proceeds from disposal of aircraft | 24,625 | |
| Net cash used for investing activities | (59,389) | (509,389) |
| Financing Activities: | | |
| Proceeds from debt issuance | 224,500 | 572,552 |
| Customer maintenance reserves received | 8,701 | 8,757 |
| Customer maintenance reserves paid | (1,752) | |
| Proceeds from sale of warrants | 36,290 | |
| Payments for convertible note hedges | (52,903) | |
| Proceeds from stock option exercises | 1,193 | |
| Purchase of treasury stock | (6,314) | (4,377) |
| Excess tax benefit from stock-based compensation expense | 588 | (1,973) |
| Payment of debt issuance costs | (6,812) | (17,087) |

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| | | |
|--|------------|------------|
| Payments of debt | (99,050) | (201,021) |
| Net cash provided by financing activities | 104,441 | 356,851 |
| Net increase (decrease) in cash and cash equivalents | 216,149 | (45,412) |
| Cash and cash equivalents at the beginning of period | 298,601 | 321,816 |
| Cash and cash equivalents at the end of period | \$ 514,750 | \$ 276,404 |
| Non-cash Investing and Financing Activities: | | |
| Acquisition of flight equipment included in Accounts payable and accrued liabilities | \$ 6,940 | \$ 29,087 |
| Disposition of aircraft included in Accounts receivable | \$ | \$ 7,000 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Stockholders' Equity

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

| | Common Stock | Treasury Stock | Accumulated Additional Paid-In Capital | Other Comprehensive Loss | Retained Earnings | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
|---|-----------------|-------------------|---|--------------------------------|----------------------|----------------------------------|----------------------------|-----------------|
| Balance at December 31, 2013 | \$ 282 | \$ (125,826) | \$ 561,481 | \$ (10,677) | \$ 892,513 | \$ 1,317,773 | \$ 4,352 | \$ 1,322,125 |
| Net Income (loss) | | | | | 37,537 | 37,537 | (4,530) | 33,007 |
| Other comprehensive income (loss) | | | | 786 | | 786 | 178 | 964 |
| Stock option and restricted stock compensation | | | 5,805 | | | 5,805 | | 5,805 |
| Purchase of 129,430 shares of treasury stock | | (4,377) | | | | (4,377) | | (4,377) |
| Issuance of 346,925 shares of restricted stock | 3 | | (3) | | | | | |
| Tax benefit (expense) on restricted stock and stock options | | | (1,973) | | | (1,973) | | (1,973) |
| Balance at June 30, 2014 | \$ 285 | \$ (130,203) | \$ 565,310 | \$ (9,891) | \$ 930,050 | \$ 1,355,551 | \$ | \$ 1,355,551 |

| | Common Stock | Treasury Stock | Accumulated Additional Paid-In Capital | Other Comprehensive Loss | Retained Earnings | Total Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|-----------------|-------------------|---|--------------------------------|----------------------|----------------------------------|----------------------------|-----------------|
| Balance at December 31, 2014 | \$ 286 | \$ (145,322) | \$ 573,133 | \$ (9,572) | \$ 999,270 | \$ 1,417,795 | \$ | \$ 1,417,795 |
| Net Income (loss) | | | | | 57,622 | 57,622 | | 57,622 |
| Other comprehensive income (loss) | | | | 453 | | 453 | | 453 |
| Stock option and restricted stock compensation | | | 9,837 | | | 9,837 | | 9,837 |

| | | | | | | |
|---|--------|--------------|------------|------------|--------------|--------------|
| Purchase of 134,929 shares of treasury stock | | (6,314) | | (6,314) | | (6,314) |
| Exercise of 25,373 employee stock options | | 1,193 | | 1,193 | | 1,193 |
| Issuance of 352,437 shares of restricted stock | 3 | (3) | | | | |
| Equity component of convertible notes, net of tax | | 32,233 | | 32,233 | | 32,233 |
| Purchase of convertible note hedges, net of tax | | (33,837) | | (33,837) | | (33,837) |
| Issuance of warrants | | 36,290 | | 36,290 | | 36,290 |
| Tax benefit (expense) on restricted stock and stock options | | 65 | | 65 | | 65 |
| Balance at June 30, 2015 | \$ 289 | \$ (151,636) | \$ 618,911 | \$ (9,119) | \$ 1,056,892 | \$ 1,515,337 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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Atlas Air Worldwide Holdings, Inc.

Notes to Unaudited Consolidated Financial Statements

June 30, 2015

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).

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

We provide outsourced aircraft and aviation operating services throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance (ACMI), as well as those through which we provide crew, maintenance and insurance, with the customer providing the aircraft (CMI); (ii) cargo and passenger charter services (Charter); and (iii) dry leasing 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, 2014, which includes additional disclosures and a summary of our significant accounting policies. The December 31, 2014 balance sheet data was derived from that Annual Report. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of June 30, 2015, the results of operations for the three and six months ended June 30, 2015 and 2014, comprehensive income for the three and six months ended June 30, 2015 and 2014, cash flows for the six months ended June 30, 2015 and 2014, and shareholders equity as of and for the six months ended June 30, 2015 and 2014.

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

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

Certain reclassifications have been made to prior periods consolidated financial statement amounts and related note disclosures to conform to the current year s presentation, including the presentation of segments.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended its accounting guidance for revenue recognition. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and consideration that a company expects to receive for the services provided. It also requires additional disclosures necessary for the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB voted to defer the effective date by one year to the beginning of 2018 and permit early adoption of the standard, but not before the beginning of 2017. We are currently assessing the impact the amended guidance will have on our financial statements.

In April 2015, the FASB amended its guidance for presenting debt issuance costs. The new guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the carrying amount of the related debt liability instead of as an asset. We early adopted this guidance retrospectively effective March 31, 2015 and its adoption did not have a material impact on our financial condition, results of operations or cash flows. The amount of debt issuance costs classified on our balance sheet as a reduction of debt was \$55.6 million at June 30, 2015 and \$55.1 million at December 31, 2014.

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

AAWW has a 51% equity interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (Polar). DHL Network Operations (USA), Inc. (DHL), a subsidiary of Deutsche Post AG (DP), holds a 49% equity interest and a 25% voting interest in Polar. Polar is a variable interest entity that we do not consolidate because we are not the primary beneficiary as the risks associated with the direct costs of operation are with DHL. We record our share of Polar's results under the equity method of accounting. Under a 20-year blocked space agreement (the BSA), Polar provides air cargo capacity to DHL. Atlas has several agreements with Polar to provide ACMI, CMI, administrative, sales and ground support services to one another. We do not have any financial exposure to fund debt obligations or operating losses of Polar, except for any liquidated damages that we could incur under these agreements. The following table summarizes our transactions with Polar:

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Revenue and Expenses: | | | | |
| ACMI segment revenue from Polar | \$ 94,105 | \$ 74,144 | \$ 185,518 | \$ 143,839 |
| Other revenue from Polar | \$ 2,842 | \$ 2,842 | \$ 5,687 | \$ 5,684 |
| Ground handling and airport fees paid to Polar | \$ 436 | \$ 448 | \$ 1,227 | \$ 772 |

| | June 30, 2015 | December 31, 2014 |
|---|---------------|-------------------|
| Accounts receivable/payable as of: | | |
| Receivables from Polar | \$ 6,526 | \$ 5,702 |
| Payables to Polar | \$ 641 | \$ 2,611 |

| | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Aggregate Carrying Value of Polar Investment as of: | | |
| | \$ 4,870 | \$ 4,870 |

GATS

We hold a 50% interest in GATS GP (BVI) Ltd. (GATS), a joint venture with an unrelated third party. The purpose of the joint venture is to purchase rotatable parts and provide repair services for those parts, primarily for our 747-8F aircraft. The joint venture is a variable interest entity that we do not consolidate because we are not the primary beneficiary as we do not exercise financial control. As of June 30, 2015 and December 31, 2014, our investment in GATS was \$18.8 million and \$16.4 million, respectively, and our maximum exposure to losses from the entity is limited to our investment, which is comprised primarily of rotatable inventory parts. GATS does not have any third-party debt obligations. We had Accounts payable to GATS of \$1.7 million as of June 30, 2015 and \$1.5 million as of December 31, 2014.

