

ATLAS AIR WORLDWIDE HOLDINGS INC
Form 10-K
February 12, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

OR

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

Commission file number 001-16545

Atlas Air Worldwide Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
2000 Westchester Avenue,

13-4146982
(IRS Employer Identification No.)
10577

Purchase, New York
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(914) 701-8000**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class

Name of Each Exchange on Which Registered

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Common Stock, \$0.01 Par Value

The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 at least 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's Common Stock held by non-affiliates based upon the closing price of Common Stock as reported on The NASDAQ Global Select Market as of June 30, 2014 was approximately \$793,381,495. In determining this figure, the registrant has assumed that all directors, executive officers and persons known to it to beneficially own ten percent or more of such Common Stock are affiliates. This assumption shall not be deemed conclusive for any other purpose. As of February 3, 2015, there were 24,807,718 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant's Proxy Statement relating to the 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (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 Atlas Air Worldwide Holdings, Inc. (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, believe, seek, project, estimate and similar expressions used in this Report that do not relate to his 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 Item 1A, Risk Factors. Many of such factors are beyond AAWW's control and are difficult to predict. As a result, AAWW's future actions, financial position, results of operations and the market price for shares of AAWW's common stock could differ materially from those expressed in any forward-looking statements. Readers are therefore cautioned not to place undue reliance on forward-looking statements. AAWW does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, AAWW, whether as a result of new information, future events or otherwise, except as required by law.

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PART I

ITEM 1. BUSINESS
Glossary

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

Block Hour	The time interval between when an aircraft departs the terminal until it arrives at the destination terminal.
C Check	High-level or heavy airframe maintenance checks, which are more intensive in scope than Line Maintenance and are generally performed between 18 and 24 months depending on aircraft type.
D Check	High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed every six and eight years depending on aircraft type.
Heavy Maintenance	Scheduled maintenance activities, which are the most extensive in scope and are primarily based on time intervals, including, but not limited to, C Checks, D Checks and engine overhauls. In addition, unscheduled engine repairs involving the removal of the engine from the aircraft are considered to be heavy maintenance. Heavy maintenance can generally take from one to eight weeks to complete.
Line Maintenance	Unscheduled maintenance to rectify events occurring during normal day-to-day operations.
Non-heavy 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.

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Overview

AAWW is a holding company with a principal wholly-owned operating subsidiary, Atlas Air, Inc. (Atlas). It also maintains a 49% interest in Global Supply Systems Limited (GSS) and has a 51% economic interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (Polar). AAWW is also the parent company of several wholly-owned subsidiaries related to our dry leasing services (collectively referred to as Titan). When used in this Report, the terms we, us, our, and the Company refer to AAWW and all entities in our consolidated financial statements.

We are a leading global provider of outsourced aircraft and aviation operating services, operating the world's largest fleet of 747 freighters, as well as operating 747 and 767 passenger aircraft and 767 freighters. We also own and dry lease a fleet of aircraft, including six 777 freighters. We provide unique value to our customers by giving them access to highly reliable new production freighters that deliver the lowest unit cost in the marketplace combined with outsourced aircraft operating services that we believe lead the industry in terms of quality and global scale. Our customers include airlines, express delivery providers, freight forwarders, the U.S. military and charter brokers. We provide global services with operations in Africa, Asia, Australia, Europe, the Middle East, North America and South America.

Our primary service offerings include the following:

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

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

Charter, whereby we provide cargo and passenger aircraft charter services to customers, including the U.S. Military Air Mobility Command (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 believe that the scale, scope and quality of our outsourced services are unparalleled in our industry. The relative operating cost efficiency of our current 747-8F, 747-400F and 777-200LRF aircraft, including their superior fuel efficiency, range, capacity and loading capabilities, creates a compelling value proposition for our customers and positions us well in the markets we operate.

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We are focused on the further enhancement of our market-leading ACMI position. All nine of our 747-8F aircraft are placed with ACMI customers and we are currently the only operator offering these aircraft to the ACMI market. We also hold rights to purchase an additional 13 747-8F aircraft, providing us with flexibility to further expand our fleet in response to market conditions. We believe that our current fleet, which also includes our 747-400F aircraft, represents one of the most efficient, reliable freighter fleets in the market. Our primary placement for these aircraft will continue to be long-term ACMI outsourcing contracts with high-credit-quality customers.

During 2014, we continued to expand our Dry Leasing business with the acquisition of three additional 777-200LRF aircraft. We currently have six of these aircraft Dry Leased to customers on a long-term basis. The addition of the 777 freighters further diversifies our business mix and enhances our predictable, long-term revenue and earnings streams.

AAWW was incorporated in Delaware in 2000. Our principal executive offices are located at 2000 Westchester Avenue, Purchase, New York 10577, and our telephone number is (914) 701-8000.

Operations

Introduction. During the fourth quarter of 2014, we changed our operating and reportable segments, reflecting changes in our military business. We currently operate our service offerings through the following reportable segments: ACMI, Charter and Dry Leasing. Previously, our reportable segments were ACMI, AMC Charter, Commercial Charter and Dry Leasing. All reportable business segments are directly or indirectly engaged in the business of air transportation services but have different commercial and economic characteristics, which are separately reviewed by management. Additional information regarding our reportable segments can be found in Note 11 to our consolidated financial statements included in Item 8 of Part II of this Report (the "Financial Statements").

