

ATLAS AIR WORLDWIDE HOLDINGS INC  
Form 10-Q  
August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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                                       | 13-4146982                        |
| (State or other jurisdiction of incorporation) | (IRS Employer Identification No.) |
| 2000 Westchester Avenue, Purchase, New York    | 10577                             |
| (Address of principal executive offices)       | (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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                   |                       |                           |                         |
|-------------------------|-------------------|-----------------------|---------------------------|-------------------------|
| Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company | Emerging growth company |
|-------------------------|-------------------|-----------------------|---------------------------|-------------------------|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, there were 25,575,041 shares of the registrant's Common Stock outstanding.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Atlas Air Worldwide Holdings, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

(Unaudited)

|                                                                            | June 30,<br>2018   | December 31,<br>2017 |
|----------------------------------------------------------------------------|--------------------|----------------------|
| <b>Assets</b>                                                              |                    |                      |
| <b>Current Assets</b>                                                      |                    |                      |
| Cash and cash equivalents                                                  | \$216,762          | \$ 280,809           |
| Short-term investments                                                     | 17,518             | 13,604               |
| Restricted cash                                                            | 11,167             | 11,055               |
| Accounts receivable, net of allowance of \$2,609 and \$1,494, respectively | 221,392            | 194,478              |
| Prepaid maintenance                                                        | 28,016             | 13,346               |
| Prepaid expenses and other current assets                                  | 70,336             | 74,294               |
| <b>Total current assets</b>                                                | <b>565,191</b>     | <b>587,586</b>       |
| <b>Property and Equipment</b>                                              |                    |                      |
| Flight equipment                                                           | 4,812,047          | 4,447,097            |
| Ground equipment                                                           | 75,362             | 70,951               |
| Less: accumulated depreciation                                             | (775,605 )         | (701,249 )           |
| Flight equipment modifications in progress                                 | 289,751            | 186,302              |
| <b>Property and equipment, net</b>                                         | <b>4,401,555</b>   | <b>4,003,101</b>     |
| <b>Other Assets</b>                                                        |                    |                      |
| Long-term investments and accrued interest                                 | 6,570              | 15,371               |
| Deferred costs and other assets                                            | 272,977            | 242,919              |
| Intangible assets, net and goodwill                                        | 102,050            | 106,485              |
| <b>Total Assets</b>                                                        | <b>\$5,348,343</b> | <b>\$ 4,955,462</b>  |
| <b>Liabilities and Equity</b>                                              |                    |                      |
| <b>Current Liabilities</b>                                                 |                    |                      |
| Accounts payable                                                           | \$84,353           | \$ 65,740            |
| Accrued liabilities                                                        | 457,395            | 454,843              |
| Current portion of long-term debt and capital lease                        | 245,322            | 218,013              |
| <b>Total current liabilities</b>                                           | <b>787,070</b>     | <b>738,596</b>       |
| <b>Other Liabilities</b>                                                   |                    |                      |
| Long-term debt and capital lease                                           | 2,256,166          | 2,008,986            |
| Deferred taxes                                                             | 229,263            | 214,694              |
| Financial instruments and other liabilities                                | 299,771            | 203,330              |
| <b>Total other liabilities</b>                                             | <b>2,785,200</b>   | <b>2,427,010</b>     |
| <b>Commitments and contingencies</b>                                       |                    |                      |

## Equity

## Stockholders' Equity

|                                                                                                                                                                                                                                                            |             |              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------|
| Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued                                                                                                                                                                             | -           | -            |
| Common stock, \$0.01 par value; 100,000,000 shares authorized;<br><br>30,560,237 and 30,104,648 shares issued, 25,575,041 and 25,292,454<br><br>shares outstanding (net of treasury stock), as of June 30, 2018<br><br>and December 31, 2017, respectively | 306         | 301          |
| Additional paid-in-capital                                                                                                                                                                                                                                 | 726,357     | 715,735      |
| Treasury stock, at cost; 4,985,196 and 4,812,194 shares, respectively                                                                                                                                                                                      | (204,051 )  | (193,732 )   |
| Accumulated other comprehensive loss                                                                                                                                                                                                                       | (4,390 )    | (3,993 )     |
| Retained earnings                                                                                                                                                                                                                                          | 1,257,851   | 1,271,545    |
| Total equity                                                                                                                                                                                                                                               | 1,776,073   | 1,789,856    |
| Total Liabilities and Equity                                                                                                                                                                                                                               | \$5,348,343 | \$ 4,955,462 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

# Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

|                                                              | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--------------------------------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                                              | June 30,<br>2018              | June 30,<br>2017 | June 30,<br>2018            | June 30,<br>2017 |
| Operating Revenue                                            | \$666,145                     | \$517,366        | \$1,256,159                 | \$992,761        |
| Operating Expenses                                           |                               |                  |                             |                  |
| Salaries, wages and benefits                                 | 129,176                       | 111,488          | 254,258                     | 215,575          |
| Aircraft fuel                                                | 129,706                       | 83,486           | 226,009                     | 165,918          |
| Maintenance, materials and repairs                           | 88,236                        | 64,769           | 173,115                     | 137,585          |
| Depreciation and amortization                                | 50,834                        | 40,986           | 100,464                     | 78,880           |
| Travel                                                       | 42,358                        | 34,891           | 82,205                      | 67,249           |
| Aircraft rent                                                | 40,281                        | 33,792           | 79,805                      | 69,865           |
| Navigation fees, landing fees and other rent                 | 37,698                        | 25,255           | 73,295                      | 43,790           |
| Passenger and ground handling services                       | 30,202                        | 23,573           | 58,264                      | 48,696           |
| Gain on disposal of aircraft                                 | -                             | (93 )            | -                           | (147 )           |
| Special charge                                               | 9,374                         | -                | 9,374                       | -                |
| Transaction-related expenses                                 | 240                           | 1,396            | 510                         | 2,312            |
| Other                                                        | 47,094                        | 39,345           | 97,345                      | 80,523           |
| Total Operating Expenses                                     | 605,199                       | 458,888          | 1,154,644                   | 910,246          |
| Operating Income                                             | 60,946                        | 58,478           | 101,515                     | 82,515           |
| Non-operating Expenses (Income)                              |                               |                  |                             |                  |
| Interest income                                              | (1,388 )                      | (1,342 )         | (3,112 )                    | (2,598 )         |
| Interest expense                                             | 29,182                        | 24,670           | 56,524                      | 46,194           |
| Capitalized interest                                         | (1,465 )                      | (1,931 )         | (3,215 )                    | (3,711 )         |
| Unrealized loss (gain) on financial instruments              | 50,031                        | (13,763 )        | 57,771                      | (8,550 )         |
| Other expense (income)                                       | (7,277 )                      | 1,061            | (11,752 )                   | 809              |
| Total Non-operating Expenses (Income)                        | 69,083                        | 8,695            | 96,216                      | 32,144           |
| Income (loss) from continuing operations before income taxes | (8,137 )                      | 49,783           | 5,299                       | 50,371           |
| Income tax expense                                           | 12,986                        | 10,739           | 16,794                      | 11,292           |
| Income (loss) from continuing operations, net of taxes       | (21,123 )                     | 39,044           | (11,495 )                   | 39,079           |
| Loss from discontinued operations, net of taxes              | (27 )                         | (105 )           | (43 )                       | (891 )           |

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|                                                       |              |            |              |            |
|-------------------------------------------------------|--------------|------------|--------------|------------|
| Net Income (Loss)                                     | \$ (21,150 ) | \$ 38,939  | \$ (11,538 ) | \$ 38,188  |
| Earnings (loss) per share from continuing operations: |              |            |              |            |
| Basic                                                 | \$ (0.83 )   | \$ 1.55    | \$ (0.45 )   | \$ 1.55    |
| Diluted                                               | \$ (0.83 )   | \$ 0.92    | \$ (0.45 )   | \$ 1.13    |
| Loss per share from discontinued operations:          |              |            |              |            |
| Basic                                                 | \$ (0.00 )   | \$ (0.00 ) | \$ (0.00 )   | \$ (0.04 ) |
| Diluted                                               | \$ (0.00 )   | \$ (0.00 ) | \$ (0.00 )   | \$ (0.03 ) |
| Earnings (loss) per share:                            |              |            |              |            |
| Basic                                                 | \$ (0.83 )   | \$ 1.54    | \$ (0.45 )   | \$ 1.51    |
| Diluted                                               | \$ (0.83 )   | \$ 0.92    | \$ (0.45 )   | \$ 1.09    |
| Weighted average shares:                              |              |            |              |            |
| Basic                                                 | 25,565       | 25,257     | 25,501       | 25,210     |
| Diluted                                               | 25,565       | 26,791     | 25,501       | 26,823     |

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(Unaudited)

|                                      | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|--------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                      | June 30,<br>2018              | June 30,<br>2017 | June 30,<br>2018            | June 30,<br>2017 |
| Net Income (Loss)                    | \$(21,150)                    | \$38,939         | \$(11,538)                  | \$38,188         |
| Other comprehensive income:          |                               |                  |                             |                  |
| Net change in fair value             |                               |                  |                             |                  |
| Reclassification to interest expense | 365                           | 402              | 750                         | 820              |
| Income tax expense                   | (120 )                        | (156 )           | (177 )                      | (318 )           |
| Other comprehensive income           | 245                           | 246              | 573                         | 502              |
| Comprehensive Income (Loss)          | \$(20,905)                    | \$39,185         | \$(10,965)                  | \$38,690         |

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

|                                                                                          | For the Six Months<br>Ended |                  |
|------------------------------------------------------------------------------------------|-----------------------------|------------------|
|                                                                                          | June 30,<br>2018            | June 30,<br>2017 |
| <b>Operating Activities:</b>                                                             |                             |                  |
| Income (loss) from continuing operations, net of taxes                                   | \$(11,495 )                 | \$39,079         |
| Less: Loss from discontinued operations, net of taxes                                    | (43 )                       | (891 )           |
| Net Income (Loss)                                                                        | (11,538 )                   | 38,188           |
| Adjustments to reconcile Net Income (Loss) to net cash provided by operating activities: |                             |                  |
| Depreciation and amortization                                                            | 121,606                     | 90,842           |
| Accretion of debt securities discount                                                    | (512 )                      | (604 )           |
| Provision for allowance for doubtful accounts                                            | 1,179                       | 134              |
| Special charge, net of cash payments                                                     | 9,374                       | -                |
| Unrealized loss (gain) on financial instruments                                          | 57,771                      | (8,550 )         |
| Gain on disposal of aircraft                                                             | -                           | (147 )           |
| Deferred taxes                                                                           | 16,561                      | 11,000           |
| Stock-based compensation                                                                 | 10,627                      | 10,579           |
| Changes in:                                                                              |                             |                  |
| Accounts receivable                                                                      | (27,699 )                   | (5,204 )         |
| Prepaid expenses, current assets and other assets                                        | (10,815 )                   | (36,067 )        |
| Accounts payable and accrued liabilities                                                 | 9,357                       | 12,636           |
| Net cash provided by operating activities                                                | 175,911                     | 112,807          |
| <b>Investing Activities:</b>                                                             |                             |                  |
| Capital expenditures                                                                     | (54,791 )                   | (45,237 )        |
| Payments for flight equipment and modifications                                          | (448,388 )                  | (226,812 )       |
| Proceeds from investments                                                                | 5,399                       | 1,941            |
| Proceeds from disposal of aircraft                                                       | -                           | 147              |
| Net cash used for investing activities                                                   | (497,780 )                  | (269,961 )       |
| <b>Financing Activities:</b>                                                             |                             |                  |
| Proceeds from debt issuance                                                              | 305,059                     | 435,325          |
| Payment of debt issuance costs                                                           | (4,781 )                    | (10,323 )        |
| Payments of debt                                                                         | (115,194 )                  | (93,401 )        |
| Proceeds from revolving credit facility                                                  | 135,000                     | 150,000          |
| Payment of revolving credit facility                                                     | (60,000 )                   | (150,000 )       |
| Customer maintenance reserves and deposits received                                      | 8,169                       | 18,062           |
| Customer maintenance reserves paid                                                       | -                           | (6,384 )         |
| Proceeds from sale of convertible note warrants                                          | -                           | 38,148           |

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|                                                                       |           |           |
|-----------------------------------------------------------------------|-----------|-----------|
| Payments for convertible note hedges                                  | -         | (70,140 ) |
| Purchase of treasury stock                                            | (10,319 ) | (9,636 )  |
| Net cash provided by financing activities                             | 257,934   | 301,651   |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (63,935 ) | 144,497   |
| Cash, cash equivalents and restricted cash at the beginning of period | 291,864   | 138,250   |
| Cash, cash equivalents and restricted cash at the end of period       | \$227,929 | \$282,747 |

Noncash Investing and Financing Activities:

|                                                                                      |          |          |
|--------------------------------------------------------------------------------------|----------|----------|
| Acquisition of flight equipment included in Accounts payable and accrued liabilities | \$66,944 | \$75,668 |
| Acquisition of flight equipment under capital lease                                  | \$-      | \$32,380 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