4. Special Charge

During the three and six months ended June 30, 2014, we recognized \$1.6 million and \$3.9 million, respectively, of employee termination benefits related to British Airways Plc's (British Airways) return of three 747-8F aircraft in 2014. In addition, we recognized a reserve of \$5.2 million during the six months ended June 30, 2014 related to a loan from Global Supply Systems Limited (GSS), a consolidated subsidiary, to its then 51% U.K. shareholder.

A summary of the Special charge liabilities is as follows:

| | Lease Termination Costs | GSS Employee Termination Benefits | Other | Total |
|-----------------------------------|--|--|--------------|--------------|
| Liability as of December 31, 2014 | \$ 2,437 | \$ 1,014 | \$ 100 | \$ 3,551 |
| Special charge items, net | (532) | 35 | 14 | (483) |
| Cash payments | (1,817) | (1,049) | (114) | (2,980) |
| Liability as of June 30, 2015 | \$ 88 | \$ | \$ | \$ 88 |

Substantially all remaining cash payments related to Special charge liabilities are expected to be paid in 2015.

Table of Contents**5. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

| | June 30, 2015 | December 31, 2014 |
|-------------------------------|----------------------|--------------------------|
| Customer maintenance reserves | \$ 65,042 | \$ 64,756 |
| Maintenance | 45,544 | 50,702 |
| Aircraft fuel | 37,262 | 15,078 |
| Salaries, wages and benefits | 37,122 | 48,548 |
| Deferred revenue | 13,406 | 10,705 |
| Other | 62,966 | 61,805 |
| Accrued liabilities | \$ 261,342 | \$ 251,594 |

6. Debt***Convertible Notes***

In June 2015, we issued \$224.5 million aggregate principal amount of convertible senior notes (the *Convertible Notes*) in an underwritten public offering. The *Convertible Notes* are senior unsecured obligations and accrue interest payable semi-annually on June 1 and December 1 of each year at an annual rate of 2.25%. The *Convertible Notes* will mature on June 1, 2022, unless earlier converted or repurchased pursuant to their terms.

We used a portion of the net proceeds in June 2015 to fund the cost of the convertible note hedge transactions, described below, and in July 2015 to refinance higher-rate equipment notes funded by Enhanced Equipment Trust Certificates (*EETCs*) related to three 747-400 freighter aircraft. We expect to use a portion of the net proceeds during the third quarter of 2015 to refinance additional higher-rate *EETCs* for two 747-400 freighter aircraft, for which we issued a notice of redemption in July 2015. In addition, we expect to use a portion of the net proceeds for working capital and capital expenditures, for repayment or refinancing of debt, and for general corporate purposes.

Each \$1,000 of principal of the *Convertible Notes* will initially be convertible into 13.5036 shares of our common stock, which is equal to an initial conversion price of \$74.05 per share. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest, except in certain limited circumstances. Upon the occurrence of a *make-whole fundamental change*, we will, in certain circumstances, increase the conversion rate by a number of additional shares of our common stock for *Convertible Notes* converted in connection with such *make-whole fundamental change*. Additionally, if we undergo a *fundamental change*, a holder will have the option to require us to repurchase all or a portion of its *Convertible Notes* for cash at a price equal to 100% of the principal amount of the *Convertible Notes* being repurchased plus any accrued and unpaid interest through, but excluding, the *fundamental change repurchase date*.

In connection with the offering of the *Convertible Notes*, we entered into convertible note hedge transactions whereby we have the option to purchase initially (subject to adjustment for certain specified events) a total of 3,031,558 shares of our common stock at a price of \$74.05 per share. The total cost of the convertible note hedge transactions was \$52.9 million. In addition, we sold warrants to the option counterparties whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of 3,031,558 shares of our common stock at a price of \$95.01. We received \$36.3 million in cash proceeds from the sale of these warrants.

Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of the Convertible Notes and to effectively increase the overall conversion price from \$74.05 to \$95.01 per share. The \$16.6 million net cost incurred in connection with the convertible note hedges and warrants was recorded as a reduction to additional paid-in capital, net of tax, in the consolidated balance sheet as of June 30, 2015.

On or after September 1, 2021 until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes.

Upon conversion, the Convertible Notes will be settled, at our election, in cash, shares of our common stock, or a combination of cash and shares of our common stock. Our current intent and policy is to settle conversions with a combination of cash and shares of common stock with the principal amount of the Convertible Notes paid in cash.

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Holders may convert their Convertible Notes at their option at any time prior to September 1, 2021, only under the following circumstances:

during any calendar quarter (and only during such calendar quarter) commencing after September 30, 2015 if, for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on, and including, the last trading day of the immediately preceding calendar quarter, the last reported sale price of our common stock for such trading day is equal to or greater than 130% of the conversion price on such trading day;

during the five consecutive business day period immediately following any five consecutive trading day period (the measurement period) in which, for each trading day of the measurement period, the trading price per \$1,000 principal amount of the Convertible Notes for such trading day was less than 98% of the product of the last reported sale price of our common stock for such trading day and the conversion rate on such trading day; or

upon the occurrence of specified corporate events.

We separately account for the liability and equity components of the Convertible Notes. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated conversion feature, assuming our non-convertible unsecured debt borrowing rate. The carrying value of the equity component, the conversion option, which is recognized as additional paid-in-capital, net of tax, creates a debt discount on the Convertible Notes. The debt discount was determined by deducting the relative fair value of the liability component from the proceeds of the Convertible Notes and is amortized to interest expense using an effective interest rate of 6.44% over the term of the Convertible Notes. As of June 30, 2015, the remaining life of the Convertible Notes is 6.9 years. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of June 30, 2015, the Convertible Notes consisted of the following:

| | |
|---|------------|
| Liability component: | |
| Proceeds | \$ 224,500 |
| Less: debt discount, net of amortization | (52,436) |
| Less: debt issuance cost, net of amortization | (5,156) |
| Net carrying amount | \$ 166,908 |
| Equity component (1) | \$ 52,903 |

(1) Included in Additional paid-in capital on the consolidated balance sheet as of June 30, 2015.

The debt issuance costs related to the issuance of the Convertible Notes were allocated to the liability and equity components based on their relative values, as determined above. Total debt issuance costs were \$6.8 million, of which

\$5.2 million was allocated to the liability component and \$1.6 million was allocated to the equity component. The debt issuance costs allocated to the liability component are amortized to interest expense using the effective interest method over the term of the Convertible Notes.

The following table presents the amount of interest expense recognized related to the Convertible Notes:

| | For the Three and Six Months Ended June 30, 2015 | |
|-------------------------------------|---|-----|
| Contractual interest coupon | \$ | 393 |
| Amortization of debt discount | | 467 |
| Amortization of debt issuance costs | | 51 |
| Total interest expense recognized | \$ | 911 |

7. Income Taxes

Our effective income tax rates were an expense of 31.0% for the three months ended June 30, 2015 and a benefit of 461.0% for the three months ended June 30, 2014. Our effective income tax rates were an expense of 25.6% for the six

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months ended June 30, 2015 and a benefit of 181.4% for the six months ended June 30, 2014. The effective rate for the six months ended June 30, 2015 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$4.0 million, net of reserves, related to extraterritorial income from leasing certain of our aircraft (ETI). The effective rate for the three and six months ended June 30, 2014 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$24.0 million, net of reserves, related to ETI, partially offset by losses associated with GSS for which we have recognized a valuation allowance due to the uncertainty that the benefit of the losses will be realized. The effective rates also differed from the U.S. federal statutory rate due to the income tax impact of foreign operations taxed at different rates, our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S., U.S. state income taxes, the nondeductibility of certain expenses for tax purposes, adjustments to our liability for uncertain tax positions, and the relationship of these items to our projected operating results for the year. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

As a result of current and expected future growth in our Dry Leasing business, we determined to indefinitely reinvest the net earnings of certain foreign subsidiaries engaged in this business outside of the U.S. Our effective income tax rates for the three and six months ended June 30, 2015 and 2014 were favorably impacted by this determination. As of June 30, 2015, our undistributed net earnings of foreign subsidiaries for which deferred taxes have not been provided were \$63.1 million, and the unrecognized deferred tax liability associated with these earnings was \$22.1 million.