ACMI. The core of our business is providing cargo aircraft outsourcing services to customers on an ACMI basis in exchange for guaranteed minimum revenues at predetermined levels of operation for defined periods of time. We also offer CMI cargo and passenger services to customers, which is similar to ACMI flying, except the customer provides the aircraft. ACMI and CMI contracts provide a predictable annual revenue and cost base by minimizing the risk of fluctuations such as Yield, fuel and demand risk in the air cargo business. Our revenues and most of our costs under ACMI and CMI contracts are denominated in U.S. dollars, minimizing currency risks associated with international business.

All of our ACMI and CMI contracts provide that the aircraft remain under our exclusive operating control, possession and direction at all times. These contracts further provide that both the contracts and the routes to be operated may be subject to prior and periodic approvals of the U.S. or foreign governments. Revenue from ACMI and CMI contracts is typically recognized as the Block Hours are operated on behalf of a customer during a given month, as defined contractually. If a customer flies below the minimum contracted Block Hour guarantee, the contracted minimum revenue amounts are recognized as revenue. The original length of these contracts generally ranges from two to twenty years, although we do offer contracts of shorter duration. In addition, we have also operated short-term, ACMI cargo and passenger services and we expect to continue to provide such services.

As a percentage of our operating revenue, ACMI revenue represented 43.2% in 2014, 45.6% in 2013 and 41.4% in 2012. As a percentage of our operated Block Hours, ACMI represented 71.4% in 2014, 72.6% in 2013 and 70.2% in 2012.

Charter. Our Charter business primarily provides full planeload passenger and cargo aircraft to customers, including the AMC, brokers, freight forwarders, direct shippers, airlines, sports teams and fans, and private charter customers. Charters are for one or more flights based on a specific origin and destination. Atlas also

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provides limited airport-to-airport cargo services to select markets, including several cities in South America. In addition, we earn revenue on subcontracted Charter flights. Atlas typically bears all direct operating costs for both passenger and cargo charters, which include fuel, insurance, landing and navigation fees, and most other operational fees and costs.

As a percentage of our operating revenue, Charter revenue, which includes fuel and other operational costs, represented 50.4% in 2014, 51.4% in 2013 and 57.0% in 2012. As a percentage of our operated Block Hours, Charter represented 27.7% in 2014, 26.7% in 2013 and 29.1% in 2012.

Dry Leasing. Our Dry Leasing business provides a specific aircraft or engine without crew, maintenance or insurance to a customer for compensation that is typically based on a fixed monthly amount. This business is primarily operated by Titan, which is principally a cargo aircraft dry lessor, but also owns and manages aviation assets such as passenger narrow-body aircraft, engines and related equipment. Titan also markets its expertise in asset management, passenger-to-freighter conversion and other aviation-related technical services. As a percentage of our operating revenue, Dry Leasing revenue represented 5.6% in 2014, 2.1% in 2013 and 0.7% in 2012.

Other Revenue. As a percentage of our operating revenue, Other revenue represented 0.8% in 2014, 0.9% in 2013 and 0.9% in 2012.

DHL Investment and Polar

DHL Network Operations (USA), Inc. (DHL) holds a 49% equity interest and a 25% voting interest in Polar (see Note 3 to our Financial Statements). AAWW owns the remaining 51% equity interest and 75% voting interest. Under a 20-year blocked space agreement (the BSA), Polar provides air cargo capacity to DHL. In addition, Atlas and Polar have a flight services agreement, whereby Atlas is compensated by Polar on a per Block Hour basis, subject to a monthly minimum Block Hour guarantee, at a predetermined rate that escalates annually. Under the flight services agreement, Atlas provides Polar with crew, maintenance and insurance for the aircraft. Under separate agreements, Atlas and Polar supply administrative, sales and ground support services to one another. Deutsche Post AG (DP) has guaranteed DHL s (and Polar s) obligations under the various agreements described above. AAWW has agreed to indemnify DHL for and against various obligations of Polar and its affiliates. Collectively, these agreements are referred to in this Report as the DHL Agreements . The DHL Agreements provide us with a minimum guaranteed annual revenue stream from aircraft that have been dedicated to Polar for DHL and other customers freight over the life of the agreements.

Polar provides full flying for DHL s trans-Pacific express network and DHL provides financial support and also assumes the risks and rewards of the operations of Polar. In addition to its trans-Pacific routes, Polar also flies between the Asia Pacific regions, the Middle East and Europe on behalf of DHL and other customers.

Polar operates six 747-400 freighter aircraft and four 747-8F aircraft that are subleased from us. Atlas operates one additional 747-400 and one additional 747-8F aircraft to support the Polar network and DHL through an alliance agreement whereby Atlas provides ACMI services to Polar. We also provide incremental charter capacity to Polar on an ad hoc basis.

We also began CMI flying five 767-200 freighters owned by DHL in their North American network in 2012 and will be expanding this service with four additional 767-200 aircraft during the first quarter of 2015. In addition, we fly CMI service for two 767-300ERF aircraft owned by DHL in their intra-Asia network.