(Unaudited)

|                                                               | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---------------------------------------------------------------|-----------------|-------------------|----------------------------------|-----------------------------------------------|----------------------|----------------------------------|
| Balance at December 31, 2017                                  | \$ 301          | \$(193,732)       | \$ 715,735                       | \$ (3,993 )                                   | \$ 1,271,545         | \$ 1,789,856                     |
| Net Income (Loss)                                             | -               | -                 | -                                | -                                             | (11,538 )            | (11,538 )                        |
| Other comprehensive income                                    | -               | -                 | -                                | 573                                           | -                    | 573                              |
| Cumulative effect of change in<br>accounting principle        | -               | -                 | -                                | -                                             | (3,126 )             | (3,126 )                         |
| Stock-based compensation                                      | -               | -                 | 10,627                           | -                                             | -                    | 10,627                           |
| Purchase of 173,002 shares of treasury<br>stock               | -               | (10,319 )         | -                                | -                                             | -                    | (10,319 )                        |
| Issuance of 455,589 shares of restricted<br>stock             | 5               | -                 | (5 )                             | -                                             | -                    | -                                |
| Reclassification of tax effect on other<br>comprehensive loss | -               | -                 | -                                | (970 )                                        | 970                  | -                                |
| Balance at June 30, 2018                                      | \$ 306          | \$(204,051)       | \$ 726,357                       | \$ (4,390 )                                   | \$ 1,257,851         | \$ 1,776,073                     |

|                                                      | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|------------------------------------------------------|-----------------|-------------------|----------------------------------|-----------------------------------------------|----------------------|----------------------------------|
| Balance at December 31, 2016                         | \$ 296          | \$(183,119)       | \$ 657,082                       | \$ (4,993 )                                   | \$ 1,048,072         | \$ 1,517,338                     |
| Net Income                                           | -               | -                 | -                                | -                                             | 38,188               | 38,188                           |
| Other comprehensive income                           | -               | -                 | -                                | 502                                           | -                    | 502                              |
| Stock-based compensation                             | -               | -                 | 10,579                           | -                                             | -                    | 10,579                           |
| Purchase of 181,217 shares of treasury<br>stock      | -               | (9,636 )          | -                                | -                                             | -                    | (9,636 )                         |
| Issuance of 429,723 shares of restricted<br>stock    | 5               | -                 | (5 )                             | -                                             | -                    | -                                |
| Equity component of convertible notes,<br>net of tax | -               | -                 | 43,248                           | -                                             | -                    | 43,248                           |
| Purchase of convertible note hedges,<br>net of tax   | -               | -                 | (45,065 )                        | -                                             | -                    | (45,065 )                        |
| Issuance of convertible note warrants                | -               | -                 | 38,148                           | -                                             | -                    | 38,148                           |
| Balance at June 30, 2017                             | \$ 301          | \$(192,755)       | \$ 703,987                       | \$ (4,491 )                                   | \$ 1,086,260         | \$ 1,593,302                     |

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, 2018

## 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 Atlas Air, Inc. (“Atlas”) and Southern Air Holdings, Inc. (“Southern Air”). AAWW is also the parent company of several subsidiaries related to our dry leasing services (collectively referred to as “Titan”). AAWW has a 51% equity interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (“Polar”). We record our share of Polar’s results under the equity method of accounting.

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

We provide outsourced aircraft and aviation operating services throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance (“ACMI”), as well as those through which we provide crew, maintenance and insurance, but not 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”). 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, 2017, which includes additional disclosures and a summary of our significant accounting policies. The December 31, 2017 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, 2018, the results of operations for the three and six months ended June 30, 2018 and 2017, comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, cash flows for the six months ended June 30, 2018 and 2017, and shareholders’ equity as of and for the six months ended June 30, 2018 and 2017.

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

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

## 2. Summary of Significant Accounting Policies

Warrant Liability

Common stock warrants classified as a liability are marked-to-market at the end of each reporting period with changes in fair value recorded in Unrealized loss (gain) on financial instruments. We utilize a Monte Carlo simulation approach to estimate the fair value of the warrant, which requires inputs such as our common stock price, the warrant strike price, estimated common stock price volatility and risk-free interest rate, among others. Our earnings are affected by changes in our common stock price due to the impact those changes have on the fair value of our warrant liability (see Note 6 to our Financial Statements).

#### Heavy Maintenance

Except for engines used on our 747-8F aircraft, we account for heavy maintenance costs for airframes and engines used in our ACMI and Charter segments using the direct expense method. Under this method, heavy maintenance costs are charged to expense upon induction, based on our best estimate of the costs.

We account for heavy maintenance costs for airframes and engines used in our Dry Leasing segment and engines used on our 747-8F aircraft using the deferral method. Under this method, we defer the expense recognition of scheduled heavy maintenance events, which are amortized over the estimated period until the next scheduled heavy maintenance event is required. Amortization of deferred maintenance expense included in Depreciation and amortization was \$2.9 million and \$1.1 million for the three months ended June 30, 2018 and 2017, respectively and was \$5.3 million and \$1.9 million for the six months ended June 30, 2018 and 2017.

Deferred maintenance included within Deferred costs and other assets is as follows:

|                                      | Deferred<br>Maintenance |
|--------------------------------------|-------------------------|
| Balance as of December 31, 2017      | \$ 63,868               |
| Deferred maintenance costs           | 11,512                  |
| Amortization of deferred maintenance | (5,294 )                |
| Balance as of June 30, 2018          | \$ 70,086               |

#### Supplemental Cash Flow Information

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total shown in the consolidated statements of cash flows:

|                                                                                                 | June 30,<br>2018 | December 31,<br>2017 |
|-------------------------------------------------------------------------------------------------|------------------|----------------------|
| Cash and cash equivalents                                                                       | \$216,762        | \$ 280,809           |
| Restricted cash                                                                                 | 11,167           | 11,055               |
| Total Cash, cash equivalents and restricted cash shown in consolidated statements of cash flows | \$227,929        | \$ 291,864           |

#### Recent Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (“FASB”) amended its accounting guidance for the reporting of comprehensive income. The guidance permits entities to reclassify to retained earnings the excess tax effects remaining in accumulated other comprehensive income/(loss) after the reduction in the federal corporate income tax rate from 35% to 21% as a result of the U.S. Tax Cuts and Jobs Act of 2017. The amended guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We have early adopted the new guidance effective as of January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB amended its accounting guidance for revenue recognition. Subsequently, the FASB has issued several clarifications and updates. The fundamental principles of the new standard 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. We adopted the new guidance on January 1, 2018 using the modified retrospective approach, under which the guidance is applied beginning on the date of adoption. Comparative information has not been restated and continues to be reported under the accounting guidance in effect for those periods. The adoption did not have a material effect on our financial statements (see Note 4 to our Financial Statements). As a result of adoption, revenue recognized under previous guidance based on flight departure is now recognized over time as the services are performed. In addition, revenue under certain ACMI and CMI contracts, such as revenue related to contracted minimum block hour guarantees, is now recognized in later periods, and some revenue adjustments related to meeting or exceeding on-time performance targets are now recognized in earlier periods. Revenue under our Dry Leasing contracts is explicitly excluded from the scope of the new guidance as it is covered by accounting guidance

for leases.

#### Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB amended its accounting guidance for leases. The guidance requires a lessee to recognize assets and liabilities on the balance sheet arising from leases with terms greater than 12 months. While lessor accounting guidance is relatively unchanged, certain amendments were made to conform with changes made to lessee accounting and the amended revenue recognition guidance. The new guidance will continue to classify leases as either finance or operating, with classification affecting the presentation and pattern of expense and income recognition, in the statement of operations. It also requires additional quantitative and qualitative disclosures about leasing arrangements. The amended guidance is effective as of the beginning of 2019, with early adoption permitted. We are still assessing the impact the amended guidance will have on our financial statements. While we expect that recognizing the right-of-use asset and related lease liability will impact our consolidated balance sheets materially, we do not expect the amended guidance to have a material impact to any of our other consolidated financial statements. We plan to adopt the new guidance on its required effective date of January 1, 2019 and the implementation is progressing as expected.

### 3. Related Parties

#### DHL Investment and Polar

AAWW has a 51% equity interest and 75% voting interest in Polar. DHL Network Operations (USA), Inc. (“DHL”), a subsidiary of Deutsche Post AG (“DP”), holds a 49% equity interest and a 25% voting interest in Polar. Polar is a variable interest entity that we do not consolidate because we are not the primary beneficiary as the risks associated with the direct costs of operation are with DHL. Under a 20-year blocked space agreement, which began in 2008 (the “BSA”), Polar provides air cargo capacity to DHL. Atlas has several agreements with Polar to provide ACMI, CMI, Dry Leasing, 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, 2018              | June 30, 2017     | June 30, 2018            | June 30, 2017 |
| Revenue and Expenses:                               |                            |                   |                          |               |
| Revenue from Polar                                  | \$103,625                  | \$ 108,930        | \$205,730                | \$211,158     |
| Ground handling and airport fees to Polar           | 743                        | 513               | 1,378                    | 979           |
|                                                     | June 30, 2018              | December 31, 2017 |                          |               |
| Accounts receivable/payable as of:                  |                            |                   |                          |               |
| Receivables from Polar                              | \$18,317                   | \$ 9,558          |                          |               |
| Payables to Polar                                   | 5,486                      | 2,751             |                          |               |
|                                                     | June 30, 2018              | December 31, 2017 |                          |               |
| Aggregate Carrying Value of Polar Investment as of: |                            |                   |                          |               |
| Aggregate Carrying Value of Polar Investment        | \$4,870                    | \$ 4,870          |                          |               |

#### GATS

We hold a 50% interest in GATS GP (BVI) Ltd. (“GATS”), a joint venture with an unrelated third party. As of June 30, 2018 and December 31, 2017, our investment in GATS was \$23.0 million and \$22.1 million, respectively. We had Accounts payable to GATS of \$0.7 million as of June 30, 2018 and \$0.4 million as of December 31, 2017.

### 4. Revenue Recognition

#### Adoption

We adopted the new revenue recognition guidance using the modified retrospective method and applied it to all customer contracts, excluding Dry Leasing contracts, based on the contract terms in effect as of January 1, 2018. Revenue under our Dry Leasing contracts is explicitly excluded from the scope of the new guidance as it is covered by accounting guidance for leases. We recognized the cumulative effect of initially applying the new revenue recognition guidance as an adjustment to the opening balance of retained earnings as of January 1, 2018 as follows:

|                     | Balance<br>December<br>31, 2017 | Adjustments | Balance<br>January 1,<br>2018 |
|---------------------|---------------------------------|-------------|-------------------------------|
| Accounts receivable | \$ 194,478                      | \$ (407     | ) \$ 194,071                  |
| Accrued liabilities | 454,843                         | 3,614       | 458,457                       |
| Deferred taxes      | 214,694                         | (895        | ) 213,799                     |
| Retained earnings   | 1,271,545                       | (3,126      | ) 1,268,419                   |

The following tables provide disclosure of the impact of adoption of the new revenue recognition guidance on our consolidated statement of operations and balance sheet:

|                                                              | For the Three Months Ended June 30, 2018 |                                                              |                            |
|--------------------------------------------------------------|------------------------------------------|--------------------------------------------------------------|----------------------------|
|                                                              | As Reported                              | Amounts without Adoption of New Revenue Recognition Guidance | Effect of Change Inc/(Dec) |
| <b>Consolidated Statement of Operations</b>                  |                                          |                                                              |                            |
| Operating Revenue                                            | \$ 666,145                               | \$ 667,642                                                   | \$ (1,497 )                |
| Operating Expenses                                           |                                          |                                                              |                            |
| Other                                                        | 47,094                                   | 46,472                                                       | 622                        |
| Income (loss) from continuing operations before income taxes | (8,137 )                                 | (6,018 )                                                     | (2,119 )                   |
| Income tax expense                                           | 12,986                                   | 13,452                                                       | (466 )                     |
| Income (loss) from continuing operations, net of taxes       | (21,123 )                                | (19,470 )                                                    | (1,653 )                   |

|                                                              | For the Six Months Ended June 30, 2018 |                                                              |                            |
|--------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------|----------------------------|
|                                                              | As Reported                            | Amounts without Adoption of New Revenue Recognition Guidance | Effect of Change Inc/(Dec) |
| <b>Consolidated Statement of Operations</b>                  |                                        |                                                              |                            |
| Operating Revenue                                            | \$ 1,256,159                           | \$ 1,256,046                                                 | \$ 113                     |
| Operating Expenses                                           |                                        |                                                              |                            |
| Other                                                        | 97,345                                 | 96,034                                                       | 1,311                      |
| Income (loss) from continuing operations before income taxes | 5,299                                  | 6,497                                                        | (1,198 )                   |
| Income tax expense                                           | 16,794                                 | 17,057                                                       | (263 )                     |
| Income (loss) from continuing operations, net of taxes       | (11,495 )                              | (10,560 )                                                    | (935 )                     |

As of June 30, 2018

| As Reported | Amounts without Adoption of | Effect of Change Inc/(Dec) |
|-------------|-----------------------------|----------------------------|
|-------------|-----------------------------|----------------------------|

New  
Revenue  
Recognition  
Guidance

| Consolidated Balance Sheet |            |            |           |
|----------------------------|------------|------------|-----------|
| Assets                     |            |            |           |
| Accounts receivable, net   | \$ 221,392 | \$ 222,009 | \$ (617 ) |
| Liabilities and Equity     |            |            |           |
| Accrued liabilities        | 457,395    | 456,814    | 581       |
| Deferred taxes             | 229,263    | 229,526    | (263 )    |
| Retained earnings          | 1,257,851  | 1,258,786  | (935 )    |

## Deferred Revenue

Deferred revenue for customer contracts, excluding Dry Leasing contracts, represents amounts collected from, or invoiced to, customers in advance of revenue recognition. The balance of Deferred revenue will increase or decrease based on the timing of invoices and recognition of revenue.