8. Financial Instruments

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

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
 - Level 2 Other inputs that are observable directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, or inactive quoted prices for identical assets or liabilities in inactive markets;
 - Level 3 Unobservable inputs reflecting assumptions about the inputs used in pricing the asset or liability.
- We endeavor to utilize the best available information to measure fair value.

The carrying value of Cash and cash equivalents, Short-term investments and Restricted cash is based on cost, which approximates fair value.

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

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

The fair value of our Convertible Notes is based on unadjusted quoted market prices for these securities.

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

| | June 30, 2015 | | | | |
|--|-----------------------|-------------------|----------------|----------------|----------------|
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Cash and cash equivalents | \$ 514,750 | \$ 514,750 | \$ 514,750 | \$ | \$ |
| Short-term investments | 24,373 | 24,373 | | | 24,373 |
| Restricted cash | 15,731 | 15,731 | 15,731 | | |
| Long-term investments and accrued interest | 106,951 | 142,799 | | | 142,799 |
| | \$ 661,805 | \$ 697,653 | \$ 530,481 | \$ | \$ 167,172 |
| Liabilities | | | | | |
| Term loans | \$ 910,383 | \$ 945,633 | \$ | \$ | \$ 945,633 |
| Ex-Im Bank guaranteed notes | 725,320 | 752,443 | | | 752,443 |
| EETCs | 190,774 | 243,436 | | | 243,436 |
| Convertible Notes | 166,908 | 221,454 | 221,454 | | |
| | \$ 1,993,385 | \$ 2,162,966 | \$ 221,454 | \$ | \$ 1,941,512 |

| | December 31, 2014 | | | | |
|--|--------------------------|-------------------|----------------|----------------|----------------|
| | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | |
| Cash and cash equivalents | \$ 298,601 | \$ 298,601 | \$ 298,601 | \$ | \$ |
| Short-term investments | 17,802 | 17,802 | | | 17,802 |
| Restricted cash | 14,281 | 14,281 | 14,281 | | |
| Long-term investments and accrued interest | 120,478 | 154,743 | | | 154,743 |
| | \$ 451,162 | 485,427 | 312,882 | | 172,545 |
| Liabilities | | | | | |
| Term loans | \$ 945,813 | \$ 982,036 | \$ | \$ | \$ 982,036 |
| Ex-Im Bank guaranteed notes | 760,389 | 789,834 | | | 789,834 |
| EETCs | 211,739 | 270,333 | | | 270,333 |
| | \$ 1,917,941 | \$ 2,042,203 | \$ | \$ | \$ 2,042,203 |

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

June 30, 2015**December 31, 2014**

| | Carrying Value | Gross Unrealized Gain (Loss) | Fair Value | Carrying Value | Gross Unrealized Gain (Loss) | Fair Value |
|-------------------------------------|---------------------------|---|-----------------------|---------------------------|---|-----------------------|
| Debt securities | | | | | | |
| Due after one but within five years | \$ 72,277 | \$ 1,776 | \$ 74,053 | \$ 40,040 | \$ 9,700 | \$ 49,740 |
| Due after five but within ten years | 34,674 | 34,072 | 68,746 | 80,438 | 24,565 | 105,003 |
| Total | \$ 106,951 | \$ 35,848 | \$ 142,799 | \$ 120,478 | \$ 34,265 | \$ 154,743 |

9. Segment Reporting

We currently have the following three reportable segments: ACMI, Charter and Dry Leasing. We use an economic performance metric (Direct Contribution) that shows the profitability of each segment after allocation of operating and

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

| | For the Three Months Ended | | For the Six Months Ended | |
|--|----------------------------|-------------------|--------------------------|-------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Operating Revenue: | | | | |
| ACMI | \$ 189,255 | \$ 186,720 | \$ 378,302 | \$ 384,861 |
| Charter | 235,436 | 225,234 | 455,574 | 402,607 |
| Dry Leasing | 27,401 | 25,524 | 59,320 | 50,200 |
| Other | 3,741 | 3,691 | 7,482 | 6,864 |
| Total Operating Revenue | \$ 455,833 | \$ 441,169 | \$ 900,678 | \$ 844,532 |
| Direct Contribution: | | | | |
| ACMI | \$ 51,157 | \$ 44,677 | \$ 91,059 | \$ 90,133 |
| Charter | 25,019 | 8,196 | 55,478 | 4,007 |
| Dry Leasing | 10,894 | 8,738 | 26,419 | 16,909 |
| Total Direct Contribution for Reportable Segments | 87,070 | 61,611 | 172,956 | 111,049 |
| Add back (subtract): | | | | |
| Unallocated income and expenses, net* | (45,320) | (40,317) | (94,304) | (75,162) |
| Special charge | (499) | (1,449) | 69 | (9,477) |
| Loss on disposal of aircraft | (114) | (14,679) | (1,323) | (14,679) |
| Income before Income Taxes | 41,137 | 5,166 | 77,398 | 11,731 |
| Add back (subtract): | | | | |
| Interest income | (4,425) | (4,719) | (8,913) | (9,446) |
| Interest expense | 25,033 | 26,365 | 49,581 | 52,817 |
| Capitalized interest | (177) | (67) | (203) | (379) |
| Other expense (income), net | (284) | (88) | 391 | 64 |
| Operating Income | \$ 61,284 | \$ 26,657 | \$ 118,254 | \$ 54,787 |

* During the first quarter of 2015, we changed the methodology for allocating certain unallocated expenses to our segments. The prior period information has been adjusted to consistently reflect this change.

We are exposed to a concentration of revenue from the U.S. Military Air Mobility Command (the AMC) and Polar (see Note 3 for further discussion regarding Polar). No other customer accounted for more than 10.0% of our Total Operating Revenue. Revenue from the AMC was \$114.0 million for the three months ended June 30, 2015 and \$91.3 million for the three months ended June 30, 2014. Revenue from the AMC was \$204.1 million for the six months ended June 30, 2015 and \$154.2 million for the six months ended June 30, 2014. Accounts receivable from the AMC were \$19.5 million and \$15.3 million as of June 30, 2015 and December 31, 2014, respectively. We have not

experienced any credit issues with either of these customers.

10. Legal Proceedings

Matters Related to Alleged Pricing Practices

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 Old Polar and a number of air cargo carriers that have now been centralized for pretrial purposes in the United States District Court for the Eastern District of New York. The consolidated complaint alleges, among other things, that the defendants, including the Company and Old Polar, manipulated the market price for air cargo services sold domestically and abroad through the use of surcharges, in violation of United States, state, and European Union antitrust laws. The suit seeks treble damages and injunctive relief.

In 2007, the Company and Old Polar commenced an adversary proceeding in bankruptcy court against each of the plaintiffs in this class action litigation seeking to enjoin the plaintiffs from prosecuting claims against the Company and Old Polar that arose prior to July 28, 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 July 28, 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 for discovery

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purposes on April 13, 2011. There was substantial pretrial written discovery and document production, and a number of depositions were taken. A court hearing on whether to certify the case as a class action was held in October 2013, and oral arguments and an evidentiary hearing were held in November 2013. On October 15, 2014, the magistrate judge issued a decision recommending that the court enter an order certifying the class for adjudicating the claims. On July 10, 2015, the court issued an order affirming the magistrate judge's decision and certifying the class. We and other remaining defendants have petitioned the U.S. Court of Appeals for the Second Circuit for permission to appeal that order and we also intend to vigorously pursue a number of defenses, some of which were made in summary judgment motions and responses in 2015. We are unable to reasonably predict the court's ruling on our opposition to class certification and our defenses, or the ultimate outcome of the litigation.

In the United Kingdom, several groups of named claimants have brought suit against British Airways in connection with the same alleged antitrust practices at issue in the proceedings described above and are seeking damages allegedly arising from that conduct. British Airways has filed claims in the lawsuit against Old Polar, the Company and a number of air cargo carriers for contribution should British Airways be found liable to claimants. Old Polar's formal statement of defense was filed on February 28, 2015. Court-ordered disclosure is continuing. Old Polar intends to mount a vigorous defense.

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

Brazilian Customs Claim

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$6.3 million in aggregate based on June 30, 2015 exchange rates.

In both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. Furthermore, we may seek appropriate indemnity from the shipper in each claim as may be feasible. In the pending claim for one of the cases, we have received an administrative decision dismissing the claim in its entirety, which remains subject to a mandatory appeal by the Brazil customs authorities. As required to defend such claims, we have made deposits pending resolution of these matters. The balances were \$4.7 million as of June 30, 2015 and \$5.3 million as of December 31, 2014, and are included in Deposits and other assets.