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The following table sets forth the guaranteed minimum revenues expected to be received from our existing ACMI, CMI and Dry Leasing customers for the years indicated (in thousands):

2015	\$ 552,649
2016	402,770
2017	289,134
2018	208,463
2019	85,905
Thereafter	237,951
Total	\$ 1,776,872

Sales and Marketing

We have regional sales offices in various locations, including the United States, England, Hong Kong and Singapore, which cover the Americas, Europe, Africa, the Middle East and the Asia Pacific regions. These offices market our ACMI, CMI and Dry Leasing services directly to other airlines and logistics companies. They also market our cargo and passenger Charter services to charter brokers, the U.S. military, freight forwarders, direct shippers and airlines.

Maintenance

Maintenance represented our third-largest operating expense for the year ended December 31, 2014. Primary maintenance activities include scheduled and unscheduled work on airframes and engines. Scheduled maintenance activities encompass those activities specified in our maintenance program approved by the U.S. Federal Aviation Administration (FAA). The costs necessary to adhere to these maintenance programs may increase over time, based on the age of the equipment or due to FAA airworthiness directives (ADs).

Under the ADs issued pursuant to the FAA's Aging Aircraft Program, we are subject to extensive aircraft examinations and may be required to undertake structural modifications to our fleet from time to time to address any problems of corrosion and structural fatigue. The FAA has issued increased inspection and maintenance requirements depending on aircraft type and ADs requiring certain additional aircraft modifications. We believe all aircraft in our fleet are in compliance with all existing ADs. It is possible, however, that additional ADs applicable to the types of aircraft or engines included in our fleet could be issued in the future and that the cost of complying with such ADs could be substantial.

Under our FAA-approved maintenance programs, all Heavy Maintenance is currently performed by third-party service providers that are compensated on a time-and-material basis as we believe they provide the most reliable and efficient means of maintaining our aircraft fleet.

Insurance

We maintain insurance of the types and in amounts deemed adequate and consistent with current industry standards. Principal coverage includes: liability for injury to members of the public, including passengers; injury to crewmembers and ground staff; damage to our property and that of others; and loss of, or damage to, flight equipment, whether on the ground or in flight.

Aviation insurance premiums historically have fluctuated based on factors that include the loss history of the industry in general and the insured carrier in particular. Terrorist attacks and other adverse events involving

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aircraft could result in increases in insurance costs and could affect the price and availability of such coverage. We participate in an insurance pooling arrangement with DHL and its partners. This allows us to obtain aviation hull and liability, war-risk hull and cargo loss, crew, third-party liability insurance and hull deductible coverage at reduced rates from the commercial insurance providers. If we are no longer included in this arrangement for any reason or if pool members have coverage incidents, we may incur higher insurance costs.

Prior to December 2014, we purchased war-risk insurance coverage through a program administered by the FAA. After the FAA discontinued this program in December 2014, our war-risk insurance is now covered by commercial insurance providers.

Governmental Regulation

General. Atlas and Polar are subject to regulation by the U.S. Department of Transportation (DOT) and the FAA, among other U.S. and foreign government agencies. The DOT primarily regulates economic issues affecting air service, such as certification, fitness and citizenship, competitive practices, insurance and consumer protection. The DOT has the authority to investigate and institute proceedings to enforce its economic regulations and may assess civil penalties, revoke operating authority or seek criminal sanctions. Atlas and Polar each hold DOT-issued certificates of public convenience and necessity plus exemption authority to engage in scheduled air transportation of property and mail in domestic, as well as enumerated international markets, and charter air transportation of property and mail on a worldwide basis. Atlas additionally holds worldwide passenger charter authority.

The DOT conducts periodic evaluations of each air carrier's fitness and citizenship. In the area of fitness, the DOT seeks to ensure that a carrier has the managerial competence, compliance disposition and financial resources needed to conduct the operations for which it has been certificated. Additionally, each U.S. air carrier must remain a U.S. citizen by (i) being organized under the laws of the United States or a state, territory or possession thereof; (ii) requiring its president and at least two-thirds of its directors and other managing officers to be U.S. citizens; (iii) allowing no more than 25% of its voting stock to be owned or controlled, directly or indirectly, by foreign nationals and (iv) not being otherwise subject to foreign control. The DOT broadly interprets control to exist when an individual or entity has the potential to exert substantial influence over airline decisions through affirmative action or the threatened withholding of consents and/or approvals. We believe the DOT will continue to find Atlas and Polar's fitness and citizenship favorable.