Significant changes in our Deferred Revenue liability balances during the six months ended June 30, 2018 were as follows:

|                                | Deferred<br>Revenue |
|--------------------------------|---------------------|
| Balance at beginning of period | \$14,958            |
| Revenue recognized             | (21,547)            |
| Amounts collected or invoiced  | 17,788              |
| Balance at end of period       | \$11,199            |

#### Accounts Receivable

Accounts receivable, net of allowances related to customer contracts, excluding Dry Leasing contracts, was \$194.0 million as of June 30, 2018 and \$173.2 million as of December 31, 2017.

#### Performance Obligations and Accounting Policies

##### ACMI and CMI Services

Our performance obligations under ACMI contracts involve outsourced cargo and passenger aircraft operating services, including the provision of an aircraft, crew, maintenance and insurance. Our performance obligations under CMI contracts also involve outsourced aircraft operating services, including the provision of crew, line maintenance and insurance, but not the aircraft. ACMI and CMI contracts generally provide for the transfer of the benefits from these performance obligations on a combined basis through the operation of the aircraft over time. The time interval between when an aircraft departs the terminal until it arrives at the destination terminal is measured in hours and called a “Block Hour”. Customers assume fuel, demand and price risk. Generally, customers are also responsible for landing, navigation and most other operational fees and costs and, in the case of CMI customers, the provision of the aircraft and heavy and non-heavy maintenance. When we act as an agent for these costs reimbursed by customers, such reimbursed amounts are recorded as Operating Revenue, net of the related costs, when the costs are incurred. When we are responsible for any of these costs, such reimbursed amounts are recorded as Operating Revenue and the costs are recorded as Operating Expenses as incurred.

Revenue from ACMI and CMI contracts is typically recognized over time as the services are performed based on Block Hours operated on behalf of a customer during a given month. Revenue for contracts with scheduled rate changes, excluding inflationary adjustments, is recognized over the term of the contract using an estimated average rate per Block Hour, which requires significant judgment to estimate the total number of Block Hours expected. Any revenue adjustments, including those related to minimum contracted Block Hour guarantees and on-time performance targets, are recognized over the applicable measurement period for the adjustment. See Note 6 to our Financial Statements for a discussion of a customer incentive asset.

ACMI and CMI customers are billed monthly based on Block Hours operated on behalf of a customer during a given month, as defined contractually. Payment terms and conditions vary by contract, although terms generally require partial payment for minimum contracted Block Hour guarantees in advance of the services being provided. Since advance payments are typically made shortly before the services are performed, such payments are not considered significant financing components.

##### Charter Services

Our performance obligations under Charter contracts involve the provision of cargo and passenger aircraft charter services to customers, including the U.S. Military Air Mobility Command (“AMC”), brokers, freight forwarders, direct shippers, airlines, sports teams and fans, and private charter customers. Our obligations are for one or more flights based on a specific origin and destination. We also provide limited airport-to-airport cargo services to select markets, including several cities in South America. The customer pays a fixed charter fee or a variable fee based on the weight of cargo flown and we typically bear all direct operating costs for both cargo and passenger charters, which include fuel, insurance, landing and navigation fees, and most other operational fees and costs. When we purchase cargo capacity from our ACMI customers for Charter flights, we are responsible for selling the capacity we purchase. We record revenue related to such purchased capacity as part of Charter revenue and record the related expenses in Navigation fees, landing fees and other rent.

Revenue from Charter contracts is typically recognized over time as the services are performed based on Block Hours operated on behalf of a customer. Any revenue adjustments related to on-time performance targets with the AMC are recognized over the applicable measurement period for the target, which requires significant judgment to estimate the total number of Block Hours expected. We generally expense sales commissions when incurred because the amortization period is less than one year. Payment terms and conditions vary by charter contract, although terms generally require payment in advance of the service being provided.

Since advance payments are typically made shortly before the services are performed, such payments are not considered significant financing components.

#### Dry Leasing

Our performance obligations under Dry Lease contracts involve the provision of aircraft and engines to customers for compensation that is typically based on a fixed monthly amount and are all accounted for as operating leases. We record Dry Lease rental income on a straight-line basis over the term of the operating lease. Rentals received but unearned under the lease agreements are recorded in deferred revenue and included in Accrued liabilities until earned.

Customer maintenance reserves are amounts received under our Dry Lease contracts that are subject to reimbursement to the lessee upon the completion of qualifying maintenance work on the specific Dry Leased aircraft and are included in Accrued liabilities. We defer revenue recognition for customer maintenance reserves until the end of the lease, when we are able to finalize the amount, if any, to be reimbursed to the lessee.

#### Other Services

Other services include administrative and management support services and flight simulator training. Revenue for these services is recognized when the services are provided.

Estimated revenue expected to be recognized in the future is not presented because our contracts, excluding Dry Leasing contracts, typically involve either a duration or measurement period for revenue recognition of one year or less.

#### 5. Special Charge and Other Expense (Income)

During the three months ended June 30, 2018, we recognized \$9.4 million of impairment losses for five CF6-80 engines to be traded in as part of our engine acquisition program that were classified as held for sale. Depreciation ceased on the engines when they were classified as held for sale. Four of the five engines were traded in during the three months ended June 30, 2018 and one engine remains held for sale as of June 30, 2018. The carrying value of the remaining CF6-80 engine held for sale at June 30, 2018 was \$1.3 million, which was included within Prepaid expenses and other current assets in the consolidated balance sheet. This engine is expected to be traded in during the second half of 2018.

We recognized a refund of \$8.6 million and \$12.4 million related to aircraft rent paid in previous years within Other expense (income) during the three and six months ended June 30, 2018, respectively.

#### 6. Amazon

In May 2016, we entered into certain agreements with Amazon.com, Inc. and its subsidiary, Amazon Fulfillment Services, Inc., (collectively "Amazon"), which involves, among other things, CMI operation of 20 Boeing 767-300 freighter aircraft for Amazon by Atlas, as well as Dry Leasing by Titan. The Dry Leases will have a term of ten years from the commencement of each agreement, while the CMI operations are for seven years from the commencement of each agreement (with an option for Amazon to extend the term to ten years). Between August 2016 and June 2018, we have placed 15 freighter aircraft into service for Amazon and we expect to be operating all 20 before the end of 2018.

In conjunction with these agreements, we granted Amazon a warrant providing the right to acquire up to 20% of our outstanding common shares, after giving effect to the issuance of shares pursuant to the warrants, at an exercise price

of \$37.50 per share. A portion of the warrant, representing the right to purchase 3.75 million shares, vested immediately upon issuance of the warrant. The remainder of the warrant, representing the right to purchase 3.75 million shares, would vest in increments of 375,000 as the lease and operation of each of the 11<sup>th</sup> through 20<sup>th</sup> aircraft commences. During the fourth quarter of 2017, a portion of the warrant representing the right to purchase 750,000 shares vested as the lease and operation of the 11<sup>th</sup> and 12<sup>th</sup> aircraft commenced. During the second quarter of 2018, a portion of the warrant representing the right to purchase 1,125,000 shares vested as the lease and operation of the 13<sup>th</sup> through 15<sup>th</sup> aircraft commenced. The warrant will be exercisable in accordance with its terms through 2021. As of June 30, 2018, no portion of the warrant has been exercised.

The agreements also provide incentives for future growth of the relationship as Amazon may increase its business with us. In that regard, we granted Amazon a warrant to acquire up to an additional 10% of our outstanding common shares, after giving effect to the issuance of shares pursuant to the warrants, for an exercise price of \$37.50 per share. This warrant to purchase 3.75 million shares would vest in conjunction with payments by Amazon for additional business with us. As of June 30, 2018, no portion of this warrant has vested. Upon vesting, the warrant would become exercisable in accordance with its terms through 2023.

At the time of vesting, the fair value of the vested portion of the warrant issued to Amazon is recorded as a warrant liability within Financial instruments and other liabilities (the “Amazon Warrant”). This initial fair value of the vested portion of the warrant is also recognized as a customer incentive asset within Deferred costs and other assets, net and is amortized as a reduction of revenue in proportion to the amount of revenue recognized over the terms of the Dry Leases and CMI agreements. Determining the amount of amortization related to the CMI agreements requires significant judgment to estimate the total number of Block Hours expected over the terms of those agreements. The following table provides a summary of the customer incentive asset:

|                                             |           |
|---------------------------------------------|-----------|
| Balance at December 31, 2017                | \$106,538 |
| Initial value for vested portion of warrant | 40,655    |
| Amortization of customer incentive asset    | (5,886 )  |
| Balance at June 30, 2018                    | \$141,307 |

We amortized \$3.3 million and \$0.9 million of the customer incentive asset for the three months ended June 30, 2018 and 2017, respectively. We amortized \$5.9 million and \$1.3 million of the customer incentive asset for the six months ended June 30, 2018 and 2017, respectively. There were no impairment losses for the six months ended June 30, 2018 and 2017.

The Amazon Warrant liability is marked-to-market at the end of each reporting period with changes in fair value recorded in Unrealized loss (gain) on financial instruments. We recognized net unrealized losses of \$50.0 million and \$57.8 million on the Amazon Warrant during the three and six months ended June 30, 2018, respectively. We recognized net unrealized gains of \$13.8 million and \$8.6 million on the Amazon Warrant during the three and six months ended June 30, 2017, respectively. The fair value of the Amazon Warrant liability was \$226.2 million as of June 30, 2018 and \$127.8 million as of December 31, 2017.

## 7. Accrued Liabilities

Accrued liabilities consisted of the following as of:

|                               | June 30,<br>2018 | December<br>31, 2017 |
|-------------------------------|------------------|----------------------|
| Maintenance                   | \$173,358        | \$156,042            |
| Customer maintenance reserves | 97,050           | 89,037               |
| Salaries, wages and benefits  | 53,311           | 65,546               |
| U.S. class action settlement  | -                | 30,000               |
| Aircraft fuel                 | 38,271           | 22,196               |
| Deferred revenue              | 21,548           | 20,986               |
| Other                         | 73,857           | 71,036               |
| Accrued liabilities           | \$457,395        | \$454,843            |

## 8. Debt

### Term Loans

We have entered into various term loans during 2018 to finance the purchase of aircraft, passenger-to-freighter conversion of aircraft, and for GEnx engine performance upgrade kits and overhauls. Each term loan requires payment of principal and interest quarterly in arrears. Funds available under each term loan are subject to usual and customary fees, and funds drawn typically bear interest at a fixed rate. Each facility is subject to customary covenants and events of default.

The following table summarizes the terms for each term loan entered into during 2018 (in millions):

|                           | Issue<br>Date | Face<br>Value | Collateral<br>Type | Original<br>Term | Fixed<br>Interest<br>Rate |
|---------------------------|---------------|---------------|--------------------|------------------|---------------------------|
| First 2018 Term Loan      | March 2018    | \$ 19.4       | None               | 60 months        | 3.12%                     |
| Second 2018 Term Loan     | May 2018      | 83.5          | 777-200            | 120 months       | 4.63%                     |
| Third 2018 Term Loan      | May 2018      | 83.5          | 777-200            | 120 months       | 4.63%                     |
| Fourth 2018 Term Loan     | May 2018      | 20.1          | None               | 60 months        | 3.31%                     |
| Fifth 2018 Term Loan      | June 2018     | 21.1          | 767-300            | 108 months       | 3.97%                     |
| Sixth 2018 Term Loan      | June 2018     | 3.9           | 767-300            | 108 months       | 5.14%                     |
| Seventh 2018 Term Loan    | June 2018     | 20.7          | 767-300            | 108 months       | 3.98%                     |
| Eighth 2018 Term Loan     | June 2018     | 4.0           | 767-300            | 108 months       | 5.14%                     |
| Ninth 2018 Term Loan      | June 2018     | 20.9          | 767-300            | 108 months       | 3.98%                     |
| Tenth 2018 Term Loan      | June 2018     | 4.0           | 767-300            | 108 months       | 5.13%                     |
| Eleventh 2018 Term Loan   | June 2018     | 4.0           | 767-300            | 98 months        | 5.10%                     |
| Twelfth 2018 Term Loan    | June 2018     | 4.0           | 767-300            | 104 months       | 5.11%                     |
| Thirteenth 2018 Term Loan | June 2018     | 4.0           | 767-300            | 106 months       | 5.11%                     |
| Fourteenth 2018 Term Loan | June 2018     | 4.0           | 767-300            | 106 months       | 5.11%                     |
| Fifteenth 2018 Term Loan  | June 2018     | 4.0           | 767-300            | 108 months       | 5.11%                     |
| Sixteenth 2018 Term Loan  | June 2018     | 4.0           | 767-300            | 108 months       | 5.11%                     |
| Total                     |               | \$ 305.1      |                    |                  |                           |

#### Convertible Notes

In May 2017, we issued \$289.0 million aggregate principal amount of 1.875% convertible senior notes that mature on June 1, 2024 (the “2017 Convertible Notes”) in an underwritten public offering. In June 2015, we issued \$224.5 million aggregate principal amount of 2.25% convertible senior notes that mature on June 1, 2022 (the “2015 Convertible Notes”) in an underwritten public offering. The 2017 Convertible Notes and the 2015 Convertible Notes (collectively, the “Convertible Notes”) are senior unsecured obligations and accrue interest payable semiannually on June 1 and December 1 of each year. The Convertible Notes are due on their respective maturity dates, unless earlier converted or repurchased pursuant to their respective terms.

