

ATLAS AIR WORLDWIDE HOLDINGS INC  
Form 10-Q  
May 03, 2017

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 March 31, 2017

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

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(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

(Do not check if a smaller reporting company) 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 April 28, 2017, there were 25,262,899 shares of the registrant's Common Stock outstanding.

TABLE OF CONTENTS

	Page
<u>Part I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three Months ended March 31, 2017 and 2016 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three Months ended March 31, 2017 and 2016 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2017 and 2016 (unaudited)</u>	6
<u>Consolidated Statements of Stockholders' Equity as of and for the Three Months ended March 31, 2017 and 2016 (unaudited)</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30
<u>Exhibit Index</u>	31



## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Atlas Air Worldwide Holdings, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

(Unaudited)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 109,100	\$ 123,890
Short-term investments	5,242	4,313
Restricted cash	9,836	14,360
Accounts receivable, net of allowance of \$1,644 and \$997, respectively	157,953	166,486
Prepaid maintenance	6,284	4,418
Prepaid expenses and other current assets	47,796	44,603
<b>Total current assets</b>	<b>336,211</b>	<b>358,070</b>
<b>Property and Equipment</b>		
Flight equipment	3,993,853	3,886,714
Ground equipment	70,567	68,688
Less: accumulated depreciation	(602,420 )	(568,946 )
Flight equipment modifications in progress	242,013	154,226
<b>Property and equipment, net</b>	<b>3,704,013</b>	<b>3,540,682</b>
<b>Other Assets</b>		
Long-term investments and accrued interest	26,699	27,951
Deferred costs and other assets	229,437	204,647
Intangible assets, net and goodwill	113,496	116,029
<b>Total Assets</b>	<b>\$4,409,856</b>	<b>\$4,247,379</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 54,610	\$ 59,543
Accrued liabilities	394,885	320,887
Current portion of long-term debt and capital lease	176,208	184,748
<b>Total current liabilities</b>	<b>625,703</b>	<b>565,178</b>
<b>Other Liabilities</b>		
Long-term debt and capital lease	1,804,175	1,666,663
Deferred taxes	297,675	298,165
Financial instruments and other liabilities	170,679	200,035
<b>Total other liabilities</b>	<b>2,272,529</b>	<b>2,164,863</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; 30,052,095 and 29,633,605 shares issued, 25,258,361 and 25,017,242, shares outstanding (net of treasury stock), as of March 31, 2017 and December 31, 2016, respectively	300	296
Additional paid-in-capital	661,290	657,082
Treasury stock, at cost; 4,793,734 and 4,616,363 shares, respectively	(192,549 )	(183,119 )
Accumulated other comprehensive loss	(4,737 )	(4,993 )
Retained earnings	1,047,320	1,048,072
Total stockholders' equity	1,511,624	1,517,338
Total Liabilities and Equity	\$4,409,856	\$4,247,379

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March	March
	31, 2017	31, 2016
Operating Revenue	\$475,394	\$418,615
Operating Expenses		
Salaries, wages and benefits	104,087	93,845
Aircraft fuel	82,432	63,220
Maintenance, materials and repairs	72,816	57,024
Depreciation and amortization	37,894	35,005
Aircraft rent	36,073	37,037
Travel	32,359	30,323
Passenger and ground handling services	25,123	20,879
Navigation fees, landing fees and other rent	18,535	21,974
Gain on disposal of aircraft	(54 )	-
Special charge	-	6,631
Transaction-related expenses	915	793
Other	41,178	31,827
Total Operating Expenses	451,358	398,558
Operating Income	24,036	20,057
Non-operating Expenses (Income)		
Interest income	(1,256 )	(1,604 )
Interest expense	21,524	21,302
Capitalized interest	(1,780 )	(357 )
Loss on early extinguishment of debt	-	132
Unrealized loss on financial instruments	5,213	-
Other income	(253 )	(240 )
Total Non-operating Expenses (Income)	23,448	19,233
Income from continuing operations before income taxes	588	824
Income tax expense	553	353
Income from continuing operations, net of taxes	35	471
Loss from discontinued operations, net of taxes	(787 )	-

