ATLAS AIR WORLDWIDE HOLDINGS INC
Form 10-Q
November 01, 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 September 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 every Interactive Data File required to be submitted 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 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 October 26, 2018, there were 25,590,293 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)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 214,961	$ 280,809
Short-term investments	18,511	13,604
Restricted cash	11,194	11,055
Accounts receivable, net of allowance of $1,381 and $1,494, respectively	254,425	194,478
Prepaid maintenance	30,988	13,346
Prepaid expenses and other current assets	70,568	74,294
Total current assets	600,647	587,586
Property and Equipment		
Flight equipment	5,085,594	4,447,097
Ground equipment	78,389	70,951
Less: accumulated depreciation	(821,203)	(701,249)
Flight equipment modifications in progress	107,290	186,302
Property and equipment, net	4,450,070	4,003,101
Other Assets		
Long-term investments and accrued interest	1,722	15,371
Deferred costs and other assets	324,740	242,919
Intangible assets, net and goodwill	99,860	106,485
Total Assets	$ 5,477,039	$ 4,955,462
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ 81,682	$ 65,740
Accrued liabilities	482,085	454,843
Current portion of long-term debt and capital lease	256,184	218,013
Total current liabilities	819,951	738,596
Other Liabilities		
Long-term debt and capital lease	2,280,790	2,008,986
Deferred taxes	231,673	214,694
Financial instruments and other liabilities	292,840	203,330
Total other liabilities	2,805,303	2,427,010
Commitments and contingencies		

Equity		
Stockholders’ Equity		
Preferred stock, $1 par value; 10,000,000 shares authorized; no shares issued	-	-
Common stock, $0.01 par value; 100,000,000 shares authorized; 30,582,571 and 30,104,648 shares issued, 25,590,293 and 25,292,454 shares outstanding (net of treasury stock), as of September 30, 2018 and December 31, 2017, respectively	306	301
Additional paid-in-capital	731,106	715,735
Treasury stock, at cost; 4,992,278 and 4,812,194 shares, respectively	(204,501)	(193,732)
Accumulated other comprehensive loss	(4,108)	(3,993)
Retained earnings	1,328,982	1,271,545
Total equity	1,851,785	1,789,856
Total Liabilities and Equity	$ 5,477,039	$ 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 Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Operating Revenue	$656,607	$ 535,748	$1,912,766	$ 1,528,508
Operating Expenses				
Salaries, wages and benefits	138,345	114,505	392,603	330,080
Aircraft fuel	119,604	74,048	345,613	239,966
Maintenance, materials and repairs	88,136	74,457	261,251	212,042
Depreciation and amortization	55,417	42,033	155,881	120,913
Travel	41,605	38,260	123,810	105,510
Aircraft rent	39,973	33,873	119,778	103,738
Navigation fees, landing fees and other rent	43,258	33,468	116,553	77,258
Passenger and ground handling services	28,716	28,491	86,980	77,187
Loss on disposal of aircraft	-	211	-	64
Special charge	-	-	9,374	-
Transaction-related expenses	765	1,092	1,275	3,403
Other	46,318	42,598	143,663	123,121
Total Operating Expenses	602,137	483,036	1,756,781	1,393,282
Operating Income	54,470	52,712	155,985	135,226
Non-operating Expenses (Income)				
Interest income	(1,592)	(1,688)	(4,704)	(4,286)
Interest expense	31,115	26,553	87,639	72,747
Capitalized interest	(1,120)	(1,922)	(4,335)	(5,633)
Loss on early extinguishment of debt	-	167	-	167
Unrealized loss (gain) on financial instruments	(46,080)	44,775	11,691	36,225
Other expense (income)	975	(1,165)	(10,777)	(357)
Total Non-operating Expenses (Income)	(16,702)	66,720	79,514	98,863
Income (loss) from continuing operations before income taxes	71,172	(14,008)	76,471	36,363
Income tax expense	34	10,187	16,828	21,479
Income (loss) from continuing operations, net of taxes	71,138	(24,195)	59,643	14,884

Income (Loss) from discontinued operations, net of taxes	(7)	33	(50)	(859)
Net Income (Loss)	$71,131	$ (24,162)	$59,593	$ 14,025
Earnings (loss) per share from continuing operations:				
Basic	$2.78	$ (0.96)	$2.34	$ 0.59
Diluted	$0.84	$ (0.96)	$2.27	$ 0.58
Loss per share from discontinued operations:				
Basic	$(0.00)	$ 0.00	$(0.00)	$ (0.03)
Diluted	$(0.00)	$ 0.00	$(0.00)	$ (0.03)
Earnings (loss) per share:				
Basic	$2.78	$ (0.96)	$2.33	$ 0.56
Diluted	$0.84	$ (0.96)	$2.27	$ 0.54
Weighted average shares:				
Basic	25,575	25,262	25,526	25,229
Diluted	28,747	25,262	26,274	25,822

See accompanying Notes to Unaudited Consolidated Financial Statements

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Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net Income (Loss)	$71,131	$ (24,162)	$59,593	$ 14,025
Other comprehensive income:				
Reclassification to interest expense	370	396	1,120	1,216
Income tax expense	(88)	(154)	(265)	(472)
Other comprehensive income	282	242	855	744
Comprehensive Income (Loss)	$71,413	$ (23,920)	$60,448	$ 14,769