The Convertible Notes consisted of the following as of June 30, 2018:

|                                               | June 30, 2018                |                              |
|-----------------------------------------------|------------------------------|------------------------------|
|                                               | 2017<br>Convertible<br>Notes | 2015<br>Convertible<br>Notes |
| Remaining life in months                      | 71                           | 47                           |
| Liability component:                          |                              |                              |
| Gross proceeds                                | \$ 289,000                   | \$ 224,500                   |
| Less: debt discount, net of amortization      | (60,976 )                    | (32,516 )                    |
| Less: debt issuance cost, net of amortization | (4,854 )                     | (3,084 )                     |

|                                 |           |            |
|---------------------------------|-----------|------------|
| Net carrying amount             | \$223,170 | \$ 188,900 |
| Equity component <sup>(1)</sup> | \$70,140  | \$ 52,903  |

(1) Included in Additional paid-in capital on the consolidated balance sheet as of June 30, 2018.  
The following table presents the amount of interest expense recognized related to the Convertible Notes:

|                                     | For the Three<br>Months Ended |                  | For the Six<br>Months Ended |                  |
|-------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                     | June 30,<br>2018              | June 30,<br>2017 | June 30,<br>2018            | June 30,<br>2017 |
| Contractual interest coupon         | \$2,618                       | \$ 1,850         | \$5,235                     | \$ 3,113         |
| Amortization of debt discount       | 3,932                         | 2,567            | 7,804                       | 4,238            |
| Amortization of debt issuance costs | 363                           | 251              | 722                         | 424              |
| Total interest expense recognized   | \$6,913                       | \$4,668          | \$13,761                    | \$7,775          |

#### Revolving Credit Facility

In December 2016, we entered into a three-year \$150.0 million secured revolving credit facility (the “Revolver”) for general corporate purposes, including financing the acquisition of aircraft prior to obtaining permanent financing for the aircraft. As of June 30, 2018, the outstanding balance on the Revolver was \$75.0 million at an interest rate of 4.34 % and there was \$66.4 million of unused availability under the Revolver, based on the collateral borrowing base.

## 9. Income Taxes

Our effective income tax expense rates were 159.6% and 21.6% for the three months ended June 30, 2018 and 2017, respectively. Our effective income tax expense rates were 316.9% and 22.4% for the six months ended June 30, 2018 and 2017, respectively. The effective income tax expense rates for the three and six months ended June 30, 2018 differed from the U.S. statutory rate primarily due to nondeductible changes in the value of the warrant liability (see Note 6 to our Financial Statements). The effective tax expense rates for 2018 reflect the reduced U.S. federal corporate income tax rate of 21% as a result of the enactment of the U.S. Tax Cuts and Jobs Act of 2017.

We continue to analyze the different aspects of the U.S. Tax Cuts and Jobs Act of 2017, which could potentially affect the provisional estimates recorded at December 31, 2017. We no longer indefinitely reinvest the earnings of our overseas dry leasing subsidiaries outside the U.S. As a result, we may repatriate those earnings to the U.S. in the future, and we recorded an immaterial deferred tax liability related to state income taxes for the three and six months ended June 30, 2018.

We participate in an aircraft leasing incentive program in Singapore that entitled us to a reduced income tax rate of 10.0% on our Singapore Dry Leasing income through July 31, 2018. We expect to renew our participation in this program at a reduced income tax rate of 8.0% through July 31, 2023, effective in the third quarter of 2018. Once our participation is renewed, we expect to record a deferred income tax benefit of approximately \$8.2 million related to the remeasurement of our deferred tax liability for Singapore.

The U.S. Internal Revenue Service is currently examining the 2015 tax year. It is reasonably possible that the balance of our unrecognized tax benefits could significantly decrease within the next twelve months. Due to the uncertainty related to the potential outcome of this examination, we cannot estimate a range of reasonably possible adjustments to our unrecognized tax benefits.

## 10. 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, maturing within five years, 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 ("PTCs") related to enhanced equipment trust certificates ("EETCs") issued by Atlas in 1998 and 1999.

Term loans and notes consist of term loans, notes guaranteed by the Export-Import Bank of the United States (“Ex-Im Bank”), the Revolver and EETCs. The fair values of these debt instruments 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.

The fair value of the Amazon Warrant and certain long-term performance-based restricted shares are based on a Monte Carlo simulation which requires inputs such as our common stock price, the warrant strike price, estimated common stock price volatility, and risk-free interest rate, among others.

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

|                                            | June 30, 2018  |             |           |           |             |
|--------------------------------------------|----------------|-------------|-----------|-----------|-------------|
|                                            | Carrying Value | Fair Value  | Level 1   | Level 2   | Level 3     |
| <b>Assets</b>                              |                |             |           |           |             |
| Cash and cash equivalents                  | \$216,762      | \$216,762   | \$216,762 | \$-       | \$-         |
| Short-term investments                     | 17,518         | 17,518      | -         | -         | 17,518      |
| Restricted cash                            | 11,167         | 11,167      | 11,167    | -         | -           |
| Long-term investments and accrued interest | 6,570          | 7,901       | -         | -         | 7,901       |
|                                            | \$252,017      | \$253,348   | \$227,929 | \$-       | \$25,419    |
| <b>Liabilities</b>                         |                |             |           |           |             |
| Term loans and notes                       | \$2,089,418    | \$2,077,573 | \$-       | \$-       | \$2,077,573 |
| Convertible notes (1)                      | 412,070        | 640,610     | 640,610   | -         | -           |
| Amazon Warrant                             | 226,181        | 226,181     | -         | 226,181   | -           |
|                                            | \$2,727,669    | \$2,944,364 | \$640,610 | \$226,181 | \$2,077,573 |
| <b>December 31, 2017</b>                   |                |             |           |           |             |
|                                            | Carrying Value | Fair Value  | Level 1   | Level 2   | Level 3     |
| <b>Assets</b>                              |                |             |           |           |             |
| Cash and cash equivalents                  | \$280,809      | \$280,809   | \$280,809 | \$-       | \$-         |
| Short-term investments                     | 13,604         | 13,604      | -         | -         | 13,604      |
| Restricted cash                            | 11,055         | 11,055      | 11,055    | -         | -           |
| Long-term investments and accrued interest | 15,371         | 18,074      | -         | -         | 18,074      |
|                                            | \$320,839      | \$323,542   | \$291,864 | \$-       | \$31,678    |
| <b>Liabilities</b>                         |                |             |           |           |             |
| Term loans and notes                       | \$1,791,918    | \$1,844,445 | \$-       | \$-       | \$1,844,445 |
| Convertible notes (1)                      | 403,544        | 602,846     | 602,846   | -         | -           |
| Amazon Warrant                             | 127,755        | 127,755     | -         | 127,755   | -           |
|                                            | \$2,323,217    | \$2,575,046 | \$602,846 | \$127,755 | \$1,844,445 |

(1) Carrying value is net of debt discounts and debt issuance costs. Hedge transactions associated with the Convertible Notes are reflected in additional paid-in-capital (see Note 8 to our Financial Statements).

Gross unrealized gains on our long-term investments and accrued interest were \$1.3 million at June 30, 2018 and \$2.7 million at December 31, 2017.

## 11. Segment Reporting

Our business is organized into three operating segments based on our service offerings: ACMI, Charter and Dry Leasing. All segments are directly or indirectly engaged in the business of air transportation services but have

different commercial and economic characteristics. Each operating segment is separately reviewed by our chief operating decision maker to assess operating results and make resource allocation decisions. We do not aggregate our operating segments and, therefore, our operating segments are our reportable segments.

We use an economic performance metric (“Direct Contribution”) that shows the profitability of each segment after allocation of direct operating and ownership costs. Direct Contribution represents Income (loss) from continuing operations before income taxes excluding the following: Special charges, Transaction-related expenses, nonrecurring items, Losses (gains) on the disposal of aircraft, Losses on early extinguishment of debt, Unrealized losses (gains) on financial instruments, Gains on investments and Unallocated income and expenses, net. Direct operating and ownership costs include crew costs, maintenance, fuel, ground operations, sales costs, aircraft rent, interest expense on the portion of debt used for financing aircraft, interest income on debt securities and aircraft depreciation. Unallocated income and expenses, net include corporate overhead, nonaircraft depreciation, noncash expenses and income, interest expense on the portion of debt used for general corporate purposes, interest income on nondebt securities, capitalized interest, foreign exchange gains and losses, other revenue and other non-operating costs.

The following table sets forth Operating Revenue and Direct Contribution for our reportable segments reconciled to Operating Income and Income from continuing operations before income taxes:

|                                                                     | For the Three<br>Months Ended |                   | For the Six Months<br>Ended |                   |
|---------------------------------------------------------------------|-------------------------------|-------------------|-----------------------------|-------------------|
|                                                                     | June 30,<br>2018              | June 30,<br>2017* | June 30,<br>2018            | June 30,<br>2017* |
| <b>Operating Revenue:</b>                                           |                               |                   |                             |                   |
| ACMI                                                                | \$277,795                     | \$229,179         | \$544,175                   | \$429,873         |
| Charter                                                             | 346,778                       | 255,820           | 631,975                     | 499,718           |
| Dry Leasing                                                         | 39,958                        | 28,560            | 76,350                      | 55,317            |
| Customer incentive asset amortization                               | (3,290 )                      | (898 )            | (5,886 )                    | (1,343 )          |
| Other                                                               | 4,904                         | 4,705             | 9,545                       | 9,196             |
| <b>Total Operating Revenue</b>                                      | <b>\$666,145</b>              | <b>\$517,366</b>  | <b>\$1,256,159</b>          | <b>\$992,761</b>  |
| <b>Direct Contribution:</b>                                         |                               |                   |                             |                   |
| ACMI                                                                |                               | \$52,707          | \$53,093                    | \$93,579          |
| Charter                                                             |                               | 51,090            | 36,567                      | 85,368            |
| Dry Leasing                                                         |                               | 12,191            | 9,661                       | 23,550            |
| <b>Total Direct Contribution for Reportable Segments</b>            |                               | <b>115,988</b>    | <b>99,321</b>               | <b>202,497</b>    |
| Unallocated income and expenses, net                                |                               | (64,480 )         | (61,998 )                   | (129,543 )        |
| Unrealized gain (loss) on financial instruments                     |                               | (50,031 )         | 13,763                      | (57,771 )         |
| Special charge                                                      |                               | (9,374 )          | -                           | (9,374 )          |
| Transaction-related expenses                                        |                               | (240 )            | (1,396 )                    | (510 )            |
| Gain on disposal of aircraft                                        |                               | -                 | 93                          | -                 |
| <b>Income (loss) from continuing operations before income taxes</b> |                               | <b>(8,137 )</b>   | <b>49,783</b>               | <b>5,299</b>      |
| <b>Add back (subtract):</b>                                         |                               |                   |                             |                   |
| Interest income                                                     |                               | (1,388 )          | (1,342 )                    | (3,112 )          |
| Interest expense                                                    |                               | 29,182            | 24,670                      | 56,524            |
| Capitalized interest                                                |                               | (1,465 )          | (1,931 )                    | (3,215 )          |
| Unrealized loss (gain) on financial instruments                     |                               | 50,031            | (13,763)                    | 57,771            |
| Other expense (income)                                              |                               | (7,277 )          | 1,061                       | (11,752 )         |
| <b>Operating Income</b>                                             |                               | <b>\$60,946</b>   | <b>\$58,478</b>             | <b>\$101,515</b>  |

\* The direct contribution amounts for the ACMI and Charter segments and the unallocated income and expenses, net above have been revised to reflect immaterial adjustments. The Company does not believe the impact to the previously issued consolidated financial statements was material.

The following table disaggregates our Charter segment revenue by customer and service type:

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| For the Three Months Ended |               |           |           |               |           |           |
|----------------------------|---------------|-----------|-----------|---------------|-----------|-----------|
|                            | June 30, 2018 |           |           | June 30, 2017 |           |           |
|                            | Cargo         | Passenger | Total     | Cargo         | Passenger | Total     |
| Commercial customers       | \$151,578     | \$544     | \$152,122 | \$114,595     | \$536     | \$115,131 |
| AMC                        | 104,448       | 90,208    | 194,656   | 67,359        | 73,330    | 140,689   |
| Total Charter Revenue      | \$256,026     | \$90,752  | \$346,778 | \$181,954     | \$73,866  | \$255,820 |

| For the Six Months Ended |               |           |           |               |           |           |
|--------------------------|---------------|-----------|-----------|---------------|-----------|-----------|
|                          | June 30, 2018 |           |           | June 30, 2017 |           |           |
|                          | Cargo         | Passenger | Total     | Cargo         | Passenger | Total     |
| Commercial customers     | \$282,751     | \$2,590   | \$285,341 | \$223,574     | \$3,511   | \$227,085 |
| AMC                      | 178,876       | 167,758   | 346,634   | 125,628       | 147,005   | 272,633   |
| Total Charter Revenue    | \$461,627     | \$170,348 | \$631,975 | \$349,202     | \$150,516 | \$499,718 |

Given the nature of our business and international flying, geographic information for revenue, long-lived assets and total assets is not presented because it is impracticable to do so.