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

Other

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

11. Earnings Per Share

Basic earnings per share (EPS) represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represent net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period using the treasury stock method. Anti-dilutive shares related to warrants and stock options that were out of the money and excluded for the three and six months ended June 30, 2015 were 3.0 million and for the three and six months ended June 30, 2014 were de minimis.

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The calculations of basic and diluted EPS were as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Numerator: | | | | |
| Net Income Attributable to Common Stockholders | \$ 28,390 | \$ 29,593 | \$ 57,622 | \$ 37,537 |
| Denominator: | | | | |
| Basic EPS weighted average shares outstanding | 25,029 | 25,241 | 24,953 | 25,169 |
| Effect of dilutive stock options and restricted stock | 169 | 38 | 182 | 46 |
| Diluted EPS weighted average shares outstanding | 25,198 | 25,279 | 25,135 | 25,215 |
| EPS: | | | | |
| Basic | \$ 1.13 | \$ 1.17 | \$ 2.31 | \$ 1.49 |
| Diluted | \$ 1.13 | \$ 1.17 | \$ 2.29 | \$ 1.49 |

The calculation of EPS does not include restricted share units in which performance or market conditions were not satisfied of 0.3 million for the three and six months ended June 30, 2015, respectively, and 0.4 million and 0.5 million for the three and six months ended June 30, 2014, respectively.

12. 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, 2013 | \$ (11,375) | \$ 698 | \$ (10,677) |
| Net change in fair value | (251) | | (251) |
| Reclassification to interest expense | 1,372 | | 1,372 |
| Translation adjustment | | 171 | 171 |
| Tax effect | (506) | | (506) |
| Balance as of June 30, 2014 | \$ (10,760) | \$ 869 | \$ (9,891) |
| | Interest Rate Derivatives | Foreign Currency Translation | Total |

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| | | | |
|--------------------------------------|------------|--------|------------|
| Balance as of December 31, 2014 | \$ (9,924) | \$ 352 | \$ (9,572) |
| Net change in fair value | | | |
| Reclassification to interest expense | 1,288 | | 1,288 |
| Translation adjustment | | (343) | (343) |
| Tax effect | (492) | | (492) |
| Balance as of June 30, 2015 | \$ (9,128) | \$ 9 | \$ (9,119) |

Interest Rate Derivatives

As of June 30, 2015, there was \$14.7 million of unamortized realized loss before taxes remaining in Accumulated other comprehensive income (loss) related to terminated forward-starting interest rate swaps, which had been designated as cash flow hedges to effectively fix the interest rates on two 747-8F financings in 2011 and three 777-200LRF financings in 2014. The net loss is amortized and reclassified into Interest expense over the remaining life of the related debt. Net realized losses reclassified into earnings were \$0.6 million and \$0.7 for the three months ended June 30, 2015 and 2014, respectively. Net realized losses reclassified into earnings were \$1.3 million and \$1.4 million for the six months ended June 30, 2015 and 2014, respectively. Net realized losses expected to be reclassified into earnings within the next 12 months are \$2.5 million as of June 30, 2015.

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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 2014 Annual Report on Form 10-K.

Background

Certain Terms - Glossary

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

| | |
|-------------------|--|
| Block Hour | The time interval between when an aircraft departs the terminal until it arrives at the destination terminal. |
| C Check | High-level or heavy airframe maintenance checks, which are more intensive in scope than Line Maintenance and are generally performed between 18 and 24 months depending on aircraft type. |
| D Check | High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed every six and eight years depending on aircraft type. |
| Heavy Maintenance | Scheduled maintenance activities, which are the most extensive in scope and are primarily based on time intervals, including, but not limited to, C Checks, D Checks and engine overhauls. In addition, unscheduled engine repairs involving the removal of the engine from the aircraft are considered to be heavy maintenance. Heavy maintenance can generally take from one to eight weeks to complete. |
| Line Maintenance | Unscheduled maintenance to rectify events occurring during normal day-to-day operations. |
| Non-heavy | Discrete maintenance activities for the overhaul and repair of specific aircraft |
| Maintenance | components, including landing gear, auxiliary power units and engine thrust reversers. |
| Yield | The average amount a customer pays to fly one tonne of cargo one mile. |

Business Overview

We are a leading global provider of outsourced aircraft and aviation operating services, operating the world's largest fleet of 747 freighters, as well as operating 747 and 767 passenger aircraft and 767 freighters. We also own and dry lease a portfolio of aircraft, including six 777 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 include the following:

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

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

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

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Dry Leasing, whereby we provide cargo and passenger aircraft and engine leasing solutions. The customer operates, and is responsible for insuring and maintaining, the flight equipment. We look to achieve our growth plans and enhance shareholder value by:

Delivering superior service quality to our valued customers;

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

Focusing on securing long-term customer contracts;

Driving significant and ongoing productivity improvements;

Selectively pursuing and evaluating future acquisitions and alliances; while

Appropriately managing capital allocation and returning capital to shareholders.

See **Business Overview** and **Business Strategy** in our 2014 Annual Report on Form 10-K for additional information.

Business Developments

Our ACMI results for 2015, compared with 2014, were impacted by the following events:

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

In April and early May 2014, British Airways returned three 747-8F aircraft. In May and October 2014, the three 747-8F aircraft were placed in ACMI service for DHL, replacing one 747-400F aircraft.

In October 2014, we began ACMI flying one additional 747-400F aircraft for DHL, increasing the number of 747 freighter aircraft in ACMI service for DHL to twelve.

In November 2014, we began ACMI flying a 747-400F aircraft for Etihad Airways, which was the second 747-400F aircraft in its global network.

In March 2015, we began ACMI flying one additional 747-8F aircraft for DHL following its transition from Panalpina Air & Ocean Ltd. The aircraft is initially replacing a 747-400F aircraft.

In the first quarter of 2015, we began CMI flying three additional 767-200 freighters owned by DHL in its North American network. A fourth 767-200 freighter began CMI flying in April 2015.

In June 2015, we signed an ACMI agreement with DHL for one additional 747-400F aircraft, increasing the number of 747 freighter aircraft in ACMI service for DHL to thirteen. The aircraft began flying in July 2015.

Charter Block Hours increased during the first half of 2015, reflecting increased cargo and passenger demand from the AMC and stronger commercial cargo demand, which was enhanced by the U.S. West Coast port disruption. In June 2015, based on this demand, we returned to active service a 747-400BCF that had been temporarily parked. We also entered into a short-term operating lease beginning in late June for a second 747-400 converted freighter. This lease, with terms that are more favorable to us, is intended to replace a similar aircraft, with a lease that expired in June 2015.

During the second quarter of 2015, we Dry Leased a 757-200 freighter to DHL on a long-term basis, following the conclusion of a previous customer lease. We also acquired and are converting two 767-300 passenger aircraft to freighters. Following their conversion, which is expected to be completed during the fourth quarter of 2015, they will be Dry Leased to DHL on a long-term basis.