In addition to holding the DOT-issued certificate and exemption authority, each U.S. air carrier must hold a valid FAA-issued air carrier certificate and FAA-approved operations specifications authorizing operation in specific regions with specified equipment under specific conditions and is subject to extensive FAA regulation and oversight. The FAA is the U.S. government agency primarily responsible for regulation of flight operations and, in particular, matters affecting air safety, such as airworthiness requirements for aircraft, operating procedures, mandatory equipment and the licensing of pilots, mechanics and dispatchers. The FAA monitors compliance with maintenance, flight operations and safety regulations and performs frequent spot inspections of aircraft, employees and records. The FAA also has the authority to issue ADs and maintenance directives and other mandatory orders relating to, among other things, inspection of aircraft and engines, fire retardant and smoke detection devices, increased security precautions, collision and windshear avoidance systems, noise abatement and the mandatory removal and replacement of aircraft parts that have failed or may fail in the future. In addition, the FAA mandates certain record-keeping procedures. The FAA has the authority to modify, temporarily suspend or permanently revoke an air carrier's authority to provide air transportation or that of its licensed personnel, after providing notice and a hearing, for failure to comply with FAA rules, regulations and directives. The FAA is empowered to assess civil penalties for such failures or institute proceedings for the imposition and collection of monetary fines for the violation of certain FAA regulations and directives. The FAA is also empowered to modify, suspend or revoke an air carrier's authority on an emergency basis, without providing notice and a hearing, where significant safety issues are involved.

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In December 2011, the FAA adopted a rule to impose new flight and duty time requirements with the stated goal of reducing pilot fatigue. The rule took effect on January 14, 2014. The rule applies to our passenger operations but not to our all-cargo operations. The Independent Pilots Association, representing the pilots of United Parcel Service, Inc. (UPS), have filed a judicial appeal, in which they are challenging the FAA decision not to include all-cargo operations in the rule. The proceeding was suspended pending FAA completion of a new cost-benefit analysis. On December 8, 2014, after completing that analysis, the FAA issued a final supplemental regulatory evaluation showing an even greater disparity between costs and benefits. The court case has been reactivated. Should the appeal be successful or the FAA decides either on its own initiative or pursuant to Congressional directive to change the final rule to include all-cargo operations, that would result in a material increase in crew costs for Atlas and Polar, as well as air carriers that predominately fly nighttime and long-haul flights. It could also have a material impact on our business, results of operations and financial condition by limiting crew scheduling flexibility and increasing operating costs, especially with respect to long-range flights.

International. Air transportation in international markets (the vast majority of markets in which Atlas and Polar operate) is subject to extensive additional regulation. The ability of Atlas and Polar to operate in other countries is governed by aviation agreements between the United States and the respective countries (in the case of Europe, the European Union (the EU)) or, in the absence of such an agreement, by principles of reciprocity. Sometimes, aviation agreements restrict the number of carriers that may operate, their frequency of operation, or the routes over which they may fly. This makes it necessary for the DOT to award route and operating rights to U.S. air carrier applicants through competitive route proceedings. International aviation agreements are periodically subject to renegotiation, and changes in U.S. or foreign governments could result in the alteration or termination of such agreements, diminish the value of existing route authorities or otherwise affect Atlas and Polar's international operations. Foreign government authorities also impose substantial licensing and business registration requirements and, in some cases, require the advance filing and/or approval of schedules or rates. Moreover, the DOT and foreign government agencies typically regulate alliances and other commercial arrangements between U.S. and foreign air carriers, such as the ACMI and CMI arrangements that Atlas maintains. Approval of these arrangements is not guaranteed and may be conditional. In addition, approval during one time period does not guarantee approval in future periods.

A foreign government's regulation of its own air carriers can also affect our business. For instance, the EU places limits on the ability of EU carriers to use ACMI aircraft operated by airlines of non-EU member states. The regulations have a negative impact on our ACMI business opportunities.

Airport Access. The ability of Atlas, Polar and our ACMI and CMI customers to operate is dependent on their ability to gain access to airports of their choice at commercially desirable times and on acceptable terms. In some cases, this is constrained by the need for the assignment of takeoff and landing slots or comparable operational rights. Like other air carriers, Atlas and Polar are subject to such constraints at slot-restricted airports in cities such as Chicago and a variety of foreign locations (e.g., Tokyo, Shanghai and Incheon). The availability of slots is not assured and the inability of Polar or Atlas' other ACMI customers to obtain additional slots could inhibit efforts to provide expanded services in certain international markets. In addition, nighttime flight restrictions have been imposed or proposed by various airports in Europe, Canada and the U.S. Depending on their severity, these could have an adverse operational impact.

Access to the New York airspace presents an additional challenge. Because of congestion in the New York area, especially at John F. Kennedy International Airport (JFK), the FAA imposes hourly limits on JFK operations of those carriers offering scheduled services and recently proposed to place limits on Charter flights.

As a further means to address congestion, the FAA allows U.S. airports to raise landing fees to defray the costs of airfield facilities under construction or reconstruction. Any landing fee increases implemented would have an impact on airlines generally.

Security. The U.S. Transportation Security Administration (TSA) extensively regulates aviation security through rules, regulations and security directives that are designed to prevent unauthorized access to passenger

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and freighter aircraft and the introduction of prohibited items including firearms and explosives onto an aircraft. Atlas and Polar currently operate pursuant to a TSA-approved risk-based security program that, we believe, adequately maintains the security of all aircraft in the fleet. We work closely with the TSA to ensure that we have available security research and intelligence information to assist us. There can be no assurance, however, that we will remain in compliance with the existing and any additional security requirements imposed by TSA or by U.S. Congress without incurring substantial costs, which may have a material adverse effect on our operations. To mitigate any such increase, we are working closely with the Department of Homeland Security and other government agencies to ensure that a risk-based management approach is utilized to target specific at-risk cargo. This approach will limit any exposure to regulation that would require 100% screening of all cargo at an excessive cost. Additionally, foreign governments and regulatory bodies (such as the European Commission) impose their own aviation security requirements and have increasingly tightened such requirements. This may have an adverse impact on our operations, especially to the extent the new requirements may necessitate redundant or costly measures or be in conflict with TSA requirements.