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Net Income (Loss)		\$(752	) \$471
Earnings per share from continuing operations:			
Basic		\$0.00	\$0.02
Diluted		\$0.00	\$0.02
Loss per share from discontinued operations:			
Basic		\$(0.03	) \$-
Diluted		\$(0.03	) \$-
Earnings (loss) per share:			
Basic		\$(0.03	) \$0.02
Diluted		\$(0.03	) \$0.02
Weighted average shares:			
Basic		25,162	24,711
Diluted		25,744	24,846

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 Months Ended	
	March 31, 2017	March 31, 2016
Net Income (Loss)	\$(752)	\$471
Other comprehensive income:		
Interest rate derivatives:		
Reclassification to interest expense	418	454
Income tax expense	(162)	(176)
Other comprehensive income	256	278
Comprehensive Income (Loss)	\$(496)	\$749

See accompanying Notes to Unaudited Consolidated Financial Statements

5

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Atlas Air Worldwide Holdings, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
<b>Operating Activities:</b>		
Income from continuing operations, net of taxes	\$35	\$471
Less: Loss from discontinued operations, net of taxes	(787 )	-
Net Income (Loss)	(752 )	471
Adjustments to reconcile Net Income (Loss) to net cash provided by operating activities:		
Depreciation and amortization	43,217	39,817
Accretion of debt securities discount	(307 )	(332 )
Provision for allowance for doubtful accounts	435	221
Special charge, net of cash payments	-	6,631
Loss on early extinguishment of debt	-	132
Unrealized loss on financial instruments	5,213	-
Gain on disposal of aircraft	(54 )	-
Deferred taxes	418	292
Stock-based compensation expense	4,212	5,455
Changes in:		
Accounts receivable	8,134	29,871
Prepaid expenses, current assets and other assets	(30,336 )	(10,575 )
Accounts payable and accrued liabilities	(11,526 )	(52,544 )
Net cash provided by operating activities	18,654	19,439
<b>Investing Activities:</b>		
Capital expenditures	(21,673 )	(10,682 )
Payments for flight equipment and modifications	(118,897)	(84,230 )
Proceeds from investments	631	4,955
Proceeds from disposal of aircraft	137	-
Net cash used for investing activities	(139,802)	(89,957 )
<b>Financing Activities:</b>		
Proceeds from revolving credit facility	150,000	-
Proceeds from debt issuance	-	14,790
Customer maintenance reserves and deposits received	14,837	3,547
Customer maintenance reserves paid	(6,384 )	-
Purchase of treasury stock	(9,430 )	(4,112 )
Excess tax benefit from stock-based compensation expense	-	158
Payment of debt issuance costs	(90 )	(217 )

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Payments of debt	(47,099 )	(50,666 )
Net cash provided by (used for) financing activities	101,834	(36,500 )
Net decrease in cash, cash equivalents and restricted cash	(19,314 )	(107,018)
Cash, cash equivalents and restricted cash at the beginning of period	138,250	438,931
Cash, cash equivalents and restricted cash at the end of period	\$118,936	\$331,913
<b>Noncash Investing and Financing Activities:</b>		
Acquisition of flight equipment included in Accounts payable and accrued liabilities	\$48,015	\$12,059
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 Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2016	\$ 296	\$(183,119)	\$ 657,082	\$ (4,993 )	\$ 1,048,072	\$ 1,517,338
Net Income (Loss)	-	-	-	-	(752 )	(752 )
Other comprehensive income	-	-	-	256	-	256
Stock-based compensation	-	-	4,212	-	-	4,212
Purchase of 177,371 shares of treasury stock	-	(9,430 )	-	-	-	(9,430 )
Issuance of 418,490 shares of restricted stock	4	-	(4 )	-	-	-
Balance at March 31, 2017	\$ 300	\$(192,549)	\$ 661,290	\$ (4,737 )	\$ 1,047,320	\$ 1,511,624