We are exposed to a concentration of revenue from the AMC, Polar and DHL (see above and Note 3 to our Financial Statements for further discussion regarding the AMC and Polar). No other customer accounted for more than 10.0% of our Total Operating Revenue. Revenue from DHL was \$84.8 million for the three months ended June 30, 2018 and \$61.6 million for the three months ended June 30, 2017. Revenue from DHL was \$151.8 million for the six months ended June 30, 2018 and \$116.5 million for the six months ended June 30, 2017. We have not experienced any credit issues with these customers.

## 12. Labor and Legal Proceedings

### Labor

Pilots of Atlas and Southern Air, and flight dispatchers of Atlas and Polar are represented by the International Brotherhood of Teamsters (the “IBT”). We have a five-year collective bargaining agreement (“CBA”) with our Atlas pilots, which became amendable in September 2016 and a four-year CBA with the Southern Air pilots, which became amendable in November 2016. We also have a five-year CBA with our Atlas and Polar dispatchers, which was extended in April 2017 for an additional four years, making the CBA amendable in November 2021.

After we completed the acquisition of Southern Air in April 2016, we informed the IBT of our intention to pursue (and we have been pursuing) a complete operational merger of Atlas and Southern Air. Pursuant to the merger provisions in both the Atlas and Southern Air CBAs, joint negotiations for a single CBA for Atlas and Southern Air should commence promptly. Further to this process, once a seniority list is presented to us by the unions, it triggers an agreed-upon time frame to negotiate a new joint CBA with any unresolved issues submitted to binding arbitration. After the merger process began, the IBT filed an application for mediation with the National Mediation Board (“NMB”) on behalf of the Atlas pilots, and subsequently the IBT filed a similar application on behalf of Southern Air pilots. We have opposed both mediation applications as they are not in accordance with the merger provisions in the parties’ existing CBAs. The Atlas and Southern Air CBAs have a defined and streamlined process for negotiating a joint CBA when a merger occurs, as in the case with the Atlas and Southern Air merger. The NMB conducted a pre-mediation investigation on the IBT’s Atlas application in June 2016, which is currently pending (along with the IBT’s Southern Air application). Due to a lack of meaningful progress in such merger discussions, in February 2017, we filed a lawsuit against the IBT to compel arbitration on the issue of whether the merger provisions in Atlas and Southern Air’s CBAs apply to the bargaining process. On March 13, 2018, the Southern District Court of New York granted the Company’s motion to compel arbitration. The Company and the IBT have scheduled the Atlas and Southern arbitrations during the second half of 2018.

In July 2018, the Company and the IBT reached an agreement for an interim adjustment of the Southern Air pilots’ terms and conditions of employment, which enhances the wages of the Southern Air pilots and provides similar terms and conditions of employment to that provided to Atlas pilots in the Atlas CBA. The agreement is subject to ratification by the Southern Air pilots, the results of which we expect by mid-August 2018.

In September 2017, the Company requested the U.S. District Court for the District of Columbia (the “Court”) to issue a preliminary injunction to require the IBT to meet its obligations under the Railway Labor Act of 1926 (the “Railway Labor Act”) and stop the intentional and illegal work slowdowns and service interruptions. In late November 2017, the Court granted the Company’s request to issue a preliminary injunction to require the IBT to meet its obligations under the Railway Labor Act and stop “authorizing, encouraging, permitting, calling, engaging in, or continuing” any illegal pilot slowdown activities, which were intended to gain leverage in pilot contract negotiations with the Company. In addition, the Court ordered the IBT to take affirmative action to prevent and to refrain from continuing any form of interference with the Company’s operations or any other concerted refusal to perform normal pilot operations consistent with its status quo obligations under the Railway Labor Act. In December 2017, the IBT appealed the Court’s decision to the U.S. Court of Appeals for the District of Columbia Circuit. Pending the outcome of the appeal,

the preliminary injunction remains in effect. We believe the IBT's appeal will be unsuccessful and expect the preliminary injunction to remain in effect.

We are subject to risks of work interruption or stoppage as permitted by the Railway Labor Act and may incur additional administrative expenses associated with union representation of our employees.

#### Matters Related to Alleged Pricing Practices

In the Netherlands, Stichting Cartel Compensation, successor in interest to claims of various shippers, has filed suit in the district court in Amsterdam against British Airways, KLM, Martinair, Air France, Lufthansa and Singapore Airlines seeking recovery for damages purportedly arising from allegedly unlawful pricing practices of the defendants. In response, British Airways, KLM, Martinair, Air France and Lufthansa filed third-party indemnification lawsuits against Polar Air Cargo, LLC ("Old Polar"), a consolidated subsidiary of the Company, and Polar, seeking indemnification in the event the defendants are found to be liable in the main proceedings. Another defendant, Thai Airways, filed a similar indemnification claim. The case is in its early stages, and various procedural issues are awaiting court determination. The Netherlands proceedings are likely to be affected by a decision readopted by the European Commission in

March 2017, finding EU competition law violations by British Airways, KLM, Martinair, Air France and Lufthansa, among others, but not Old Polar or Polar. We are unable to reasonably predict the outcome of the litigation. If the Company, Old Polar or Polar were to incur an unfavorable outcome, such outcome may have a material adverse impact on our business, financial condition, results of operations or cash flows. We are unable to reasonably estimate a range of possible loss for this matter at this time.

#### 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 \$7.8 million in aggregate based on June 30, 2018 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 balance was \$4.1 million as of June 30, 2018 and \$5.1 million as of December 31, 2017, and is included in Deferred costs 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 does not expect that the ultimate disposition of such other contingencies will materially affect our financial condition, results of operations or cash flows.

### 13. Earnings Per Share

Basic earnings per share ("EPS") represents income (loss) divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represents income (loss) 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.

The calculations of basic and diluted EPS were as follows:

|                                                                   | For the Three<br>Months Ended |                  | For the Six Months<br>Ended |                  |
|-------------------------------------------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                                                   | June 30,<br>2018              | June 30,<br>2017 | June 30,<br>2018            | June 30,<br>2017 |
| Numerator:                                                        |                               |                  |                             |                  |
| Income (loss) from continuing operations, net of taxes            | \$(21,123)                    | \$39,044         | \$(11,495)                  | \$39,079         |
| Less: Unrealized loss (gain) on financial instruments, net of tax | -                             | (14,293)         | -                           | (8,869)          |

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|                                                              |            |          |            |          |
|--------------------------------------------------------------|------------|----------|------------|----------|
| Diluted income (loss) from continuing operations, net of tax | \$(21,123) | \$24,751 | \$(11,495) | \$30,210 |
|--------------------------------------------------------------|------------|----------|------------|----------|

Denominator:

|                                                       |        |        |        |        |
|-------------------------------------------------------|--------|--------|--------|--------|
| Basic EPS weighted average shares outstanding         | 25,565 | 25,257 | 25,501 | 25,210 |
| Effect of dilutive warrant                            | -      | 1,081  | -      | 1,096  |
| Effect of dilutive stock options and restricted stock | -      | 453    | -      | 517    |
| Diluted EPS weighted average shares outstanding       | 25,565 | 26,791 | 25,501 | 26,823 |

Earnings (loss) per share from continuing operations:

|         |           |        |           |        |
|---------|-----------|--------|-----------|--------|
| Basic   | \$(0.83 ) | \$1.55 | \$(0.45 ) | \$1.55 |
| Diluted | \$(0.83 ) | \$0.92 | \$(0.45 ) | \$1.13 |

Loss per share from discontinued operations:

|         |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|
| Basic   | \$(0.00 ) | \$(0.00 ) | \$(0.00 ) | \$(0.04 ) |
| Diluted | \$(0.00 ) | \$(0.00 ) | \$(0.00 ) | \$(0.03 ) |

Earnings (loss) per share:

|         |           |        |           |        |
|---------|-----------|--------|-----------|--------|
| Basic   | \$(0.83 ) | \$1.54 | \$(0.45 ) | \$1.51 |
| Diluted | \$(0.83 ) | \$0.92 | \$(0.45 ) | \$1.09 |

Anti-dilutive shares related to warrants issued in connection with our Convertible Notes that were out of the money and excluded were 3.0 million for the three and six months ended June 30, 2018 and 7.8 million for the three and six months ended June 30, 2017. Anti-dilutive shares related to warrants issued to a customer and restricted share units that were excluded from the calculation of diluted EPS due to losses incurred were 3.3 million for the three months ended June 30, 2018 and 2.7 million for the six months ended June 30, 2018. Diluted shares reflect the potential dilution that could occur from restricted shares using the treasury stock method. The calculation of EPS does not include restricted share units and warrants issued to a customer in which performance or market conditions were not satisfied of 5.8 million for the three and six months ended June 30, 2018 and 7.6 million for the three and six months ended June 30, 2017.

#### 14. Accumulated Other Comprehensive Income (Loss)

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

|                                      | Interest Rate<br>Derivatives | Foreign Currency<br>Translation | Total     |
|--------------------------------------|------------------------------|---------------------------------|-----------|
| Balance as of December 31, 2016      | \$ (5,002 )                  | \$ 9                            | \$(4,993) |
| Reclassification to interest expense | 820                          | -                               | 820       |
| Tax effect                           | (318 )                       | -                               | (318 )    |
| Balance as of June 30, 2017          | \$ (4,500 )                  | \$ 9                            | \$(4,491) |
| Balance as of December 31, 2017      | \$ (4,002 )                  | \$ 9                            | \$(3,993) |
| Reclassification to interest expense | 750                          | -                               | 750       |
| Tax effect                           | (177 )                       | -                               | (177 )    |
| Reclassification of taxes            | (970 )                       | -                               | (970 )    |
| Balance as of June 30, 2018          | \$ (4,399 )                  | \$ 9                            | \$(4,390) |

#### Interest Rate Derivatives

As of June 30, 2018, there was \$5.8 million of unamortized net 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 \$0.4 million for the three months ended June 30, 2018 and 2017. Net realized losses reclassified into earnings were \$0.8 million for the six months ended June 30, 2018 and 2017. Net realized losses expected to be reclassified into earnings within the next 12 months are \$1.4 million as of June 30, 2018.

#### 15. Subsequent Events

In July 2018, we borrowed \$20.4 million under an unsecured five-year term loan due in June 2023 (the “Seventeenth 2018 Term Loan”) for GEnx engine performance upgrade kits and overhauls. The Seventeenth 2018 Term Loan contains customary covenants, events of default and accrues interest at a fixed rate of 3.38%, with principal and interest payable quarterly.



## 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 Financial Statements appearing in this report and our audited consolidated financial statements and related notes included in our 2017 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               | “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               | “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 that are extensive in scope and are primarily based on time or usage intervals, which include, but are 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. |
| Line Maintenance      | Maintenance events occurring during normal day-to-day operations.                                                                                                                                                                                                                                                                      |
| Non-heavy Maintenance | Discrete maintenance activities for the overhaul and repair of specific aircraft 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. We operate the world’s largest fleet of 747 freighters and provide customers a broad array of 747, 777, 767, 757 and 737 aircraft for domestic, regional and international cargo and passenger operations. We provide unique value to our customers by giving them access to highly reliable modern 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 express delivery providers, e-commerce retailers, airlines, 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 price risk. In addition, customers are generally 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, generally including the provision of crew, Line Maintenance and insurance, but not the aircraft. Customers assume fuel, demand and price risk, and are responsible for providing the aircraft (which they may lease from us) and generally responsible for Heavy and Non-Heavy Maintenance, 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

• **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;
  - Focusing on securing attractive long-term customer contracts;
  - Managing our fleet with a focus on modern, efficient aircraft;
  - Driving significant ongoing productivity improvements;
  - Selectively pursuing and evaluating future acquisitions and alliances; while
  - Appropriately managing capital allocation and delivering value to shareholders.
- See “Business Overview” and “Business Strategy” in our 2017 Annual Report on Form 10-K for additional information.

#### Business Developments

Our ACMI results for the first half of 2018, compared with 2017, were positively impacted by increased flying from the following events:

- Between August 2016 and June 2018, we began CMI flying for Amazon the first 15 of 20 Boeing 767-300 freighter aircraft Dry Leased from Titan. During the first half of 2018, we operated 15 of the aircraft compared to 6 of the aircraft during the first half of 2017. We expect to be operating all 20 aircraft by the end of 2018.
- During the first quarter of 2017, we began flying a 747-400 freighter for Nippon Cargo Airlines on transpacific routes. In September 2017, we began flying a second 747-400 freighter for them on transpacific routes.
- During the first quarter of 2017, we began flying a 747-400 freighter for Asiana Cargo on transpacific routes.
- During the second quarter of 2017, we began ACMI flying two 747-8F aircraft for Cathay Pacific Cargo to supplement capacity on its existing route network.
- In September 2017, we began ACMI flying a 747-400 freighter for DHL Global Forwarding on routes between the United States, Europe, and Asia.
- In February 2018, we signed long-term CMI and Dry Lease contracts with DHL for two 777-200 freighter aircraft. The first of the two aircraft was previously in CMI service with us and the second aircraft began CMI and Dry Lease service in July of 2018.

Charter results for the first half of 2018 reflected higher Revenue per Block Hour and increased cargo and passenger demand from the AMC, increased commercial cargo demand and higher aircraft utilization, which were partially offset by the redeployment of 747-8F aircraft to the ACMI segment.

