ATLAS AIR WORLDWIDE HOLDINGS INC
Form 10-Q
November 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from __________ to __________

0-25732
(Commission File Number)
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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

APPLICABLE ONLY TO CORPORATE ISSUERS: As of September 30, 2007, there were 21,348,514 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.
Condensed Consolidated Balance Sheets
(in thousands, except share data)
(Unaudited)

	September 30, 2007	December 31, 2006
Assets Current Assets		
Cash and cash equivalents	$ 372,473	$ 231,807
Accounts receivable, net of allowance of $2,394 and $1,811, respectively	133,406	134,520
Prepaid maintenance	66,821	64,678
Deferred taxes	28,388	8,540
Prepaid expenses and other current assets	27,257	24,334
Total current assets	628,345	463,879
Other Assets		
Property and equipment, net	591,470	583,271
Deposits and other assets	36,225	32,832
Lease contracts and intangible assets, net	38,420	39,798
Total Assets	$ 1,294,460	$ 1,119,780
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 21,432	$ 36,052
Accrued liabilities	145,145	153,063
Current portion of long-term debt and capital leases	27,064	19,756
Total current liabilities	193,641	208,871
Other Liabilities		
Long-term debt and capital leases	371,580	398,885
Deferred gain	151,357	
Deferred taxes	2,007	4,322
Other liabilities	90,246	33,858
Total other liabilities	615,190	437,065
Commitments and contingencies (Note 5)		
Minority interest	12,178	
Stockholders Equity		
Preferred stock, $1 par value; 10,000,000 shares authorized; no shares issued		
Common stock, $0.01 par value; 50,000,000 shares authorized; 21,508,748 and 20,730,719 shares issued, 21,348,514 and 20,609,317 shares outstanding (net of treasury stock) at September 30, 2007 and December 31, 2006,	215	207

respectively				
Additional paid-in-capital		333,139		312,690
Receivable from issuance of subsidiary stock		(97,917)		
Common stock to be issued to creditors		2,695		7,800
Treasury stock, at cost; 160,234 and 121,402 shares, respectively		(6,599)		(4,524)
Accumulated other comprehensive income		3,215		1,319
Retained earnings		238,703		156,352
Total stockholders equity		473,451		473,844
Total Liabilities and Stockholders Equity	$	1,294,460	$	1,119,780

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Operating Revenues	$ 395,935	$ 361,072	$ 1,119,928	$ 1,059,642
Operating Expenses				
Aircraft fuel	140,333	122,522	374,767	339,009
Salaries, wages and benefits	58,740	59,731	181,928	178,901
Maintenance, materials and repairs	38,123	32,966	121,342	116,845
Aircraft rent	39,183	38,534	116,306	114,489
Ground handling and airport fees	20,818	19,301	56,524	54,211
Landing fees and other rent	18,673	16,394	54,691	50,271
Depreciation and amortization	12,171	10,275	31,808	30,320
Gain on disposal of aircraft		(6,256)	(1,005)	(9,035)
Travel	12,142	11,219	36,746	37,057
Post-emergence costs and related professional fees	19	39	81	316
Other	20,373	23,482	62,654	76,718
Total operating expenses	360,575	328,207	1,035,842	989,102
Operating income	35,360	32,865	84,086	70,540
Non-operating Expenses				
Interest income	(5,157)	(2,679)	(12,416)	(9,921)
Interest expense	11,150	14,216	33,672	48,704
Capitalized interest	(1,182)	219	(3,145)	(59)
Loss on extinguishment of debt		12,518		12,518
Other (income) expense, net	(112)	179	(20)	(454)
Total non-operating expenses	4,699	24,453	18,091	50,788
Income before income taxes	30,661	8,412	65,995	19,752
Income tax (benefit) expense	(1,691)	1,330	(15,739)	5,673
Net income	$ 32,352	$ 7,082	$ 81,734	$ 14,079

Income per share:								
Basic	$	1.52	$	0.34	$	3.86	$	0.68
Diluted	$	1.50	$	0.34	$	3.80	$	0.67

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30, 2007	September 30, 2006
Cash Flows from Operating Activities:		
Net income	$ 81,734	$ 14,079
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	31,808	30,320
Accretion of debt discount	5,479	9,424
Amortization of operating lease discount	1,377	1,381
Loss on extinguishment of debt		12,518
Provision for (release of) allowance for doubtful accounts	580	(628)
Gain on disposal of aircraft	(1,005)	(9,035)
Amortization of debt issuance cost		1,011
Stock-based compensation expense	5,735	5,366
Deferred taxes	(17,782)	
Other, net	1,960	3,032
Changes in certain operating assets and liabilities	(13,875)	(23,576)
Net cash provided by operating activities	96,011	43,892
Cash Flows from Investing Activities:		
Capital expenditures	(46,962)	(25,971)
Decrease in restricted funds held in trust		937
Proceeds from sale of aircraft	6,000	26,380
Net cash provided by (used by) investing activities	(40,962)	1,346
Cash Flows from Financing Activities:		
Proceeds from stock option exercises	5,237	3,718
Purchase of treasury stock	(2,075)	(2,267)
Excess tax benefits from share-based compensation expense	2,931	3,044
Loan fees		(250)
Proceeds from issuance of subsidiary stock	75,000	
Proceeds from refundable deposit	30,000	
Payments on debt	(25,476)	(182,536)
Net cash provided by (used by) financing activities	85,617	(178,291)
Net increase (decrease) in cash and cash equivalents	140,666	(133,053)