Environmental. We are subject to various federal, state and local laws relating to the protection of the environment, including the discharge or disposal of materials and chemicals and the regulation of aircraft noise, which are administered by numerous state, local and federal agencies. For instance, the DOT and the FAA have authority under the Aviation Safety and Noise Abatement Act of 1979 and under the Airport Noise and Capacity Act of 1990 to monitor and regulate aircraft engine noise. We believe that all aircraft in our fleet materially comply with current DOT, FAA and international noise standards.

We are also subject to the regulations of the U.S. Environmental Protection Agency (the EPA) regarding air quality in the United States. All of our aircraft meet or exceed applicable EPA fuel venting requirements and smoke emissions standards.

There is significant U.S. and international government interest in implementing measures to respond to the problem of climate change and greenhouse gas emissions. Various governments, including the United States, are pursuing measures to regulate climate change and greenhouse gas emissions.

In October 2013, the International Civil Aviation Organization (ICAO) reached a non-binding agreement to address climate change by developing global-market-based measures to assist in achieving carbon neutral growth beginning in 2020. The ICAO is directing the effort in the hope of securing a definitive agreement in 2016. Additionally, the EU continues to pursue a parallel track through its Emissions Trading Scheme (ETS), which, in recognition of the ongoing ICAO effort, has been suspended with respect to flights to/from the EU and currently applies only to intra-EU flying. Following the end of every year, to the extent the ETS applies, each airline must tender the number of carbon emissions allowances (Allowances) corresponding to carbon emissions generated by its flight activity during the year. If the airline's flight activity during the year has produced carbon emissions exceeding the number of Allowances that it has been awarded, the airline must acquire Allowances from other airlines in the open market. There can be no assurance that the EU will maintain the current suspension of the ETS to all flights except intra-EU flying or that the ICAO will not ultimately adopt a similarly costly measure.

In the United States, various constituencies have continued to advocate for controls on greenhouse gas emissions. Previously, both houses of the U.S. Congress passed legislation to impose a carbon-related tax on fuel sold to airlines and other entities. However, a bill has not been signed into law. Also, at the urging of states and environmental organizations, the EPA has taken steps that could lead to EPA regulation of greenhouse gas emissions from aircraft.

Other Regulations. Air carriers are also subject to certain provisions of the Communications Act of 1934 because of their extensive use of radio and other communication facilities and are required to obtain an aeronautical radio license from the Federal Communications Commission. Additionally, we are subject to U.S. and foreign antitrust requirements and international trade restrictions imposed by U.S. presidential determination

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and U.S. government agency regulation, including the Office of Foreign Assets Control of the U.S. Department of the Treasury. We endeavor to comply with such requirements at all times. We are also subject to state and local laws and regulations at locations where we operate and at airports that we serve. Our operations may become subject to additional international, U.S. federal, state and local requirements in the future.

We believe that we are in material compliance with all currently applicable laws and regulations.

Civil Reserve Air Fleet. As part of our Charter business, Atlas and Polar both participate in the U.S. Civil Reserve Air Fleet (CRAF) Program, which permits the U.S. Department of Defense to utilize participants' aircraft during national emergencies when the need for military airlift exceeds the capability of military aircraft. Participation in the CRAF Program could adversely restrict our commercial business in times of national emergency. Under the CRAF Program, contracts with the AMC typically cover a one-year period. We have made a substantial number of our aircraft available for use by the U.S. military in support of their operations and we operate such flights pursuant to cost-plus contracts. Atlas bears all direct operating costs for both passenger and cargo aircraft, which include fuel, insurance, overfly, landing and ground handling expenses. However, the price of fuel used during AMC flights is fixed by the U.S. military. The contracted charter rates (per mile) and fuel prices (per gallon) are fixed by the AMC generally for twelve-month periods. We receive reimbursements from the AMC each month if the price of fuel paid by us to vendors for the AMC Charter flights exceeds the fixed price. If the price of fuel paid by us is less than the fixed price, then we pay the difference to the AMC.

Airlines may participate in the CRAF Program either alone or through a teaming arrangement. We are a member of the team led by FedEx Corporation (FedEx). We pay a commission to the FedEx team, based on the revenues we receive under our AMC contracts. The AMC buys cargo capacity on two basis: a fixed basis, which is awarded both annually and quarterly, and expansion flying, which is awarded on an as-needed basis throughout the contract term. While the fixed business is predictable, Block Hour levels for expansion flying are difficult to predict and thus are subject to fluctuation.