During 2017 and 2018, we entered into eight operating leases for 747-400 freighter aircraft to meet increased customer demand in our ACMI and Charter businesses. Two aircraft entered service in 2017 and one aircraft entered service during the first half of 2018. Four are expected to enter service during the second half of 2018 and one during 2019.

In February 2018, we acquired a 777-200 freighter aircraft and Dry Leased it to DHL on a long-term basis, as described above. We completed the acquisition of a second 777-200 freighter aircraft and Dry Leased it to DHL on a long-term basis during the second quarter of 2018 and placed it into service in July 2018. As described above, between August 2016 and June 2018, we began Dry Leasing 15 767-300 converted freighter aircraft to Amazon on a long-term basis.

## Results of Operations

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, 2018 and 2017

## Operating Statistics

The following tables compare our Segment Operating Fleet (average aircraft equivalents during the period) and total Block Hours operated for the three months ended June 30:

| Segment Operating Fleet                             | 2018          | 2017          | Inc/(Dec)      |
|-----------------------------------------------------|---------------|---------------|----------------|
| <b>ACMI*</b>                                        |               |               |                |
| 747-8F Cargo                                        | 9.0           | 7.6           | 1.4            |
| 747-400 Cargo                                       | 16.2          | 14.1          | 2.1            |
| 747-400 Dreamlifter                                 | 3.1           | 3.2           | (0.1 )         |
| 777-200 Cargo                                       | 5.0           | 5.0           | -              |
| 767-300 Cargo                                       | 19.3          | 8.2           | 11.1           |
| 767-200 Cargo                                       | 9.0           | 9.0           | -              |
| 737-400 Cargo                                       | 5.0           | 5.0           | -              |
| 747-400 Passenger                                   | -             | 1.0           | (1.0 )         |
| 767-200 Passenger                                   | 1.0           | 1.0           | -              |
| <b>Total</b>                                        | <b>67.6</b>   | <b>54.1</b>   | <b>13.5</b>    |
| <b>Charter</b>                                      |               |               |                |
| 747-8F Cargo                                        | 1.0           | 2.3           | (1.3 )         |
| 747-400 Cargo                                       | 12.6          | 9.7           | 2.9            |
| 747-400 Passenger                                   | 2.0           | 2.0           | -              |
| 767-300 Cargo                                       | 0.5           | -             | 0.5            |
| 767-300 Passenger                                   | 4.0           | 4.7           | (0.7 )         |
| <b>Total</b>                                        | <b>20.1</b>   | <b>18.7</b>   | <b>1.4</b>     |
| <b>Dry Leasing</b>                                  |               |               |                |
| 777-200 Cargo                                       | 7.0           | 6.0           | 1.0            |
| 767-300 Cargo                                       | 15.6          | 5.8           | 9.8            |
| 757-200 Cargo                                       | 1.0           | 1.0           | -              |
| 737-300 Cargo                                       | 1.0           | 1.0           | -              |
| 737-800 Passenger                                   | 1.0           | 1.0           | -              |
| <b>Total</b>                                        | <b>25.6</b>   | <b>14.8</b>   | <b>10.8</b>    |
| <b>Less: Aircraft Dry Leased to CMI customers</b>   | <b>(16.6)</b> | <b>(5.8 )</b> | <b>(10.8 )</b> |
| <b>Total Operating Average Aircraft Equivalents</b> | <b>96.7</b>   | <b>81.8</b>   | <b>14.9</b>    |

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

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| Block Hours         | 2018   | 2017   | Inc/(Dec) | % Change |   |
|---------------------|--------|--------|-----------|----------|---|
| Total Block Hours** | 72,660 | 61,288 | 11,372    | 18.6     | % |

\*\* Includes ACMI, Charter and other Block Hours.

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## Operating Revenue

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

|                                       | 2018      | 2017      | Inc/(Dec) | % Change |   |
|---------------------------------------|-----------|-----------|-----------|----------|---|
| Operating Revenue                     |           |           |           |          |   |
| ACMI                                  | \$277,795 | \$229,179 | \$48,616  | 21.2     | % |
| Charter                               | 346,778   | 255,820   | 90,958    | 35.6     | % |
| Dry Leasing                           | 39,958    | 28,560    | 11,398    | 39.9     | % |
| Customer incentive asset amortization | (3,290 )  | (898 )    | 2,392     | NM       |   |
| Other                                 | 4,904     | 4,705     | 199       | 4.2      | % |
| Total Operating Revenue               | \$666,145 | \$517,366 |           |          |   |

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

## ACMI

|                             | 2018    | 2017    | Inc/(Dec) | % Change |   |
|-----------------------------|---------|---------|-----------|----------|---|
| ACMI Block Hours            | 53,230  | 44,819  | 8,411     | 18.8     | % |
| ACMI Revenue Per Block Hour | \$5,219 | \$5,113 | \$106     | 2.1      | % |

ACMI revenue increased \$48.6 million, or 21.2%, primarily due to increased flying and an increase in Revenue per Block Hour. The increase in Block Hours was primarily driven by increased 767 flying for Amazon, the start-up of 747 flying for several new customers and the redeployment of 747-8F aircraft from the Charter segment. Revenue per Block Hour increased primarily due to the impact of increased 747-8F and 747-400 flying for new customers.

## Charter

|                                 | 2018     | 2017     | Inc/(Dec) | % Change |   |
|---------------------------------|----------|----------|-----------|----------|---|
| Charter Block Hours:            |          |          |           |          |   |
| Cargo                           | 13,887   | 11,288   | 2,599     | 23.0     | % |
| Passenger                       | 5,094    | 4,611    | 483       | 10.5     | % |
| Total                           | 18,981   | 15,899   | 3,082     | 19.4     | % |
| Charter Revenue Per Block Hour: |          |          |           |          |   |
| Cargo                           | \$18,436 | \$16,119 | \$2,317   | 14.4     | % |
| Passenger                       | \$17,815 | \$16,020 | \$1,795   | 11.2     | % |
| Charter                         | \$18,270 | \$16,090 | \$2,180   | 13.5     | % |

Charter revenue increased \$91.0 million, or 35.6%, primarily due to an increase in flying and an increase in Revenue per Block Hour. The increase in Charter Block Hours was primarily driven by increased cargo and passenger demand

from the AMC, increased commercial cargo demand and higher aircraft utilization, partially offset by the redeployment of 747-8F aircraft to the ACMI segment. Revenue per Block Hour increased primarily due to higher fuel prices and the impact of Charter capacity purchased from our ACMI customers that had no associated Charter Block Hours.

#### Dry Leasing

Dry Leasing revenue increased \$11.4 million, or 39.9%, primarily due to the placement of 767-300 converted freighter aircraft throughout the second half of 2017 and the first half of 2018, as well as the placement of one 777-200 freighter aircraft in February 2018.

## Operating Expenses

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

|                                              | 2018      | 2017      | Inc/(Dec) | % Change |    |
|----------------------------------------------|-----------|-----------|-----------|----------|----|
| Operating Expenses                           |           |           |           |          |    |
| Salaries, wages and benefits                 | \$129,176 | \$111,488 | \$17,688  | 15.9     | %  |
| Aircraft fuel                                | 129,706   | 83,486    | 46,220    | 55.4     | %  |
| Maintenance, materials and repairs           | 88,236    | 64,769    | 23,467    | 36.2     | %  |
| Depreciation and amortization                | 50,834    | 40,986    | 9,848     | 24.0     | %  |
| Travel                                       | 42,358    | 34,891    | 7,467     | 21.4     | %  |
| Aircraft rent                                | 40,281    | 33,792    | 6,489     | 19.2     | %  |
| Navigation fees, landing fees and other rent | 37,698    | 25,255    | 12,443    | 49.3     | %  |
| Passenger and ground handling services       | 30,202    | 23,573    | 6,629     | 28.1     | %  |
| Gain on disposal of aircraft                 | -         | (93)      | (93)      |          | NM |
| Special charge                               | 9,374     | -         | 9,374     |          | NM |
| Transaction-related expenses                 | 240       | 1,396     | (1,156)   |          | NM |
| Other                                        | 47,094    | 39,345    | 7,749     | 19.7     | %  |
| Total Operating Expenses                     | \$605,199 | \$458,888 |           |          |    |

Salaries, wages and benefits increased \$17.7 million, or 15.9%, primarily due to increased flying and fleet growth initiatives.

Aircraft fuel increased \$46.2 million, or 55.4%, primarily due to an increase in the average fuel cost per gallon and an increase in consumption related to increased flying. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer. Average fuel cost per gallon and fuel consumption for the three months ended June 30 were:

|                              | 2018   | 2017   | Inc/(Dec) | % Change |   |
|------------------------------|--------|--------|-----------|----------|---|
| Average fuel cost per gallon | \$2.42 | \$1.85 | \$0.57    | 30.8     | % |
| Fuel gallons consumed (000s) | 53,508 | 45,229 | 8,279     | 18.3     | % |

Maintenance, materials and repairs increased by \$23.5 million, or 36.2%, primarily reflecting \$14.4 million of increased Line Maintenance expense due to increased flying and additional repairs performed, and \$7.8 million of increased Heavy Maintenance expense. The higher Line Maintenance primarily reflected increases of \$7.7 million for 747-400 aircraft, \$5.2 million for 767 aircraft and \$2.1 million for 777 aircraft, partially offset by a decrease of \$1.2 million for 747-8F aircraft. Heavy Maintenance expense on 747-8F aircraft increased \$4.9 million primarily due to an increase in the number of C Checks. Heavy Maintenance expense on 767 aircraft increased \$1.7 million primarily due to higher costs for C Checks and additional repairs performed. Heavy Maintenance expense on 747-400 aircraft increased \$1.2 million primarily due to an increase in the number of engine overhauls and additional repairs performed, partially offset by a decrease in the number of C Checks. Heavy airframe maintenance checks and engine overhauls impacting Maintenance, materials and repairs for the three months ended June 30 were:

| Heavy Maintenance Events | 2018 | 2017 | Inc/(Dec) |
|--------------------------|------|------|-----------|
| 747-8F C Checks          | 3    | -    | 3         |
| 747-400 C Checks         | 3    | 4    | (1 )      |
| 767 C Checks             | 1    | 1    | -         |
| 747-400 D Checks         | 1    | 1    | -         |
| CF6-80 engine overhauls  | 3    | 1    | 2         |

Depreciation and amortization increased \$9.8 million, or 24.0%, primarily due to additional aircraft operating in 2018, an increase in the scrapping of rotatable parts and an increase in the amortization of deferred maintenance costs related to 747-8F engine overhauls (see Note 2 to our Financial Statements).

Travel increased \$7.5 million, or 21.4%, primarily due to increased flying and higher rates for crewmember travel.

Aircraft rent increased \$6.5 million, or 19.2%, primarily due to additional operating leases for 747-400 freighter aircraft to meet increased customer demand.

Navigation fees, landing fees and other rent increased \$12.4 million, or 49.3%, primarily due to increased flying and an increase in purchased capacity, which is a component of other rent.

Passenger and ground handling services increased \$6.6 million, or 28.1%, primarily due to higher costs from flying to more expensive locations and increased Charter flying.

Special charge represents a \$9.4 million impairment loss on engines held for sale related to our engine acquisition program (see Note 5 to our Financial Statements). We may sell additional flight equipment, which could result in additional charges in future periods.

Transaction-related expenses were for the integration of Southern Air, which primarily included professional fees and integration costs.

Other increased \$7.7 million, or 19.7%, primarily due to higher passenger taxes and commission expense on increased revenue from the AMC, increased freight related to an increase in the number of engine overhauls and the impact of fleet growth initiatives.

#### Non-operating Expenses (Income)

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

|                                                 | 2018       | 2017       | Inc/(Dec) | %<br>Change |
|-------------------------------------------------|------------|------------|-----------|-------------|
| Non-operating Expenses (Income)                 |            |            |           |             |
| Interest income                                 | \$(1,388 ) | \$(1,342 ) | \$ 46     | 3.4 %       |
| Interest expense                                | 29,182     | 24,670     | 4,512     | 18.3 %      |
| Capitalized interest                            | (1,465 )   | (1,931 )   | (466 )    | (24.1 )%    |
| Unrealized loss (gain) on financial instruments | 50,031     | (13,763 )  | 63,794    | NM          |
| Other expense (income)                          | (7,277 )   | 1,061      | 8,338     | NM          |

Interest expense increased \$4.5 million, or 18.3%, primarily due to the issuance of the 2017 Convertible Notes, the financing of 767-300 aircraft purchases and conversions and the financing of two 777-200 aircraft acquired in 2018.

Unrealized loss (gain) on financial instruments represents the change in fair value of the Amazon Warrant (see Note 6 to our Financial Statements) primarily due to changes in our common stock price.

Other expense (income) increased primarily due to a refund of \$8.6 million for aircraft rent paid in previous years.

Income taxes. Our effective income tax expense rates of 159.6% and 21.6% for the three months ended June 30, 2018 and 2017, respectively, differed from the U.S. statutory rate primarily due to nondeductible changes in the value of the warrant liability (see Note 6 to our Financial Statements). The effective income tax rate for the three months ended June 30, 2018 also reflects the reduced U.S. federal corporate income tax rate of 21% as a result of the enactment of the U.S. Tax Cuts and Jobs Act of 2017. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate. We continue to analyze the different aspects of the U.S. Tax Cuts and Jobs Act of 2017, which could potentially affect the provisional estimates that were recorded at December 31, 2017.