Cash and cash equivalents at the beginning of period	231,807	305,890
Cash and cash equivalents at the end of period	$ 372,473	$ 172,837

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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Atlas Air Worldwide Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2007

1. Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements (the Financial Statements) are unaudited and have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. As permitted by the rules and regulations of the Securities and Exchange Commission (the SEC), the Financial Statements exclude certain footnote disclosures normally included in audited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). In the opinion of management, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly present the financial position of Atlas Air Worldwide Holdings, Inc. (Holdings or AAWW) and its consolidated subsidiaries as of September 30, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006. The Financial Statements include the accounts of Holdings and its consolidated subsidiaries. All inter-company accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the fiscal year ended December 31, 2006 included in the Annual Report on Form 10-K of Holdings that was filed with the SEC on March 15, 2007 (the 2006 10-K).

Holdings is the parent company of two principal operating subsidiaries, Atlas Air, Inc. (Atlas), which is wholly owned, and Polar Air Cargo Worldwide, Inc. (Polar), of which Holdings has a 51% economic interest and 75% voting interest as of June 28, 2007. On June 28, 2007, Polar issued shares representing a 49% economic interest and a 25% voting interest to DHL Network Operations (USA), Inc. (DHL), a subsidiary of Deutsche Post AG (DP), (see Note 10 for additional discussion of the transaction). Prior to that date, Polar was wholly owned by Holdings and was the parent company of Polar Air Cargo, Inc. (Polar LLC). Holdings, Atlas, Polar and Polar LLC are referred to collectively as the Company . The Company provides air cargo and related services throughout the world, serving Asia, the Middle East, Australia, Europe, South America, Africa and North America through: (i) contractual lease arrangements including contracts through which the Company leases an aircraft to a customer and provides value added services including , crew, maintenance and insurance (ACMI); (ii) airport-to-airport scheduled air cargo service (Scheduled Service); (iii) military charter (AMC Charter); and (iv) seasonal, commercial and ad-hoc charter services (Commercial Charter). The Company operates only Boeing 747 freighter aircraft.

The Company s quarterly results have in the past been 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

Issuance of stock by subsidiaries

We record gains or losses on issuances of shares by subsidiaries as other income in the consolidated statement of operations.

Property and equipment, net

At September 30, 2007 and December 31, 2006, the Company has pre-delivery aircraft deposits of $66.5 million and $41.7 million, respectively, which relate to its purchase of Boeing 747-8F aircraft and which include capitalized interest of $3.8 million and $0.7 million, respectively. These amounts are included in Property and equipment, net in the Condensed Consolidated Balance Sheets.

In March 2007, the Company sold aircraft tail number N536MC, a Boeing 747-200, for $6.0 million and recorded a gain of approximately $1.0 million.

Concentration of Credit Risk and Significant Customers

United States Military Airlift Mobility Command (AMC) charters accounted for 22.3% and 23.4% of the Company s total revenues for the three months ended September 30, 2007 and 2006, respectively, and 26.4% and 21.7%

of the Company s total revenues for the nine months ended September 30, 2007 and 2006, respectively. Accounts receivable from the AMC were $10.1 million and $23.6 million at September 30, 2007 and December 31, 2006, respectively. The International Airline of United Arab Emirates (Emirates) accounted for 10.5% and 12.7% of the Company s total revenues for the three months ended September 30, 2007 and 2006, respectively, and 11.2% and 12.3% of the Company s total revenues for the nine months ended September 30, 2007 and 2006, respectively. Accounts receivable from Emirates were $14.3 million and $13.4 million at September 30, 2007 and December 31, 2006, respectively. No other customer accounted for 10% or more of the Company s total operating revenues or accounts receivable during these periods.