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

Three Months Ended June 30, 2015 and 2014**Operating Statistics**

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|---|---------------|---------------|-----------------------------|-------------------|
| Block Hours | | | | |
| ACMI | 30,958 | 27,652 | 3,306 | 12.0% |
| Charter: | | | | |
| Cargo | 9,214 | 7,572 | 1,642 | 21.7% |
| Passenger | 4,259 | 3,487 | 772 | 22.1% |
| Other | 303 | 299 | 4 | 1.3% |
| Total Block Hours | 44,734 | 39,010 | 5,724 | 14.7% |
| Revenue Per Block Hour | | | | |
| ACMI | \$ 6,113 | \$ 6,752 | \$ (639) | (9.5)% |
| Charter: | \$ 17,475 | \$ 20,367 | \$ (2,892) | (14.2)% |
| Cargo | \$ 16,358 | \$ 20,035 | \$ (3,677) | (18.4)% |
| Passenger | \$ 19,891 | \$ 21,087 | \$ (1,196) | (5.7)% |
| Charter Fuel | | | | |
| Average fuel cost per gallon | \$ 2.46 | \$ 3.19 | \$ (0.73) | (22.9)% |
| Fuel gallons consumed (000s) | 39,383 | 32,560 | 6,823 | 21.0% |
| Segment Operating Fleet (average aircraft equivalents during the period) | | | | |
| ACMI* | | | | |
| 747-8F Cargo | 9.0 | 8.3 | 0.7 | |
| 747-400 Cargo | 11.4 | 11.7 | (0.3) | |
| 747-400 Dreamlifter | 3.1 | 3.3 | (0.2) | |
| 767-300 Cargo | 2.0 | 2.0 | | |
| 767-200 Cargo | 8.9 | 5.0 | 3.9 | |
| 747-400 Passenger | 1.0 | 1.0 | | |
| 767-200 Passenger | 1.0 | 1.0 | | |
| Total | 36.4 | 32.3 | 4.1 | |

Charter

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| | | | |
|---------------------------------|-------------|-------------|--------------|
| 747-8F Cargo | | 0.7 | (0.7) |
| 747-400 Cargo | 10.5 | 9.1 | 1.4 |
| 747-400 Passenger | 2.0 | 1.9 | 0.1 |
| 767-300 Passenger | 2.9 | 3.0 | (0.1) |
| Total | 15.4 | 14.7 | 0.7 |
| Dry Leasing | | | |
| 777-200 Cargo | 6.0 | 6.0 | |
| 757-200 Cargo | 1.0 | 1.0 | |
| 737-300 Cargo | 1.0 | 1.0 | |
| 737-800 Passenger | 1.0 | 2.0 | (1.0) |
| Total | 9.0 | 10.0 | (1.0) |
| Total Operating Aircraft | 60.8 | 57.0 | 3.8 |
| Out-of-service** | 0.8 | 1.0 | (0.2) |

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

** Our out-of-service aircraft are completely unencumbered.

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|--------------------------------|-------------------|-------------------|--------------------------|-------------------|
| Operating Revenue | | | | |
| ACMI | \$ 189,255 | \$ 186,720 | \$ 2,535 | 1.4% |
| Charter | 235,436 | 225,234 | 10,202 | 4.5% |
| Dry Leasing | 27,401 | 25,524 | 1,877 | 7.4% |
| Other | 3,741 | 3,691 | 50 | 1.4% |
| Total Operating Revenue | \$ 455,833 | \$ 441,169 | \$ 14,664 | 3.3% |

ACMI revenue increased \$2.5 million, or 1.4%, primarily due to increased flying, partially offset by reduced Revenue per Block Hour. ACMI Block Hours were 30,958 in the second quarter of 2015, compared with 27,652 in 2014, an increase of 3,306 Block Hours, or 12.0%. The increase in Block Hours was primarily driven by the start-up of CMI flying four additional 767-200F aircraft and improvements in ACMI aircraft utilization. ACMI Revenue per Block Hour was \$6,113 for the second quarter of 2015, compared with \$6,752 in 2014, a decrease of \$639 per Block Hour, or 9.5%. The decrease in Revenue per Block Hour reflects the impact of payments received in 2014 related to a customer's return of aircraft and increased CMI flying in 2015.

Charter revenue increased \$10.2 million, or 4.5%, primarily driven by an increase in both cargo and passenger flying, partially offset by a decrease in Revenue per Block Hour. Charter Block Hours were 13,473 in the second quarter of 2015 compared with 11,059 in 2014, an increase of 2,414 Block Hours, or 21.8%. The increase in Charter Block Hours was primarily driven by increased passenger and cargo demand from the AMC and increased commercial cargo demand. Charter Revenue per Block Hour was \$17,475 for the second quarter of 2015 compared with \$20,367 in 2014, a decrease of \$2,892 per Block Hour, or 14.2%. This decrease was primarily driven by the impact of lower fuel prices.

Dry Leasing revenue increased \$1.9 million, or 7.4%, primarily due to revenue from maintenance payments related to the scheduled return of a 757-200 cargo aircraft in April 2015.

Operating Expenses

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|------------------------------------|-----------|-----------|--------------------------|-------------------|
| Operating Expenses | | | | |
| Salaries, wages and benefits | \$ 86,862 | \$ 77,948 | \$ 8,914 | 11.4% |
| Aircraft fuel | 96,711 | 103,842 | (7,131) | (6.9)% |
| Maintenance, materials and repairs | 41,438 | 50,386 | (8,948) | (17.8)% |
| Aircraft rent | 36,811 | 34,826 | 1,985 | 5.7% |

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| | | | | |
|--|-------------------|-------------------|----------|---------|
| Depreciation and amortization | 31,936 | 30,381 | 1,555 | 5.1% |
| Navigation fees, landing fees and other rent | 22,666 | 30,906 | (8,240) | (26.7)% |
| Travel | 23,830 | 18,774 | 5,056 | 26.9% |
| Passenger and ground handling services | 21,353 | 21,859 | (506) | (2.3)% |
| Loss on disposal of aircraft | 114 | 14,679 | (14,565) | NM |
| Special charge | 499 | 1,449 | (950) | NM |
| Other | 32,329 | 29,462 | 2,867 | 9.7% |
| Total Operating Expenses | \$ 394,549 | \$ 414,512 | | |

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

Salaries, wages and benefits increased \$8.9 million, or 11.4%, primarily driven by increases to crewmember and ground staff costs due to higher Block Hours, key initiatives and increased profitability.

Aircraft fuel decreased \$7.1 million, or 6.9%, primarily due to fuel price decreases, partially offset by increased fuel consumption. The average fuel price per gallon for the Charter business was \$2.46 for the second quarter of 2015, compared with \$3.19 in 2014, a decrease of 22.9%. Fuel consumption increased by 6.8 million gallons, or 21.0%, reflecting the increase in Charter Block Hours operated. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

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Maintenance, materials and repairs decreased \$8.9 million, or 17.8%, primarily reflecting a decrease of \$9.4 million for 747-400 aircraft. Heavy Maintenance on 747-400 aircraft decreased \$7.2 million due to a decrease in the number of C and D Checks, and the number of engine overhauls. Non-heavy Maintenance on 747-400 aircraft decreased \$1.5 million. Heavy Maintenance expense on 747-8F aircraft was relatively unchanged. Heavy airframe maintenance events and engine overhauls for the three months ended June 30 were:

| Heavy Maintenance Events | 2015 | 2014 | Increase / (Decrease) |
|---------------------------------|-------------|-------------|----------------------------------|
| 747-8F C Checks | | 2 | (2) |
| 747-400 C Checks | 2 | 3 | (1) |
| 767 C Checks | | 1 | (1) |
| 747-400 D Checks | 1 | 2 | (1) |
| CF6-80 engine overhauls | 1 | 2 | (1) |

Aircraft rent increased \$2.0 million, or 5.7%, primarily due to the return to service of a leased 747-400BCF aircraft that had been previously parked.

Depreciation and amortization increased \$1.6 million, or 5.1%, primarily due to increased scrapping of rotatable parts related to our engine and spare parts purchase program, which avoids more expensive repairs.

Navigation fees, landing fees and other rent decreased \$8.2 million, or 26.7%, primarily due to a reduction in purchased capacity from the subcontracting of certain Charter flights.

Travel increased \$5.1 million, or 26.9%, primarily due to higher rates related to crewmember travel to higher cost locations and increased flying.

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

Other increased \$2.9 million, or 9.7%, primarily due to increased commission expense on higher revenue from the AMC and increased professional fees to support key initiatives.

Non-operating Expenses (Income)

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|--|-------------|-------------|--------------------------------------|---------------------------|
| Non-operating Expenses (Income) | | | | |
| Interest income | \$ (4,425) | \$ (4,719) | \$ (294) | (6.2)% |
| Interest expense | 25,033 | 26,365 | (1,332) | (5.1)% |
| Capitalized interest | (177) | (67) | 110 | 164.2% |
| Other expense (income), net | (284) | (88) | 196 | NM |

Interest expense decreased \$1.3 million, or 5.1%, primarily due to a decrease in our average debt balances, reflecting payments of debt, partially offset by the issuance of the Convertible Notes.

Income taxes. Our effective income tax rates were an expense of 31.0% for the three months ended June 30, 2015 and a benefit of 461.0% for the three months ended June 30, 2014. The effective income tax rate for the three months ended June 30, 2015 differed from the U.S. federal statutory rate primarily due to our assertion, beginning in 2013, to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. The effective income tax rate for the three months ended June 30, 2014 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$24.0 million, net of reserves, related to ETI (see Note 7 to our Financial Statements) and our assertion, beginning in 2013, to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S.