#### Segments

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The following table compares the Direct Contribution for our reportable segments for the three months ended June 30 (see Note 11 to our Financial Statements for the reconciliation to Operating income) (in thousands):

|                                      | 2018      | 2017     | Inc/(Dec) | %<br>Change |   |
|--------------------------------------|-----------|----------|-----------|-------------|---|
| Direct Contribution:                 |           |          |           |             |   |
| ACMI                                 | \$52,707  | \$53,093 | \$ (386 ) | NM          |   |
| Charter                              | 51,090    | 36,567   | 14,523    | 39.7        | % |
| Dry Leasing                          | 12,191    | 9,661    | 2,530     | 26.2        | % |
| Total Direct Contribution            | \$115,988 | \$99,321 | \$ 16,667 | 16.8        | % |
| Unallocated income and expenses, net | \$64,480  | \$61,998 | \$ 2,482  | 4.0         | % |

## ACMI Segment

ACMI Direct Contribution was relatively unchanged as the impact of increased flying and higher Revenue per Block Hour were largely offset by higher Heavy Maintenance costs and amortization of deferred maintenance costs.

## Charter Segment

Charter Direct Contribution increased \$14.5 million, or 39.7%, primarily due to increased cargo and passenger demand from the AMC, increased commercial cargo demand and higher aircraft utilization, partially offset by the redeployment of 747-8F aircraft to the ACMI segment.

## Dry Leasing Segment

Dry Leasing Direct Contribution increased \$2.5 million, or 26.2%, primarily due to the placement of additional aircraft.

## Unallocated income and expenses, net

Unallocated income and expenses, net increased \$2.5 million, or 4.0%, primarily due to higher costs for unallocated interest expense, fleet growth initiatives and amortization of the Amazon customer incentive asset.

## Six Months Ended June 30, 2018 and 2017

## Operating Statistics

The following tables compare our Segment Operating Fleet (average aircraft equivalents during the period) and total Block Hours operated for the six months ended June 30:

| Segment Operating Fleet | 2018 | 2017 | Inc/(Dec) |
|-------------------------|------|------|-----------|
| ACMI*                   |      |      |           |
| 747-8F Cargo            | 9.0  | 7.3  | 1.7       |
| 747-400 Cargo           | 16.0 | 13.4 | 2.6       |
| 747-400 Dreamlifter     | 3.1  | 3.1  | -         |
| 777-200 Cargo           | 5.0  | 5.0  | -         |
| 767-300 Cargo           | 18.3 | 7.0  | 11.3      |
| 767-200 Cargo           | 9.0  | 9.0  | -         |
| 737-400 Cargo           | 5.0  | 5.0  | -         |
| 747-400 Passenger       | 0.5  | 1.0  | (0.5 )    |
| 767-200 Passenger       | 1.0  | 1.0  | -         |
| Total                   | 66.9 | 51.8 | 15.1      |
| Charter                 |      |      |           |
| 747-8F Cargo            | 1.0  | 2.6  | (1.6 )    |
| 747-400 Cargo           | 12.2 | 10.4 | 1.8       |
| 747-400 Passenger       | 2.0  | 2.0  | -         |
| 767-300 Cargo           | 0.4  | -    | 0.4       |
| 767-300 Passenger       | 4.0  | 4.8  | (0.8 )    |
| Total                   | 19.6 | 19.8 | (0.2 )    |

|                                              |        |       |        |   |
|----------------------------------------------|--------|-------|--------|---|
| Dry Leasing                                  |        |       |        |   |
| 777-200 Cargo                                | 6.7    | 6.0   | 0.7    |   |
| 767-300 Cargo                                | 14.8   | 4.7   | 10.1   |   |
| 757-200 Cargo                                | 1.0    | 1.0   | -      |   |
| 737-300 Cargo                                | 1.0    | 1.0   | -      |   |
| 737-800 Passenger                            | 1.0    | 1.0   | -      |   |
| Total                                        | 24.5   | 13.7  | 10.8   |   |
|                                              |        |       |        |   |
| Less: Aircraft Dry Leased to CMI customers   | (15.5) | (4.7) | (10.8) | ) |
| Total Operating Average Aircraft Equivalents | 95.5   | 80.6  | 14.9   |   |

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

|                     |         |         |           |          |   |
|---------------------|---------|---------|-----------|----------|---|
| Block Hours         | 2018    | 2017    | Inc/(Dec) | % Change |   |
| Total Block Hours** | 139,155 | 116,404 | 22,751    | 19.5     | % |

\*\* Includes ACMI, Charter and other Block Hours.

## Operating Revenue

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

|                                       | 2018        | 2017      | Inc/(Dec) | % Change |   |
|---------------------------------------|-------------|-----------|-----------|----------|---|
| Operating Revenue                     |             |           |           |          |   |
| ACMI                                  | \$544,175   | \$429,873 | \$114,302 | 26.6     | % |
| Charter                               | 631,975     | 499,718   | 132,257   | 26.5     | % |
| Dry Leasing                           | 76,350      | 55,317    | 21,033    | 38.0     | % |
| Customer incentive asset amortization | (5,886 )    | (1,343 )  | 4,543     | NM       |   |
| Other                                 | 9,545       | 9,196     | 349       | 3.8      | % |
| Total Operating Revenue               | \$1,256,159 | \$992,761 |           |          |   |

## ACMI

|                             | 2018    | 2017    | Inc/(Dec) | % Change |   |
|-----------------------------|---------|---------|-----------|----------|---|
| ACMI Block Hours            | 103,092 | 83,735  | 19,357    | 23.1     | % |
| ACMI Revenue Per Block Hour | \$5,279 | \$5,134 | \$145     | 2.8      | % |

ACMI revenue increased \$114.3 million, or 26.6%, primarily due to increased flying and an increase in Revenue per Block Hour. The increase in Block Hours was primarily driven by increased 767 flying for Amazon, the start-up of 747 flying for several new customers and the redeployment of 747-8F aircraft from the Charter segment. Revenue per Block Hour increased primarily due to the impact of increased 747-8F and 747-400 flying for new customers.

## Charter

|                                 | 2018     | 2017     | Inc/(Dec) | % Change |   |
|---------------------------------|----------|----------|-----------|----------|---|
| Charter Block Hours:            |          |          |           |          |   |
| Cargo                           | 25,278   | 22,228   | 3,050     | 13.7     | % |
| Passenger                       | 9,763    | 9,456    | 307       | 3.2      | % |
| Total                           | 35,041   | 31,684   | 3,357     | 10.6     | % |
| Charter Revenue Per Block Hour: |          |          |           |          |   |
| Cargo                           | \$18,262 | \$15,710 | \$2,552   | 16.2     | % |
| Passenger                       | \$17,448 | \$15,918 | \$1,531   | 9.6      | % |
| Charter                         | \$18,035 | \$15,772 | \$2,263   | 14.4     | % |

Charter revenue increased \$132.3 million, or 26.5%, primarily due to an increase in Revenue per Block Hour and increased flying. Revenue per Block Hour increased primarily due to higher fuel prices, the impact of Charter capacity purchased from our ACMI customers that had no associated Charter Block Hours and higher Yields. The increase in Charter Block Hours was primarily driven by increased cargo and passenger demand from the AMC, increased commercial cargo demand and higher aircraft utilization, partially offset by the redeployment of 747-8F aircraft to the ACMI segment.

## Dry Leasing

Dry Leasing revenue increased \$21.0 million, or 38.0%, primarily due to the placement of 767-300 converted freighter aircraft throughout the second half of 2017 and the first half of 2018, as well as the placement of one 777-200 freighter aircraft in February 2018.

## Operating Expenses

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

|                                              | 2018        | 2017      | Inc/(Dec) | % Change |   |
|----------------------------------------------|-------------|-----------|-----------|----------|---|
| Operating Expenses                           |             |           |           |          |   |
| Salaries, wages and benefits                 | \$254,258   | \$215,575 | \$ 38,683 | 17.9     | % |
| Aircraft fuel                                | 226,009     | 165,918   | 60,091    | 36.2     | % |
| Maintenance, materials and repairs           | 173,115     | 137,585   | 35,530    | 25.8     | % |
| Depreciation and amortization                | 100,464     | 78,880    | 21,584    | 27.4     | % |
| Travel                                       | 82,205      | 67,249    | 14,956    | 22.2     | % |
| Aircraft rent                                | 79,805      | 69,865    | 9,940     | 14.2     | % |
| Navigation fees, landing fees and other rent | 73,295      | 43,790    | 29,505    | 67.4     | % |
| Passenger and ground handling services       | 58,264      | 48,696    | 9,568     | 19.6     | % |
| Gain on disposal of aircraft                 | -           | (147 )    | (147 )    | NM       |   |
| Special charge                               | 9,374       | -         | 9,374     | NM       |   |
| Transaction-related expenses                 | 510         | 2,312     | (1,802 )  | NM       |   |
| Other                                        | 97,345      | 80,523    | 16,822    | 20.9     | % |
| Total Operating Expenses                     | \$1,154,644 | \$910,246 |           |          |   |

Salaries, wages and benefits increased \$38.7 million, or 17.9%, primarily due to increased flying and fleet growth initiatives.

Aircraft fuel increased \$60.1 million, or 36.2%, primarily due to an increase in the average fuel cost per gallon and an increase in consumption related to increased flying. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer. Average fuel cost per gallon and fuel consumption for the six months ended June 30 were:

|                              | 2018   | 2017   | Inc/(Dec) | % Change |   |
|------------------------------|--------|--------|-----------|----------|---|
| Average fuel cost per gallon | \$2.30 | \$1.86 | \$ 0.44   | 23.7     | % |
| Fuel gallons consumed (000s) | 98,458 | 89,156 | 9,302     | 10.4     | % |

Maintenance, materials and repairs increased by \$35.5 million, or 25.8%, primarily reflecting \$25.6 million of increased Line Maintenance expense due to increased flying and additional repairs performed, and \$9.7 million of increased Heavy Maintenance expense. The higher Line Maintenance primarily reflected increases of \$13.1 million for 747-400 aircraft, \$11.4 million for 767 aircraft and \$2.2 million for 777 aircraft, partially offset by a decrease of \$2.1 million for 747-8F aircraft. Heavy Maintenance expense on 747-400 aircraft increased \$7.2 million primarily due to an increase in the number of engine overhauls, C Checks and additional repairs performed, partially offset by a decrease in the number of D Checks. Heavy Maintenance expense on 747-8F aircraft increased \$2.2 million primarily due to an increase in the number of C Checks. Heavy airframe maintenance checks and engine overhauls impacting Maintenance, materials and repairs for the six months ended June 30 were:

| Heavy Maintenance Events | 2018 | 2017 | Inc/(Dec) |
|--------------------------|------|------|-----------|
| 747-8F C Checks          | 3    | 2    | 1         |
| 747-400 C Checks         | 7    | 6    | 1         |
| 767 C Checks             | 1    | 2    | (1 )      |
| 747-400 D Checks         | 2    | 5    | (3 )      |
| CF6-80 engine overhauls  | 9    | 4    | 5         |

Depreciation and amortization increased \$21.6 million, or 27.4%, primarily due to additional aircraft operating in 2018, an increase in the scrapping of rotatable parts and an increase in the amortization of deferred maintenance costs related to 747-8F engine overhauls (see Note 2 to our Financial Statements).

Travel increased \$15.0 million, or 22.2%, primarily due to increased flying and higher rates for crew member travel.

Aircraft rent increased \$9.9 million, or 14.2%, primarily due to additional operating leases for 747-400 freighter aircraft to meet increased customer demand.

Navigation fees, landing fees and other rent increased \$29.5 million, or 67.4%, primarily due to increased flying and an increase in purchased capacity, which is a component of other rent.

Passenger and ground handling services increased \$9.6 million, or 19.6%, primarily due to increased Charter flying and higher costs from flying to more expensive locations.

Special charge represents a \$9.4 million impairment loss on engines held for sale related to our engine acquisition program (see Note 5 to our Financial Statements). We may sell additional flight equipment, which could result in additional charges in future periods.

Transaction-related expenses were for the integration of Southern Air, which primarily included professional fees and integration costs.

Other increased \$16.8 million, or 20.9%, primarily due to higher passenger taxes and commission expense on increased revenue from the AMC, the impact of fleet growth initiatives and increased freight related to an increase in the number of engine overhauls.

#### Non-operating Expenses (Income)

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

|                                                 | 2018       | 2017       | Inc/(Dec) | % Change |
|-------------------------------------------------|------------|------------|-----------|----------|
| Non-operating Expenses (Income)                 |            |            |           |          |
| Interest income                                 | \$(3,112 ) | \$(2,598 ) | \$ 514    | 19.8 %   |
| Interest expense                                | 56,524     | 46,194     | 10,330    | 22.4 %   |
| Capitalized interest                            | (3,215 )   | (3,711 )   | (496 )    | (13.4 )% |
| Unrealized loss (gain) on financial instruments | 57,771     | (8,550 )   | (66,321 ) | NM       |
| Other expense (income)                          | (11,752)   | 809        | 12,561    | NM       |

Interest expense increased \$10.3 million, or 22.4%, primarily due to the issuance of the 2017 Convertible Notes, the financing of 767-300 aircraft purchases and conversions and the financing of two 777-200 aircraft acquired in 2018.

Capitalized interest decreased \$0.5 million, or 13.4% primarily due to a decrease in the number of 767-300 aircraft undergoing passenger-to-freighter conversion.