Debt Discount

At September 30, 2007, and December 31, 2006, the Company had $77.5 million and $82.9 million, respectively, of unamortized discount related to fair market value adjustments recorded against debt upon application of fresh-start accounting.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements* (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities and is intended to respond to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on income. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS 157 also requires expanded disclosure of the effect on income for items measured using unobservable data, establishes a fair value hierarchy that prioritizes the information used to develop those assumptions and requires separate disclosure by level within the fair value hierarchy. The provisions of SFAS 157 are effective on January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159). This statement permits, but does not require, entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected should be recognized in earnings at each subsequent reporting date. The provisions of SFAS 159 are effective on January 1, 2008 and early adoption is permitted, provided that SFAS 157 is adopted concurrently. The adoption of SFAS 159 is not expected to have a material impact on the Company s consolidated financial statements.

Reclassifications

Certain reclassifications have been made in the prior period s Condensed Consolidated Financial Statement amounts and related note disclosures to conform to the current period s presentation, primarily related to the classification of Accumulated other comprehensive income.

3. Related Party Transactions

The Company holds a minority interest (49%) in a private company, which is accounted for under the equity method. The September 30, 2007 and December 31, 2006 aggregate carrying value of the investment is $5.0 million and $4.5 million, respectively, and is included within Deposits and other assets on the Condensed Consolidated Balance Sheets.

Atlas has dry leased three owned aircraft to this company. The leases mature on July 31, 2008. The carrying value of these leased aircraft as of September 30, 2007 and December 31, 2006 was $169.3 million and $171.9 million, respectively. The related accumulated depreciation as of September 30, 2007 and December 31, 2006 was $15.3 million and $12.8 million, respectively. The leases provide for payment of rent and a provision for maintenance costs associated with the aircraft. Total rental income for the three aircraft was $10.2 million and $11.5 million for the three months ended September 30, 2007 and 2006, respectively, and $33.1 million and $34.0 million for the nine months ended September 30, 2007 and 2006, respectively.

4. Segment Reporting

The Company has four reportable segments: ACMI, Scheduled Service, AMC Charter and Commercial Charter. All reportable segments are engaged in the business of transporting air cargo but have different operating and economic characteristics which are separately reviewed by the Company s management. The Company evaluates performance and allocates resources to its segments based upon income (loss) before income taxes, excluding post-emergence costs and related professional fees, gains on the sale of aircraft, dry leasing and other items (Fully Allocated Contribution or FAC). Management views FAC as the best measure to analyze profitability and contribution to net income or loss of the Company s individual segments. Management allocates the cost of operating aircraft among the various segments on an average cost per type of aircraft. For ACMI, management only allocates costs of operating aircraft based on the number of aircraft dedicated to ACMI customers. Under-utilized aircraft costs are allocated to segments based on Block Hours flown for Scheduled Service, AMC Charter and Commercial Charter.

The ACMI segment provides aircraft, crew, maintenance and insurance services, whereby customers receive the use of an insured and maintained aircraft and crew in exchange for, in most cases, a guaranteed monthly level of operation at a predetermined rate for defined periods of time. The customer bears the commercial revenue risk and the obligation for other direct operating costs, including fuel.

The Scheduled Service segment provides airport-to-airport scheduled air freight and available on-forwarding services primarily to freight forwarding customers. By transporting cargo in this way, the Company carries all of the commercial revenue risk (yields and cargo loads) and bears all of the direct costs of operation, including fuel. Distribution costs include direct sales costs through the Company s own sales force and through commissions paid to general sales agents. Commission rates typically range between 2.5% and 5% of commissionable revenue sold. Scheduled Service is highly seasonal, with peak demand coinciding with the retail holiday season, which traditionally begins in September and lasts through mid-December.

The AMC Charter segment provides full-planeload charter flights to the U.S. Military through the AMC. The AMC Charter business is similar to the Commercial Charter business in that the Company is responsible for the direct operating costs of the aircraft other than the cost of fuel, which is fixed by the AMC, eliminating the risk of fuel price fluctuations. The contracted charter rates (per mile) and fuel prices (per gallon) are established and fixed by the AMC for twelve-month periods running from October to September of the next year. The Company receives reimbursement from the AMC each month if the price of fuel paid by the Company to vendors for AMC missions exceeds the fixed (Pegged) price. If the price of fuel paid by the Company is less than the fixed price, then the Company pays the difference to the AMC. The Pegged price for the nine months ended September 30, 2007 and 2006 was 225 cents and 220 cents, respectively.

The Commercial Charter segment provides full-planeload airfreight capacity on one or multiple flights to freight forwarders, airlines and other air cargo customers. Charters are typically paid in advance and as with Scheduled Service, the Company bears the direct operating costs (except as otherwise defined in the charter contracts).

All other revenue includes dry lease income and other incidental revenue not allocated to any of the four segments described above.