Table of Contents**Segments**

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|--------------------------------------|------------------|------------------|--------------------------|-------------------|
| Direct Contribution: | | | | |
| ACMI | \$ 51,157 | \$ 44,677 | \$ 6,480 | 14.5% |
| Charter | 25,019 | 8,196 | 16,823 | 205.3% |
| Dry Leasing | 10,894 | 8,738 | 2,156 | 24.7% |
| Total Direct Contribution | \$ 87,070 | \$ 61,611 | \$ 25,459 | 41.3% |
| Unallocated income and expenses, net | \$ 45,320 | \$ 40,317 | \$ 5,003 | 12.4% |

ACMI Segment

ACMI Direct Contribution increased \$6.5 million, or 14.5%, primarily due to higher aircraft utilization and a reduction in Heavy maintenance expense, partially offset by lower Revenue per Block Hour.

Charter Segment

Charter Direct Contribution increased \$16.8 million, or 205.3%, primarily due to increased cargo and passenger flying, as well as higher aircraft utilization. In addition, Charter Direct Contribution benefited from a reduction in Heavy maintenance expense.

Dry Leasing Segment

Dry Leasing Direct Contribution increased \$2.2 million, or 24.7%, primarily due to revenue from maintenance payments related to the scheduled return of a 757-200 cargo aircraft in April 2015.

Unallocated income and expenses, net

Unallocated income and expenses, net increased \$5.0 million, or 12.4%, primarily due to the timing of incentive compensation driven by higher anticipated earnings in 2015, increased professional fees to support key initiatives and unallocated interest expense.

Table of Contents**Six Months Ended June 30, 2015 and 2014****Operating Statistics**

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

The table below sets forth selected Operating Statistics for the six months ended June 30:

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|---|---------------|---------------|--------------------------|-------------------|
| Block Hours | | | | |
| ACMI | 60,418 | 55,675 | 4,743 | 8.5% |
| Charter: | | | | |
| Cargo | 17,482 | 13,471 | 4,011 | 29.8% |
| Passenger | 7,480 | 6,202 | 1,278 | 20.6% |
| Other | 634 | 535 | 99 | 18.5% |
| Total Block Hours | 86,014 | 75,883 | 10,131 | 13.4% |
| Revenue Per Block Hour | | | | |
| ACMI | \$ 6,261 | \$ 6,913 | \$ (652) | (9.4)% |
| Charter: | \$ 18,251 | \$ 20,465 | \$ (2,214) | (10.8)% |
| Cargo | \$ 17,724 | \$ 20,148 | \$ (2,424) | (12.0)% |
| Passenger | \$ 19,482 | \$ 21,154 | \$ (1,672) | (7.9)% |
| Charter Fuel | | | | |
| Average fuel cost per gallon | \$ 2.40 | \$ 3.21 | \$ (0.81) | (25.2)% |
| Fuel gallons consumed (000s) | 72,694 | 57,859 | 14,835 | 25.6% |
| Segment Operating Fleet (average aircraft equivalents during the period) | | | | |
| ACMI* | | | | |
| 747-8F Cargo | 8.8 | 8.5 | 0.3 | |
| 747-400 Cargo | 11.7 | 12.1 | (0.4) | |
| 747-400 Dreamlifter | 3.1 | 3.2 | (0.1) | |
| 767-300 Cargo | 2.0 | 2.0 | | |
| 767-200 Cargo | 7.7 | 5.0 | 2.7 | |
| 747-400 Passenger | 1.0 | 1.0 | | |
| 767-200 Passenger | 1.0 | 1.0 | | |
| Total | 35.3 | 32.8 | 2.5 | |
| Charter | | | | |
| 747-8F Cargo | 0.2 | 0.4 | (0.2) | |
| 747-400 Cargo | 9.7 | 8.8 | 0.9 | |
| 747-400 Passenger | 2.0 | 2.0 | | |

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| | | | |
|---------------------------------|-------------|-------------|--------------|
| 767-300 Passenger | 2.9 | 2.9 | |
| Total | 14.8 | 14.1 | 0.7 |
| Dry Leasing | | | |
| 777-200 Cargo | 6.0 | 5.9 | 0.1 |
| 757-200 Cargo | 1.0 | 1.0 | |
| 737-300 Cargo | 1.0 | 1.0 | |
| 737-800 Passenger | 1.3 | 2.0 | (0.7) |
| Total | 9.3 | 9.9 | (0.6) |
| Total Operating Aircraft | 59.4 | 56.8 | 2.6 |
| Out-of-service** | 0.9 | 1.0 | (0.1) |

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

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

Table of Contents**Operating Revenue**

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|--------------------------------|-------------------|-------------------|--------------------------|-------------------|
| Operating Revenue | | | | |
| ACMI | \$ 378,302 | \$ 384,861 | \$ (6,559) | (1.7)% |
| Charter | 455,574 | 402,607 | 52,967 | 13.2% |
| Dry Leasing | 59,320 | 50,200 | 9,120 | 18.2% |
| Other | 7,482 | 6,864 | 618 | 9.0% |
| Total Operating Revenue | \$ 900,678 | \$ 844,532 | \$ 56,146 | 6.6% |

ACMI revenue decreased \$6.6 million, or 1.7%, primarily due to reduced Revenue per Block Hour, partially offset by increased flying. ACMI Revenue per Block Hour was \$6,261 for the first half of 2015, compared with \$6,913 in 2014, a decrease of \$652 per Block Hour, or 9.4%. The decrease in Revenue per Block Hour reflects the impact of higher Revenue per Block Hour in 2014 resulting from customers that flew below their contractual minimums, payments received in 2014 related to a customer's return of aircraft, and increased CMI flying in 2015. ACMI Block Hours were 60,418 for the first half of 2015, compared with 55,675 in 2014, an increase of 4,743 Block Hours, or 8.5%. The increase in Block Hours was primarily driven by the start-up of CMI flying four additional 767-200F aircraft and improvements in ACMI aircraft utilization.

Charter revenue increased \$53.0 million, or 13.2%, primarily driven by an increase in both cargo and passenger flying, partially offset by a decrease in Revenue per Block Hour. Charter Block Hours were 24,962 for the first half of 2015 compared with 19,673 in 2014, an increase of 5,289 Block Hours, or 26.9%. The increase in Charter Block Hours was primarily driven by increased cargo and passenger demand from the AMC and increased commercial cargo demand, which was enhanced by the U.S. West Coast port disruption. Charter Revenue per Block Hour was \$18,251 for the first half of 2015 compared with \$20,465 in 2014, a decrease of \$2,214 per Block Hour, or 10.8%. This decrease was primarily driven by the impact of lower fuel prices.

Dry Leasing revenue increased \$9.1 million, or 18.2%, primarily due to revenue from maintenance payments related to the scheduled returns of a 737-800 passenger aircraft in February 2015 and a 757-200 cargo aircraft in April 2015.

Operating Expenses

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|------------------------------------|------------|------------|--------------------------|-------------------|
| Operating Expenses | | | | |
| Salaries, wages and benefits | \$ 175,635 | \$ 150,803 | \$ 24,832 | 16.5% |
| Aircraft fuel | 174,826 | 185,586 | (10,760) | (5.8)% |
| Maintenance, materials and repairs | 100,270 | 109,432 | (9,162) | (8.4)% |

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| | | | | |
|--|-------------------|-------------------|----------|----------|
| Aircraft rent | 71,072 | 70,236 | 836 | 1.2% |
| Depreciation and amortization | 63,966 | 58,536 | 5,430 | 9.3% |
| Navigation fees, landing fees and other rent | 46,169 | 58,032 | (11,863) | (20.4)% |
| Travel | 44,643 | 36,056 | 8,587 | 23.8% |
| Passenger and ground handling services | 41,316 | 41,230 | 86 | 0.2% |
| Loss on disposal of aircraft | 1,323 | 14,679 | (13,356) | (91.0)% |
| Special charge | (69) | 9,477 | (9,546) | (100.7)% |
| Other | 63,273 | 55,678 | 7,595 | 13.6% |
| Total Operating Expenses | \$ 782,424 | \$ 789,745 | | |

Salaries, wages and benefits increased \$24.8 million, or 16.5%, primarily driven by increases to crewmember and ground staff costs due to higher Block Hours, key initiatives and increased profitability.