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
Operating Activities:		
Income from continuing operations, net of taxes	$59,643	$ 14,884
Less: Loss from discontinued operations, net of taxes	(50)	(859)
Net Income	59,593	14,025
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation and amortization	189,682	142,042
Accretion of debt securities discount	(719)	(892)
Provision for allowance for doubtful accounts	40	304
Special charge, net of cash payments	9,374	-
Loss on early extinguishment of debt	-	167
Unrealized loss (gain) on financial instruments	11,691	36,225
Loss on disposal of aircraft	-	64
Deferred taxes	16,453	21,106
Stock-based compensation	15,376	17,030
Changes in:		
Accounts receivable	(59,058)	(12,004)
Prepaid expenses, current assets and other assets	(34,483)	(53,343)
Accounts payable and accrued liabilities	56,174	30,382
Net cash provided by operating activities	264,123	195,106
Investing Activities:		
Capital expenditures	(84,819)	(66,395)
Payments for flight equipment and modifications	(543,342)	(338,524)
Proceeds from investments	9,461	3,247
Net cash used for investing activities	(618,700)	(401,672)
Financing Activities:		
Proceeds from debt issuance	400,471	447,865
Payment of debt issuance costs	(6,632)	(11,146)
Payments of debt	(180,722)	(153,292)
Proceeds from revolving credit facility	135,000	150,000
Payment of revolving credit facility	(60,000)	(150,000)
Customer maintenance reserves and deposits received	11,520	22,006
Customer maintenance reserves paid	-	(18,538)
Proceeds from sale of convertible note warrants	-	38,148

Payments for convertible note hedges	-	(70,140)
Purchase of treasury stock	(10,769)	(10,307)
Net cash provided by financing activities	288,868	244,596
Net increase (decrease) in cash, cash equivalents and restricted cash	(65,709)	38,030
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	$226,155	$ 176,280
Noncash Investing and Financing Activities:		
Acquisition of flight equipment included in Accounts payable and accrued liabilities	$42,826	$ 61,734
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, 2017	$ 301	$(193,732)	$715,735	$ (3,993)	$1,271,545	$1,789,856
Net Income	-	-	-	-	59,593	59,593
Other comprehensive income	-	-	-	855	-	855
Cumulative effect of change in accounting principle	-	-	-	-	(3,126)	(3,126)
Stock-based compensation	-	-	15,376	-	-	15,376
Purchase of 180,084 shares of treasury stock	-	(10,769)	-	-	-	(10,769)
Issuance of 477,923 shares of restricted stock	5	-	(5)	-	-	-
Reclassification of tax effect on other comprehensive loss	-	-	-	(970)	970	-
Balance at September 30, 2018	$ 306	$(204,501)	$731,106	$ (4,108)	$1,328,982	$1,851,785

	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	-	-	-	-	14,025	14,025
Other comprehensive income	-	-	-	744	-	744
Stock-based compensation	-	-	17,030	-	-	17,030
Purchase of 191,047 shares of treasury stock	-	(10,307)	-	-	-	(10,307)
Issuance of 456,905 shares of restricted stock	5	-	(5)	-	-	-
Equity component of convertible notes, net of tax	-	-	43,256	-	-	43,256
Purchase of convertible note hedges, net of tax	-	-	(45,065)	-	-	(45,065)
Issuance of convertible note warrants		-	38,148	-	-	38,148
Balance at September 30, 2017	$ 301	$(193,426)	$710,446	$ (4,249)	$1,062,097	$1,575,169

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Notes to Unaudited Consolidated Financial Statements

September 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 September 30, 2018, the results of operations for the three and nine months ended September 30, 2018 and 2017, comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, cash flows for the nine months ended September 30, 2018 and 2017, and shareholders' equity as of and for the nine months ended September 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 liability, 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 $3.3 million and $1.8 million for the three months ended September 30, 2018 and 2017, respectively and was $8.6 million and $3.7 million for the nine months ended September 30, 2018 and 2017.

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

	Deferred Maintenance
Balance as of December 31, 2017	$ 63,868
Deferred maintenance costs	35,878
Amortization of deferred maintenance	(8,604)
Balance as of September 30, 2018	$ 91,142

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:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 214,961	$ 280,809
Restricted cash	11,194	11,055
Total Cash, cash equivalents and restricted cash shown in Consolidated Statements of Cash Flows	$ 226,155	$ 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 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. Subsequently, the FASB issued several clarifications and updates. 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 guidance is effective as of the beginning of 2019 and upon adoption must be applied using a modified retrospective approach which allows entities to either apply the new guidance to all periods presented or only to the most current period presented. We are still assessing the impact the 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 guidance to have a material impact to any of our other consolidated financial statements. We will adopt the new guidance on its required effective date of January 1, 2019 and apply the new guidance to the most current period presented. Our implementation is progressing as expected.

3. Related Parties

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 Nine Months Ended	
Revenue and Expenses:	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue from Polar	$99,671	$ 105,985	$305,401	$ 317,144
Ground handling and airport fees to Polar	841	800	2,219	1,926

Accounts receivable/payable as of:	September 30, 2018	December 31, 2017
Receivables from Polar	$15,954	$ 9,558
Payables to Polar	5,391	2,751

Aggregate Carrying Value of Polar Investment as of:	September 30, 2018	December 31, 2017
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 September 30, 2018 and December 31, 2017, our investment in GATS was $22.4 million and $22.1 million, respectively. We had Accounts payable to GATS of $0.9 million as of September 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 December 31, 2017	Adjustments	Balance