The following table sets forth revenues and FAC for the Company s four reportable business segments reconciled to operating income (loss) and income (loss) before income taxes as required by SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information,* for the three and nine months ended September 30:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues:				
ACMI	$ 88,902	$ 94,047	$ 264,441	$ 294,599
Scheduled Service	179,236	158,458	449,354	439,717
AMC Charter	88,169	84,574	296,163	229,651

Commercial Charter	27,618	11,986	71,947	60,269
All Other	12,010	12,007	38,023	35,406
Total operating revenues	$ 395,935	$ 361,072	$ 1,119,928	$ 1,059,642
FAC:				
ACMI	$ 12,192	$ 12,674	$ 22,562	$ 28,722
Scheduled Service	(2,438)	(6,772)	(16,236)	(17,324)
AMC Charter	15,935	11,389	44,197	9,338
Commercial Charter	1,139	(2,282)	1,725	(6,878)

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	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Total FAC	26,828	15,009	52,248	13,858
Add back (subtract):				
Unallocated other	3,852	(296)	12,823	9,693
Gain on disposal of aircraft		6,256	1,005	9,035
Loss on extinguishment of debt		(12,518)		(12,518)
Post-emergence costs and related professional fees	(19)	(39)	(81)	(316)
Income before income taxes	30,661	8,412	65,995	19,752
(Add back) subtract:				
Interest income	(5,157)	(2,679)	(12,416)	(9,921)
Interest expense	11,150	14,216	33,672	48,704
Capitalized interest	(1,182)	219	(3,145)	(59)
Loss on extinguishment of debt		12,518		12,518
Other, net	(112)	179	(20)	(454)
Operating income	$ 35,360	$ 32,865	$ 84,086	$ 70,540

5. Commitments and Contingencies

On September 8, 2006, Atlas and The Boeing Company (Boeing) entered into a purchase agreement (the Boeing Agreement) providing for the purchase by Atlas of 12 Boeing 747-8F freighter aircraft. The Boeing Agreement provides for deliveries of the aircraft to begin in 2010, with all 12 aircraft expected to be in service by the end of 2011. In addition, the Boeing Agreement provides Atlas with rights to purchase up to an additional 14 Boeing aircraft, of which one is being held under option. Committed expenditures under the Boeing Agreement, including agreements for spare engines and related flight equipment, including estimated amounts for contractual price escalations, pre-delivery deposits and required option payments, will be $10.5 million for the remainder of 2007, $246.7 million in 2008, $184.1 million in 2009, $987.2 million in 2010 and $696.7 million in 2011.

In addition the Company has committed to purchase 6.0 million gallons of jet fuel at a total cost of $12.2 million during the fourth quarter of 2007, as further discussed in Note 8.

Guarantees and Indemnifications

Restricted Deposits and Letters of Credit

At September 30, 2007 and December 31, 2006, the Company had $8.6 million and $4.6 million, respectively, of restricted deposits either pledged under standby letters of credit related to collateral or for certain deposits required in the normal course of business for items, including, but not limited to, foreign exchange trades, airfield privileges, judicial and credit card deposits and insurance. These amounts are included in Deposits and other assets in the Condensed Consolidated Balance Sheets.

Legal Proceedings

Except for the updated items below, information with respect to legal proceedings appears in Note 12 of the 2006 10-K, and as may have been updated by our Quarterly Reports for the periods ended March 31, 2007 and June 30, 2007.

Australian Competition and Consumer Commission Inquiry

By letter dated June 28, 2007, the Australian Competition and Consumer Commission (the ACCC) notified Polar LLC that it would be required to furnish information and to produce documents to the ACCC in connection with matters that may constitute violations of certain provisions of the Australian Trade Practices Act. Polar LLC has submitted information and documentation to the ACCC as required by this request. On November 6, 2007, Polar LLC received a second request from the ACCC for additional information and documentation relevant to its inquiry. Polar LLC is in the process of compiling the relevant data for submission to the ACCC as required by the second request.

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Brazilian Customs Claim

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 Polar scheduled service flights were not on board the aircraft upon arrival and therefore were improperly brought into Brazil. The claims seek unpaid customs duties, taxes, penalties and interest from the date of the alleged infraction in the amounts of approximately $11.4 million and $8.8 million, respectively, based on recent exchange rates.

The Company has presented defenses in each case to the customs authority in Campinas, Brazil. The customs authority has not yet ruled on the Company s defense to the $8.8 million claim, and it denied the Company s defense to the $11.4 million claim at the first level of the administrative process. On June 28, 2006, the Company filed its appeal of the administrative decision with the Council of Contributors. As required by local law, the appeal was accompanied by a judicial deposit of approximately 30% of the claimed amount. The Council of Contributors met on November 6, 2007 to decide the appeal filed by the Company. At the hearing, the Company presented additional defenses which resulted in the Council of Contributors requesting the customs authority to provide additional evidence in support of its claim. The Company will have an opportunity to respond to any new evidence. If the appeal is denied by the Council of Contributors, the Company intends to pursue further appeals in the Brazilian federal courts.

In both cases, the Company believes 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, the Company may seek appropriate indemnity from the shipper in each claim as necessary.