Aircraft fuel decreased \$10.8 million, or 5.8%, primarily due to fuel price decreases, partially offset by increased fuel consumption. The average fuel price per gallon for the Charter business was \$2.40 for the first half of 2015, compared with

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\$3.21 in 2014, a decrease of 25.2%. Fuel consumption increased by 14.8 million gallons, or 25.6%, reflecting the increase in Charter Block Hours operated. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

Maintenance, materials and repairs decreased by \$9.2 million, or 8.4%, reflecting a decrease of \$14.3 million for 747-400 aircraft, partially offset by an increase of \$4.8 million for 747-8F aircraft. Heavy Maintenance expense on 747-400 aircraft decreased approximately \$17.1 million due to a decrease in the number of C and D Checks, and the number of engine overhauls, partially offset by an increase of \$3.0 million in Non-heavy Maintenance. Heavy Maintenance expense on 747-8F aircraft increased \$4.4 million primarily due to an increase in unscheduled engine repairs. Heavy airframe maintenance events and engine overhauls for the six months ended June 30 were:

| Heavy Maintenance Events | 2015 | 2014 | Increase / (Decrease) |
|---------------------------------|-------------|-------------|----------------------------------|
| 747-8F C Checks | 1 | 2 | (1) |
| 747-400 C Checks | 3 | 8 | (5) |
| 747-400 D Checks | 3 | 5 | (2) |
| 767 C Checks | | 1 | (1) |
| CF6-80 engine overhauls | 5 | 7 | (2) |

Depreciation and amortization increased \$5.4 million, or 9.3%, primarily due to increased scrapping of rotatable parts related to our engine and spare parts purchase program, which avoids more expensive repairs.

Navigation fees, landing fees and other rent decreased \$11.9 million, or 20.4%, primarily due to a reduction in purchased capacity from the subcontracting of certain Charter flights.

Travel increased \$8.6 million, or 23.8%, primarily due to higher rates related to crewmember travel to higher cost locations and increased flying.

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

Special charge in 2014 represented a \$5.2 million reserve related to a GSS receivable for a loan made to its then 51% U.K. shareholder, a \$3.9 million expense recorded for termination benefits for certain GSS employees and a \$0.4 million adjustment to the early termination of operating leases for two 747-400BCF aircraft that were parked in December 2013.

Other increased \$7.6 million, or 13.6%, primarily due to increased commission expense on higher revenue from the AMC and increased professional fees to support key initiatives.

Non-operating Expenses (Income)

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

| 2015 | 2014 | Increase / | Percent Change |
|-------------|-------------|-----------------------|---------------------------|
|-------------|-------------|-----------------------|---------------------------|

| | (Decrease) | | | |
|--|------------|------------|----------|---------|
| Non-operating Expenses (Income) | | | | |
| Interest income | \$ (8,913) | \$ (9,446) | \$ (533) | (5.6)% |
| Interest expense | 49,581 | 52,817 | (3,236) | (6.1)% |
| Capitalized interest | (203) | (379) | (176) | (46.4)% |
| Other expense (income), net | 391 | 64 | 327 | NM |

Interest expense decreased \$3.2 million, or 6.1% primarily due to a decrease in our average debt balances, reflecting payments of debt, partially offset by the issuance of the Convertible Notes.

Income taxes. Our effective income tax rates were an expense of 25.6% for the six months ended June 30, 2015 and a benefit of 181.4% for the six months ended June 30, 2014. The effective income tax rate for the six months ended June 30, 2015 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$4.0 million, net of reserves, related to ETI (see Note 7 to our Financial Statements). The effective income tax rate for the six months ended June 30, 2014 differed from the U.S. federal statutory rate primarily due to an income tax benefit of \$24.0 million, net of reserves, related to ETI. The effective income tax rates for both periods were impacted by our assertion, beginning in 2013, to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S.

Table of Contents**Segments**

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

| | 2015 | 2014 | Increase / (Decrease) | Percent Change |
|--------------------------------------|-------------------|-------------------|--------------------------|-------------------|
| Direct Contribution: | | | | |
| ACMI | \$ 91,059 | \$ 90,133 | \$ 926 | 1.0% |
| Charter | 55,478 | 4,007 | 51,471 | NM |
| Dry Leasing | 26,419 | 16,909 | 9,510 | 56.2% |
| Total Direct Contribution | \$ 172,956 | \$ 111,049 | \$ 61,907 | 55.7% |
| Unallocated income and expenses, net | \$ 94,304 | \$ 75,162 | \$ 19,142 | 25.5% |

ACMI Segment

ACMI Direct Contribution increased \$0.9 million, or 1.0%, primarily due to a reduction in Heavy maintenance expense and higher aircraft utilization, partially offset by the impact of customers that flew below their contractual minimums in 2014.

Charter Segment

Charter Direct Contribution increased \$51.5 million primarily due to increased cargo and passenger flying, as well as higher aircraft utilization. In addition, Charter Direct Contribution benefited from lower fuel costs and a reduction in Heavy maintenance expense.

Dry Leasing Segment

Dry Leasing Direct Contribution increased \$9.5 million, or 56.2%, primarily due to revenue from maintenance payments related to the scheduled returns of a 737-800 passenger aircraft in February 2015 and a 757-200 cargo aircraft in April 2015.

Unallocated income and expenses, net

Unallocated income and expenses, net increased \$19.1 million, or 25.5%, primarily due to the timing of incentive compensation driven by higher anticipated earnings in 2015, increased professional fees to support key initiatives and unallocated interest expense.

Reconciliation of GAAP to non-GAAP Financial Measures

To supplement our Financial Statements presented in accordance with GAAP, we present certain non-GAAP financial measures to assist in the evaluation of our business performance. These non-GAAP financial measures include Adjusted Net Income Attributable to Common Stockholders and adjusted diluted earnings per share (Adjusted Diluted EPS), which exclude certain non-cash income and expenses, and items impacting year-over-year comparisons of our

results. These non-GAAP financial 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 supplemental 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 financial measures (in thousands, except per share data):

| | For the Three Months Ended | | |
|--|-----------------------------------|----------------------|-----------------------|
| | June 30, 2015 | June 30, 2014 | Percent Change |
| Net Income Attributable to Common Stockholders | \$ 28,390 | \$ 29,593 | (4.1%) |
| After-tax impact from: | | | |
| Non-cash expenses and income, net (a) | 636 | (53) | |
| ETI tax benefit | | (24,013) | |
| Loss on disposal of aircraft | 72 | 9,389 | |
| Special charge (b) | 319 | 658 | |
| Accrual for legal matters | | 300 | |
| Adjusted Net Income Attributable to Common Stockholders | \$ 29,417 | \$ 15,874 | 85.3% |
| Diluted EPS | \$ 1.13 | \$ 1.17 | (3.4%) |
| After-tax impact from: | | | |
| Non-cash expenses and income, net (a) | 0.03 | | |
| ETI tax benefit | | (0.95) | |
| Loss on disposal of aircraft | | 0.37 | |
| Special charge (b) | 0.01 | 0.03 | |
| Accrual for legal matters | | 0.01 | |
| Adjusted Diluted EPS | \$ 1.17 | \$ 0.63 | 85.7% |
| | | | |
| | For the Six Months Ended | | |
| | June 30, 2015 | June 30, 2014 | Percent Change |
| Net Income Attributable to Common Stockholders | \$ 57,622 | \$ 37,537 | 53.5% |
| After-tax impact from: | | | |
| Non-cash expenses and income, net (a) | 697 | (169) | |
| ETI tax benefit | (4,008) | (24,013) | |
| Loss on disposal of aircraft | 956 | 9,389 | |
| Special charge (b) | (92) | 4,041 | |
| Accrual for legal matters | | 300 | |
| Adjusted Net Income Attributable to Common Stockholders | \$ 55,175 | \$ 27,085 | 103.7% |
| Diluted EPS | \$ 2.29 | \$ 1.49 | 53.7% |
| After-tax impact from: | | | |
| Non-cash expenses and income, net (a) | 0.03 | (0.01) | |

| | | | |
|------------------------------|---------|---------|--------|
| ETI tax benefit | (0.16) | (0.95) | |
| Loss on disposal of aircraft | 0.04 | 0.37 | |
| Special charge (b) | | 0.16 | |
| Accrual for legal matters | | 0.01 | |
| Adjusted Diluted EPS | \$ 2.20 | \$ 1.07 | 105.6% |

- (a) Non-cash expenses and income, net in 2015 primarily relates to amortization of the debt discount on the Convertible Notes.
- (b) Included in Special charge in 2014 were employee termination benefits, a loan reserve and tax adjustments related to GSS, and adjustments to lease termination costs for two 747-400BCFs.