Future Regulation. The U.S. Congress, the DOT, the FAA, the TSA and other government agencies are currently considering, and in the future may consider, adopting new laws, regulations and policies regarding a wide variety of matters that could affect, directly or indirectly, our operations, ownership and profitability. It is impossible to predict what other matters might be considered in the future and to judge what impact, if any, the implementation of any future proposals or changes might have on our businesses.

Competition

The market for ACMI services is competitive. We believe that the most important basis for competition in the ACMI market is the efficiency and cost effectiveness of the aircraft assets and the scale, scope and quality of the outsourced operating services provided. Atlas is currently the only provider of ACMI services with the modern 747-8F aircraft. The primary providers presently in the 747-400F and 747-400 BCF/SF ACMI markets include the following: Atlas; Air Atlanta Icelandic; Kalitta Air, LLC; and Nippon Cargo Airlines. In addition, Southern Air, Inc. operates 777 aircraft in the CMI market.

The Charter market is also competitive, with a number of cargo operators that include Cargolux; Kalitta Air, LLC; Nippon Cargo Airline; and passenger airlines providing similar services utilizing both 747-400s and 747-200s. We believe that we offer a superior aircraft in the 747-400, and we will continue to develop new opportunities in the Charter market for 747-400 aircraft not otherwise deployed in our ACMI business.

The Dry Leasing business is also competitive. We believe that we have an advantage over other cargo aircraft lessors in this business as a result of our relationships in the cargo market and our insights and expertise as an operator of aircraft. Titan also competes in the passenger aircraft leasing market to develop key customer relationships, enter strategic geographic markets, and/or acquire feedstock aircraft for future freighter conversion. The primary competitors in the aircraft leasing market include GE Capital Aviation Services; AWAS; Guggenheim Aviation Partners, LLC; CIT Aerospace; Aviation Capital Group Corp.; Air Castle Ltd.; AerCap Holdings N.V.; Fly Leasing; and RBS Aviation Capital, among many others.

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Historically, aircraft fuel is one of the most significant expenses for us. During 2014, 2013 and 2012, fuel costs represented 24.9%, 27.9%, and 30.8%, respectively, of our total operating expenses. Fuel prices and availability are subject to wide price fluctuations based on geopolitical issues, supply and demand, which we can neither control nor accurately predict. The following table summarizes our total fuel consumption and costs:

	2014	2013	2012
Gallons consumed (in thousands)	131,787	124,949	131,012
Average price per gallon, including tax	\$ 3.07	\$ 3.28	\$ 3.33
Cost (in thousands)	\$ 404,263	\$ 410,353	\$ 436,618

Our exposure to fluctuations in fuel price is limited to the commercial portion of our Charter business only. For this business, we shift a portion of the burden of price increases to commercial customers by imposing a surcharge. While we believe that fuel price volatility is partly reduced as a result of fuel surcharges, these surcharges do not completely offset the impact of any underlying increases in fuel prices in our Charter business. The ACMI segment has no direct fuel price exposure because ACMI and CMI contracts require our customers to pay for aircraft fuel. Similarly, we generally have no fuel price risk for AMC charters because the price is set under our contract, and we receive or make payments to adjust for price increases and decreases from the contractual rate.

In the past, we have not experienced significant difficulties with respect to fuel availability. Although we do not currently anticipate a significant reduction in the availability of aircraft fuel, a number of factors, such as geopolitical uncertainties in oil-producing nations and shortages of and disruptions to refining capacity or transportation of aircraft fuel from refining facilities, make accurate predictions unreliable. For example, hostilities and political turmoil in oil-producing nations could lead to disruptions in oil production and/or to substantially increased oil prices. Any inability to obtain aircraft fuel at competitive prices would materially and adversely affect our results of operation and financial condition.

Employees

Our business depends on highly qualified management, operations and flight personnel. As a percentage of our consolidated operating expenses, salaries, wages and benefits accounted for approximately 19.2% in 2014, 20.3% in 2013 and 20.7% in 2012. As of December 31, 2014, we had 1,724 employees, 943 of whom were pilots. We maintain a comprehensive training program for our pilots in compliance with FAA requirements, in which each pilot regularly attends recurrent training programs.

Pilots and flight dispatchers of Atlas and Polar are represented by the International Brotherhood of Teamsters (the IBT). These employees represented approximately 55.9% of our workforce as of December 31, 2014. We are subject to risks of work interruption or stoppage as permitted by the Railway Labor Act of 1926 (the Railway Labor Act), and may incur additional administrative expenses associated with union representation of our employees.

We have a five-year collective bargaining agreement with our pilots, which will not become amendable until September 2016. The terms of the agreement provide for a single pilot workforce that serves both Atlas and Polar.

We have a five-year collective bargaining agreement with the Atlas and Polar dispatchers, which will not become amendable until November 2017.

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Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments to those reports, filed with or furnished to the Securities and Exchange Commission (the SEC), are available free of charge through our corporate internet website, www.atlasair.com, as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC.

The public may read and copy any materials that we file with SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The information on our website is not, and shall not be deemed to be, part of this Report or incorporated into any other filings we make with the SEC.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following Risk Factors and all other information in this Report. These Risk Factors are not the only ones facing us. Our operations could also be impaired by additional risks and uncertainties. If any of the following risks and uncertainties develops into actual events, our business, financial condition and results of operations could be materially and adversely affected.