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2015	\$ 290	\$(171,844)	\$ 625,244	\$ (6,063 )	\$ 1,006,556	\$ 1,454,183
Net Income (Loss)	-	-	-	-	471	471
Other comprehensive income	-	-	-	278	-	278
Stock-based compensation	-	-	5,455	-	-	5,455
Purchase of 112,029 shares of treasury stock	-	(4,112 )	-	-	-	(4,112 )
Issuance of 287,466 shares of restricted stock	3	-	(3 )	-	-	-
Tax expense on restricted stock and stock options	-	-	(545 )	-	-	(545 )
Balance at March 31, 2016	\$ 293	\$(175,956)	\$ 630,151	\$ (5,785 )	\$ 1,007,027	\$ 1,455,730

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Notes to Unaudited Consolidated Financial Statements

March 31, 2017

## 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, 2016, which includes additional disclosures and a summary of our significant accounting policies. The December 31, 2016 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 March 31, 2017, the results of operations for the three months ended March 31, 2017 and 2016, comprehensive income (loss) for the three months ended March 31, 2017 and 2016, cash flows for the three months ended March 31, 2017 and 2016, and shareholders’ equity as of and for the three months ended March 31, 2017 and 2016.

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

### 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 \$0.8 million and zero for the three months ended March 31, 2017 and March 31, 2016, respectively. Deferred maintenance included within Deferred costs and other assets is as follows:

	Deferred
	Maintenance
Balance as of December 31, 2016	\$ 19,100
Deferred maintenance costs	23,151
Amortization of deferred maintenance	(813 )
Balance as of March 31, 2017	\$ 41,438

## 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 of the same such amounts shown in the consolidated statements of cash flows:

	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$109,100	\$123,890
Restricted Cash	9,836	14,360
Total Cash, cash equivalents and restricted cash shown in consolidated statements of cash flows	\$118,936	\$138,250

## Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) amended its accounting guidance for share-based compensation. The amended guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this amended guidance on January 1, 2017 on a prospective basis. As a result, we recognized \$1.5 million of excess tax benefits during the first quarter of 2017 as a reduction of income tax expense in our consolidated statements of operations. Excess tax benefits were previously recognized within equity. Additionally, our consolidated statements of cash flows present such excess tax benefits, which were previously presented as a financing activity, as an operating activity.

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 twelve months. While lessor accounting guidance is relatively unchanged, certain amendments were made to conform with changes made to lessee accounting and amended revenue recognition guidance. The new guidance will continue to classify leases as either finance or operating, with classification affecting the 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. While we are still assessing the impact the amended guidance will have on our financial statements, we expect that recognizing the right-of-use asset and related lease liability will impact our balance sheet materially. We have developed and are implementing a plan for adopting this amended guidance.

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 guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and consideration that a company expects to receive for the services provided. It also requires additional disclosures necessary for the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We will adopt this guidance on its required effective date of January 1, 2018. While we are still assessing the methods of adoption and impact the amended guidance will have on our financial statements, we expect that an immaterial amount of revenue currently recognized based on flight departure will likely be recognized over time as the services are performed. In addition, we expect that revenue related to contracted minimum block hour guarantees under certain ACMI and CMI contracts will likely be recognized in later periods under the amended guidance. The implementation of our plan to adopt this amended guidance 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 (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.

9

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The following table summarizes our transactions with Polar:

	For the Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue and Expenses:		
Revenue from Polar	\$102,228	\$98,737
Ground handling and airport fees to Polar	466	223
	March 31, 2017	December 31, 2016
Accounts receivable/payable as of:		
Receivables from Polar	\$11,405	\$8,161