Liquidity and Capital Resources

Debt Transactions

In June 2015, we issued \$224.5 million of Convertible Notes with a cash coupon of 2.25%. In July 2015, we used a portion of the proceeds from the Convertible Notes to refinance higher-rate EETCs related to three 747-400 freighter aircraft. We expect to use a portion of the net proceeds during the third quarter of 2015 to refinance additional higher-rate EETCs for two 747-400 freighter aircraft, for which we issued a notice of redemption in July 2015. The EETCs have an average cash coupon of 8.1%. In the aggregate, we expect to use approximately \$113.2 million of the net proceeds to refinance higher-rate EETCs, which gives effect to our ownership interests in the EETCs being retired.

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Operating Activities. Net cash provided by operating activities for the first half of 2015 was \$171.1 million, compared with \$107.1 million for the first half of 2014. The increase primarily reflects higher earnings and changes in the timing of working capital.

Investing Activities. Net cash used for investing activities was \$59.4 million for the first half of 2015, consisting primarily of \$62.8 million of purchase deposits and payments for flight equipment, and \$22.1 million of core capital expenditures, excluding flight equipment. Partially offsetting these investing activities was \$24.6 million of proceeds from disposal of aircraft. All capital expenditures for the first half of 2015 were funded through working capital. Net cash used for investing activities was \$509.4 million for the first half of 2014, consisting primarily of \$494.1 million of purchase deposits and payments for flight equipment, \$10.7 million of core capital expenditures, excluding flight equipment, and a \$6.7 million increase in restricted cash. Purchase deposits and payments for flight equipment in 2014 were primarily related to the purchase of three 777-200LRF aircraft.

Financing Activities. Net cash provided by financing activities was \$104.4 million for the first half of 2015, which primarily reflected the proceeds from debt issuance of \$224.5 million, \$36.3 million from the sale of warrants and \$8.7 million of customer maintenance reserves received partially offset by \$99.1 million of payments on debt obligations, \$52.9 million for the purchase of convertible note hedges, \$6.8 million of debt issuance costs and \$6.3 million related to the purchase of treasury stock. Net cash provided by financing activities was \$356.9 million for the first half of 2014, which primarily reflected the proceeds from debt issuance of \$572.6 million and \$8.8 million of customer maintenance reserves received, partially offset by \$201.0 million of payments on debt obligations, \$17.1 million of debt issuance costs and \$4.4 million related to the purchase of treasury stock. The proceeds from debt issuance and payments of debt obligations in 2014 reflect the refinancing of the \$103.6 million bridge loan with a note guaranteed by Ex-Im Bank.

We consider Cash and cash equivalents, Short-term investments, Restricted cash and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations, to refinance EETCs, to fund capital expenditures for the remainder of 2015 and to repurchase shares of our stock. Core capital expenditures for the remainder of 2015 are expected to be between \$20.0 to \$25.0 million, which excludes flight equipment and capitalized interest. Our estimated flight equipment payments for the remainder of 2015 are expected to be between \$175.0 to \$180.0 million.

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 May 2015 that enables us to sell a yet to be determined amount of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and other factors. Our access to capital markets can be adversely impacted by prevailing economic conditions and by financial, business and other factors, some of which are beyond our control. Additionally, our borrowing costs are affected by market conditions and may be adversely impacted by a tightening in credit markets.

We do not expect to pay any significant U.S. federal income tax until 2020 or later. Our business operations are subject to income tax in several foreign jurisdictions. We do not expect to pay any significant cash income taxes in foreign jurisdictions for at least several years. We currently do not intend to repatriate cash from certain foreign subsidiaries that is indefinitely reinvested outside the U.S. Any repatriation of cash from these subsidiaries or certain changes in U.S. tax laws could result in additional tax expense.

Contractual Obligations and Debt Agreements

See Note 6 to our Financial Statements for a description of our new debt obligations, the Convertible Notes, comprised of base and supplemental indentures, with Wilmington Trust National Association, as trustee. See our 2014

Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2014 and a description of our other 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 June 30, 2015.

Recent Accounting Pronouncements

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

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Forward-Looking Statements

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

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2014 and under the section entitled Risk Factors in our prospectus supplement dated May 28, 2015, as filed with the SEC pursuant to Rule 424(b)(5) on June 1, 2015 (File No. 333-204479) (the Prospectus Supplement). 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 2014 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 June 30, 2015. 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 June 30, 2015 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 June 30, 2015, the information required in response to this Item is set forth in Note 10 to our Financial Statements and such information is incorporated herein by reference. Such description contains all of the information required with respect hereto.

ITEM 1A. RISK FACTORS

For additional risk factors that may cause actual results to differ materially from those anticipated, please refer to our 2014 Annual Report on Form 10-K.

In addition, the risk factors contained in the section entitled Risk Factors from our Prospectus Supplement are attached hereto as Exhibit 99.1 and incorporated herein by reference.

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: July 30, 2015

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

Dated: July 30, 2015

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

Table of Contents**EXHIBIT INDEX**

| Exhibit Number | Description |
|---------------------------|--|
| 4.1(1) | Indenture, dated June 3, 2015, between the Company and Wilmington Trust, National Association, as Trustee |
| 4.2(2) | First Supplemental Indenture, dated June 3, 2015, between the Company and Wilmington Trust, National Association, as Trustee |
| 4.3(3) | 2.25% Convertible Senior Note due 2022 |
| 10.1(4) | Base convertible hedge transaction confirmation, dated as of May 28, 2015, between Morgan Stanley & Col. International plc and the Company |
| 10.2(5) | Base warrant transaction confirmation, dated as of May 28, 2015, between Morgan Stanley & Co. International plc and the Company |
| 10.3(6) | Additional convertible note hedge transaction confirmation, dated as of June 1, 2015, between Morgan Stanley & Co. International plc and the Company |
| 10.4(7) | Additional warrant transaction confirmation, dated as of June 1, 2015, between Morgan Stanley & Co. International plc and the Company |
| 10.5(8) | Base convertible note hedge transaction confirmation, dated as of May 28, 2015, between BNP Paribas and the Company |
| 10.6(9) | Base warrant transaction confirmation, dated as of May 28, 2015, between BNP Paribas and the Company |
| 10.7(10) | Additional convertible note hedge transaction confirmation, dated as of June 1, 2015, between BNP Paribas and the Company |
| 10.8(11) | Additional warrant transaction confirmation, dated as of June 1, 2015, between BNP Paribas and the Company |
| 10.9 | Atlas Air Worldwide Holdings, Inc. Benefits Program for Senior Executives, Amended and Restated as of January 1, 2015 |
| 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. |
| 99.1 | Risk Factors from Atlas Air Worldwide Holdings, Inc. s Form 424(b)(5) (File No. 333-204479) dated May 28, 2015 filed with the SEC on June 1, 2015 |
| 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 June 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, (v) Consolidated Statement of Stockholders Equity for the three and six months ended June 30, 2015 and 2014 and (vi) Notes to Unaudited Consolidated Financial Statements.

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- (1) Incorporated by reference to Exhibit 4.1 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (2) Incorporated by reference to Exhibit 4.2 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (3) Incorporated by reference to Exhibit 4.3 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (4) Incorporated by reference to Exhibit 10.1 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (5) Incorporated by reference to Exhibit 10.2 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (6) Incorporated by reference to Exhibit 10.3 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (7) Incorporated by reference to Exhibit 10.4 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (8) Incorporated by reference to Exhibit 10.5 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (9) Incorporated by reference to Exhibit 10.6 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (10) Incorporated by reference to Exhibit 10.7 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015
- (11) Incorporated by reference to Exhibit 10.8 to the Company's Current Report) on Form 8-K, File No. 001-16545, filed with the SEC on June 3, 2015