RISKS RELATED TO OUR BUSINESS

Risks Related to Our Business Generally

Deterioration in the airfreight market, global economic conditions or financial markets could adversely affect our business, results of operations, financial condition, liquidity and ability to access capital markets.

Airfreight demand has historically been highly dependent on global economic conditions, which remain volatile. If demand for our services, Yields or lease rates deteriorate, it could have a material adverse effect on our business, results of operations and financial condition.

In addition, we may face significant challenges if conditions in the financial markets deteriorate. Our business is capital intensive and growth depends on the availability of capital for new aircraft, among other things. If today's capital availability deteriorates, we may be unable to raise the capital necessary to finance business growth or other initiatives. Our ability to access the capital markets may be restricted at a time when we would like, or need, to do so, which could have an impact on our flexibility to react to changing economic and business conditions.

We could be adversely affected if any of our existing aircraft are underutilized or we fail to redeploy or deploy aircraft with customers at favorable rates. We could also be adversely affected from the loss of one or more of our aircraft for an extended period of time.

Our operating revenues depend on our ability to effectively deploy the aircraft in our fleet and maintain high utilization of our aircraft at favorable rates. If we have underutilized aircraft, we would seek to redeploy those aircraft in our other lines of business or sell them. If we are unable to successfully redeploy our existing aircraft at favorable rates or sell them on favorable terms, it could have a material adverse effect on our business, results of operations and financial condition. In addition, if one or more of our aircraft are out of service for an extended period of time, our operating revenues would decrease and we may have difficulty fulfilling our obligations under one or more of our existing contracts. The loss of revenue resulting from any such business interruption, and the cost and potentially long lead time and difficulties in sourcing a replacement aircraft, could have a material adverse effect on our business, results of operations and financial condition.

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Our substantial lease and debt obligations, including aircraft lease and other obligations, could impair our financial condition and adversely affect our ability to raise additional capital to fund our operations or capital requirements, all of which could limit our financial resources and ability to compete, and may make us vulnerable to adverse economic events.

As of December 31, 2014, we had total debt obligations of approximately \$2.0 billion and total aircraft operating leases and other lease obligations of \$1.1 billion. These obligations have increased significantly and will increase further if we enter into financing arrangements for future aircraft purchases. Our outstanding financial obligations could have negative consequences, including:

making it more difficult to satisfy our debt and lease obligations;

requiring us to dedicate a substantial portion of our cash flows from operations for interest, principal and lease payments and reducing our ability to use our cash flows to fund working capital and other general corporate requirements;

increasing our vulnerability to general adverse economic and industry conditions; and

limiting our flexibility in planning for, or reacting to, changes in our business and in our industry.

Our ability to service our debt and meet our lease and other obligations as they come due is dependent on our future financial and operating performance. This performance is subject to various factors, including factors beyond our control, such as changes in global and regional economic conditions, changes in our industry, changes in interest or currency exchange rates, the price and availability of aircraft fuel and other costs, including labor and insurance. Accordingly, we cannot provide assurance that we will be able to meet our debt service, lease and other obligations as they become due and our business, results of operations and financial condition could be adversely affected under these circumstances.

Certain of our debt obligations contain a number of restrictive covenants. In addition, many of our debt and lease obligations have cross default and cross acceleration provisions.

Restrictive covenants in certain of our debt and lease obligations, under certain circumstances, could impact our ability to:

pay certain dividends or repurchase stock;

consolidate or merge with or into other companies or sell substantially all our assets;

expand significantly into lines of businesses beyond existing business activities or those which are cargo-related and/or aviation-related and similar businesses; and/or

modify the terms of debt or lease financing arrangements.

In certain circumstances, a covenant default under one of our debt instruments could cause us to be in default of other obligations as well. Any unremedied defaults could lead to an acceleration of the amounts owed and potentially could cause us to lose possession or control of certain aircraft.

Our financial condition may suffer if we experience unanticipated costs as a result of ongoing lawsuits, claims and investigations related to alleged improper matters related to use of fuel surcharges and other rate components for air cargo services.

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The Company, Polar and Polar Air Cargo LLC (Old Polar), formerly Polar Air Cargo, Inc., have been named defendants, along with a number of other cargo carriers, in several class actions in the United States arising from allegations about the pricing practices of a number of air cargo carriers that have now been consolidated for pretrial purposes in the United States District Court for the Eastern District of New York. The consolidated complaint alleges, among other things, that the defendants, including the Company, Polar and Old Polar, manipulated the market price for air cargo services sold domestically and abroad through the use of fuel and other surcharges, in violation of U.S. federal, state and EU antitrust laws. The suit seeks treble damages and injunctive relief.

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In the United Kingdom, several groups of named claimants have brought suit against British Airways Plc (British Airways) in connection with the same alleged antitrust practices at issue in the proceedings described above and are seeking damages allegedly arising from that conduct. British Airways has filed claims in the lawsuit against Old Polar and other carriers for contribution should British Airways be found liable to claimants.