Unrealized loss (gain) on financial instruments represents the change in fair value of the Amazon Warrant (see Note 6 to our Financial Statements) primarily due to changes in our common stock price.

Other expense (income) increased primarily due to a refund of \$12.4 million for aircraft rent paid in previous years.

Income taxes. Our effective income tax expense rates were 316.9% and 22.4% for the six months ended June 30, 2018 and 2017, respectively. The effective income tax expense rate for the six months ended June 30, 2018 differed from the U.S. statutory rate primarily due to nondeductible changes in the value of the warrant liability (see Note 6 to our Financial Statements). The effective income tax rate for the six months ended June 30, 2018 also reflects the reduced U.S. federal corporate income tax rate of 21% as a result of the enactment of the U.S. Tax Cuts and Jobs Act of 2017. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax

rate. We continue to analyze the different aspects of the U.S. Tax Cuts and Jobs Act of 2017, which could potentially affect the provisional estimates that were recorded at December 31, 2017.

## Segments

The following table compares the Direct Contribution for our reportable segments for the six months ended June 30 (see Note 11 to our Financial Statements for the reconciliation to Operating income) (in thousands):

|                                      | 2018      | 2017      | Inc/(Dec) | % Change |   |
|--------------------------------------|-----------|-----------|-----------|----------|---|
| Direct Contribution:                 |           |           |           |          |   |
| ACMI                                 | \$93,579  | \$88,673  | \$4,906   | 5.5      | % |
| Charter                              | 85,368    | 53,400    | 31,968    | 59.9     | % |
| Dry Leasing                          | 23,550    | 19,384    | 4,166     | 21.5     | % |
| Total Direct Contribution            | \$202,497 | \$161,457 | \$41,040  | 25.4     | % |
| Unallocated income and expenses, net | \$129,543 | \$117,471 | \$12,072  | 10.3     | % |

## ACMI Segment

ACMI Direct Contribution increased \$4.9 million, or 5.5%, primarily due to increased flying and higher Revenue per Block Hour, partially offset by higher Heavy Maintenance costs and amortization of deferred maintenance costs.

## Charter Segment

Charter Direct Contribution increased \$32.0 million, or 59.9%, primarily due to increased cargo and passenger demand from the AMC, increased commercial cargo demand and higher utilization and Yields, partially offset by the redeployment of 747-8F aircraft to the ACMI segment.

## Dry Leasing Segment

Dry Leasing Direct Contribution increased \$4.2 million, or 21.5%, primarily due to the placement of additional aircraft.

## Unallocated income and expenses, net

Unallocated income and expenses, net increased \$12.1 million, or 10.3%, primarily due to fleet growth initiatives, higher costs for unallocated interest expense and amortization of the Amazon customer incentive asset.

## 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 Income from continuing operations, net of taxes and Adjusted Diluted EPS from continuing operations, net of taxes, which exclude certain noncash 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 Income from continuing operations, net of taxes and Diluted EPS from continuing operations, which are the most directly comparable 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. These adjusted measures provide a more comparable basis to analyze operating results

and earnings and are measures commonly used by shareholders to measure our performance. In addition, management's incentive compensation will be determined, in part, by using Adjusted Income from continuing operations, net of taxes. We believe that these adjusted measures, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to assist investors and analysts in understanding our business results and assessing our prospects for future performance.

The following is a reconciliation of Income from continuing operations, net of taxes and Diluted EPS from continuing operations, net of taxes to the corresponding non-GAAP financial measures (in thousands, except per share data):

|                                                               | For the Three Months Ended |                  |                |    |
|---------------------------------------------------------------|----------------------------|------------------|----------------|----|
|                                                               | June 30,<br>2018           | June 30,<br>2017 | Percent Change |    |
| Income (loss) from continuing operations, net of taxes        | \$(21,123)                 | \$39,044         | (154.1         | )% |
| Impact from:                                                  |                            |                  |                |    |
| Gain on disposal of aircraft                                  | -                          | (93              | )              |    |
| Special charge                                                | 9,374                      | -                |                |    |
| Costs associated with transactions (a)                        | 240                        | 1,396            |                |    |
| Accrual for legal matters and professional fees               | 345                        | 263              |                |    |
| Noncash expenses and income, net (b)                          | 7,455                      | 3,651            |                |    |
| Unrealized loss (gain) on financial instruments               | 50,031                     | (13,763)         |                |    |
| Income tax effect of reconciling items                        | 3,403                      | (1,383)          |                |    |
| Adjusted income from continuing operations, net of taxes      | \$49,725                   | \$29,115         | 70.8           | %  |
| Weighted average diluted shares outstanding                   | 25,565                     | 26,791           |                |    |
| Add: dilutive warrant (c)                                     | 2,264                      | -                |                |    |
| dilutive convertible notes                                    | 450                        | -                |                |    |
| effect of convertible notes hedges (d)                        | (450)                      | -                |                |    |
| dilutive restricted stock                                     | 572                        | -                |                |    |
| Adjusted weighted average diluted shares outstanding          | 28,401                     | 26,791           |                |    |
| Adjusted Diluted EPS from continuing operations, net of taxes | \$1.75                     | \$1.09           | 60.6           | %  |

|                                                          | For the Six Months Ended |                  |                |    |
|----------------------------------------------------------|--------------------------|------------------|----------------|----|
|                                                          | June 30,<br>2018         | June 30,<br>2017 | Percent Change |    |
| Income (loss) from continuing operations, net of taxes   | \$(11,495)               | \$39,079         | (129.4         | )% |
| Impact from:                                             |                          |                  |                |    |
| Gain on disposal of aircraft                             | -                        | (147             | )              |    |
| Special charge                                           | 9,374                    | -                |                |    |
| Costs associated with transactions (a)                   | 510                      | 2,311            |                |    |
| Accrual for legal matters and professional fees          | 563                      | 337              |                |    |
| Noncash expenses and income, net (b)                     | 14,130                   | 6,063            |                |    |
| Unrealized loss (gain) on financial instruments          | 57,771                   | (8,550)          |                |    |
| Income tax effect of reconciling items                   | 2,656                    | (1,704)          |                |    |
| Adjusted income from continuing operations, net of taxes | \$73,509                 | \$37,389         | 96.6           | %  |
| Weighted average diluted shares outstanding              | 25,501                   | 26,823           |                |    |
| Add: dilutive warrant (c)                                | 1,958                    | -                |                |    |
| dilutive convertible notes                               | 225                      | -                |                |    |
| effect of convertible notes hedges (d)                   | (225)                    | -                |                |    |

|                                                      |        |        |
|------------------------------------------------------|--------|--------|
| dilutive restricted stock                            | 547    | -      |
| Adjusted weighted average diluted shares outstanding | 28,006 | 26,823 |

|                                                               |        |        |      |   |
|---------------------------------------------------------------|--------|--------|------|---|
| Adjusted Diluted EPS from continuing operations, net of taxes | \$2.62 | \$1.39 | 88.5 | % |
|---------------------------------------------------------------|--------|--------|------|---|

- (a) Costs associated with our acquisition of Southern Air.
- (b) Noncash expenses and income, net in 2018 and 2017 primarily related to amortization of debt discount on the convertible notes (see Note 8 to our Financial Statements) and amortization of the customer incentive asset related to the Amazon Warrant (see Note 6 to our Financial Statements).
- (c) Dilutive warrants represent potentially dilutive common shares related to the Amazon Warrant (see Note 6 to our Financial Statements). These shares are excluded from Diluted EPS from continuing operations, net of taxes prepared in accordance with GAAP when they would have been anti-dilutive.
- (d) Economic benefit from the convertible notes hedges in offsetting dilution from the convertible notes (see Note 8 to our Financial Statements).

## Liquidity and Capital Resources

The most significant liquidity events during the first quarter of 2018 were as follows:

### Debt Transactions

In February 2018, we drew \$75.0 million under the Revolver for the acquisition of a 777-200 aircraft prior to obtaining permanent financing for the aircraft.

In March 2018, we borrowed \$19.4 million related to GEnx engine upgrade kits and overhauls under an unsecured five-year term loan at a fixed interest rate of 3.12%.

In May 2018, we borrowed a total of \$167.0 million related to the purchase of two 777-200 aircraft under two separate secured ten-year term loans, both at a fixed interest rate of 4.63%.

In May 2018, we borrowed \$20.1 million related to GEnx engine upgrade kits and overhauls under an unsecured five-year term loan at a fixed interest rate of 3.31%.

During the second quarter of 2018, we borrowed an aggregate of \$98.6 million through twelve separate term loans related to the purchase and passenger-to-freighter conversion of 767-300 aircraft at fixed rates ranging from 3.97% to 5.14%.

**Operating Activities.** Net cash provided by operating activities was \$175.9 million for the first half of 2018, which primarily reflected \$11.5 million of Net Income (Loss), noncash adjustments of \$121.6 million for Depreciation and amortization and \$57.8 million for Unrealized loss on financial instruments, and a \$9.4 million increase in Accounts payable and accrued liabilities. Partially offsetting these items was a \$27.7 million increase in Accounts receivable. Net cash provided by operating activities was \$112.8 million for the first half of 2017, which primarily reflected \$38.2 million of Net Income (Loss), noncash adjustments of \$90.8 million for Depreciation and amortization and \$11.0 million for Deferred taxes, and a \$12.6 million increase in Accounts payable and accrued liabilities. Partially offsetting these items was a \$36.1 million increase in Prepaid expenses.

**Investing Activities.** Net cash used for investing activities was \$497.8 million for the first half of 2018, consisting primarily of \$448.4 million of payments for flight equipment and modifications and \$54.8 million of core capital expenditures, excluding flight equipment. Payments for flight equipment and modifications during the first half of 2018 were primarily related to the purchase of 777-200 aircraft, 767-300 passenger aircraft and related freighter conversion costs, spare engines and GEnx engine performance upgrade kits. All capital expenditures for 2018 were funded through working capital and the financings discussed above. Net cash used for investing activities was \$270.0 million for the first half of 2017, consisting primarily of \$226.8 million of payments for flight equipment and modifications and \$45.2 million of core capital expenditures, excluding flight equipment.

**Financing Activities.** Net cash provided by financing activities was \$257.9 million for the first half of 2018, which primarily reflected \$305.1 million of proceeds from debt issuance and \$135.0 million of proceeds from revolving credit facility, partially offset by \$115.2 million of payments on debt, \$60.0 million of payment of revolving credit facility and \$10.3 million related to the purchase of treasury stock. Net cash provided by financing activities was \$301.7 million for the first half of 2017, which primarily reflected proceeds from debt issuance of \$435.3 million, \$38.1 million from sale of convertible note warrants and \$18.1 million of customer maintenance reserves and deposits received, partially offset by \$93.4 million of payments on debt obligations and \$70.1 million for the purchase of convertible note hedges.

We consider Cash and cash equivalents, Short-term investments, Restricted cash and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations and to fund core capital expenditures for 2018. Core capital expenditures for the remainder of 2018 are expected to range between \$50.0 to \$60.0 million, which excludes flight equipment and capitalized interest. Our payments remaining for flight equipment purchase and passenger-to-freighter conversion commitments are expected to be approximately \$24.2 million, all of which are expected to be made by the first quarter of 2019. We expect to finance the acquisition and conversion of this flight equipment with working capital and the Revolver prior to obtaining permanent financing for the converted aircraft.

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 2017 that enables us to sell debt and/or equity securities on a registered basis 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 in this or the next decade. 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. Due to the U.S. Tax Cuts and Jobs Act of 2017, we may repatriate the unremitted earnings of our foreign subsidiaries to the extent taxes are insignificant.

#### Contractual Obligations and Debt Agreements

See Note 8 to our Financial Statements for a description of our new debt obligations. See our 2017 Annual Report on Form 10-K for a tabular disclosure of our contractual obligations as of December 31, 2017 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 six months ended June 30, 2018.

#### Recent Accounting Pronouncements

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

#### Forward-Looking Statements

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

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2017. 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. Such forward-looking statements speak only as of the date of this report. 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 and expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

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

There have been no material changes to our market risk during the six months ended June 30, 2018. 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 2017 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) and 15d-15(e) under the Exchange Act) as of June 30, 2018. 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) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

With respect to the fiscal quarter ended June 30, 2018, the information required in response to this Item is set forth in Note 12 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

There have been no material changes in our risk factors from those disclosed in our 2017 Annual Report on Form 10-K.

### ITEM 6. EXHIBITS

#### a. Exhibits

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

## EXHIBIT INDEX

### Exhibit

#### Number Description

|         |                                                                                                                                                                        |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | <u>Atlas Air Worldwide Holdings, Inc. 2018 Incentive Plan, incorporated by reference to Exhibit B to the Company's definitive proxy statement dated April 19, 2018</u> |
| 31.1    | <u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.</u>                                                                                          |
| 31.2    | <u>Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.</u>                                                                                          |
| 32.1    | <u>Section 1350 Certifications.</u>                                                                                                                                    |
| 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, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, (v) Consolidated Statements of Stockholders' Equity as of and for the six months ended June 30, 2018 and 2017 and (vi) Notes to the Unaudited Consolidated Financial Statements.

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: August 2, 2018 /s/ William J. Flynn  
William J. Flynn  
President and Chief Executive Officer

Dated: August 2, 2018 /s/ Spencer Schwartz  
Spencer Schwartz  
Executive Vice President and Chief Financial Officer