If Old Polar or the Company were to incur an unfavorable outcome in the litigation described above or in similar litigation or a related investigation, it could have a material adverse effect on our business, results of operations and financial condition.

In addition to the litigation and investigations described above, we are subject to a number of Brazilian customs claims, as well as other claims, lawsuits and pending actions which we consider to be routine and incidental to our business (see Note 12 to our Financial Statements). If we were to receive an adverse ruling or decision on any such claims, it could have an adverse effect on our business, results of operations and financial condition.

Global trade flows are typically seasonal, and our business, including our ACMI customers' business, experience seasonal variations.

Global trade flows are typically seasonal in nature, with peak activity occurring during the retail holiday season, which generally begins in September / October and lasts through most of December. Our ACMI and CMI contracts have contractual utilization minimums that typically allow our customers to cancel an agreed-upon percentage of the guaranteed hours of aircraft utilization over the course of a year. Our ACMI customers often exercise those cancellation options early in the first quarter of the year, when the demand for air cargo capacity is historically low following the seasonal holiday peak in the fourth quarter of the previous year. While our revenues typically fluctuate seasonally as described above, a significant proportion of the costs associated with our business, such as aircraft rent, depreciation and facilities costs, are fixed and cannot easily be reduced to match the seasonal drop in demand. As a result, our net operating results are typically subject to a high degree of seasonality.

As a U.S. government contractor, we are subject to a number of procurement and other rules and regulations that affect our business. A violation of these rules and regulations could lead to termination or suspension of our government contracts and could prevent us from entering into contracts with government agencies in the future.

To do business with government agencies, including the AMC, we must comply with, and are affected by, many rules and regulations, including those related to the formation, administration and performance of U.S. government contracts. These rules and regulations, among other things:

require, in some cases, procurement from small businesses;

require disclosure of all cost and pricing data in connection with contract negotiations;

give rise to U.S. government audit rights;

impose accounting rules that dictate how we define certain accounts, define allowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. government contracts;

establish specific health, safety and doing-business standards; and

restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

These rules and regulations affect how we do business with our customers and, in some instances, impose added costs on our business. A violation of these rules and regulations could result in the imposition of fines and penalties or the termination of our contracts. In addition, the violation of certain other generally applicable rules and regulations could result in our suspension or debarment as a government contractor.

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Fuel price volatility and fuel availability could adversely affect our business and operations.

The price of aircraft fuel is unpredictable and can be volatile. While we have been able to reduce our exposure to fuel risk significantly, we do bear some risk of fuel exposure for our Charter operations.

In addition, while our ACMI contracts require our customers to pay for aircraft fuel, if fuel costs increase significantly, our customers may reduce the volume and frequency of cargo shipments or find less costly alternatives for cargo delivery, such as land and sea carriers. Such instances could have a material adverse impact on our business, results of operations and financial condition.

In the past, we have not experienced significant difficulties with respect to fuel availability. Although we do not currently anticipate a significant reduction in the availability of aircraft fuel, a number of factors, such as geopolitical uncertainties in oil-producing nations and shortages of and disruptions to refining capacity, make accurate predictions unreliable. For example, hostilities and political turmoil in oil-producing nations could lead to disruptions in oil production and/or to substantially increased oil prices. Any inability to obtain aircraft fuel at competitive prices could have a material adverse impact on our business, results of operations and financial condition.

We are party to a collective bargaining agreement covering our U.S. pilots and a collective bargaining agreement covering our U.S. dispatchers, which could result in higher labor costs than those faced by some of our non-unionized competitors. This could put us at a competitive disadvantage and/or result in a work interruption or stoppage.

Our pilots are represented by the IBT under a five-year collective bargaining agreement signed in 2011. Our dispatchers are represented by the IBT under a five-year collective bargaining agreement signed in 2012. We are subject to risks of increased labor costs associated with having a partially unionized workforce, as well as a greater risk of work interruption or stoppage. We cannot provide assurance that disputes, including disputes with certified collective bargaining representatives of our employees, will not arise in the future or that any outcome of such disputes will result in an agreement on terms satisfactory to us.

Insurance coverage may become more expensive and difficult to obtain and may not be adequate to insure all of our risks. In addition, if our Dry Lease customers have inadequate insurance coverage or fail to fulfill their indemnification obligations, it could have a material adverse impact on our business, results of operations and financial condition.

Aviation insurance premiums historically have fluctuated based on factors that include the loss history of the industry in general, and the insured carrier in particular. Adverse events involving aircraft could result in increases in insurance costs and could affect the price and availability of such coverage.

We participate in an insurance pooling arrangement with DHL and its partners. This allows us to obtain aviation hull and liability, war-risk hull and cargo loss, crew, third-party liability insurance and hull deductible coverage at reduced rates from the commercial insurance providers. If we are no longer included in this arrangement for any reason or if pool members have coverage incidents, we may incur higher insurance costs.

There can be no assurance that we will be able to maintain our existing coverage on terms favorable to us, that the premiums for such coverage will not increase substantially or that we will not bear substantial losses and lost revenue from accidents or other adverse events. Substantial claims resulting from an accident in excess of related insurance coverage or a significant increase in our current insurance expense could have a material adverse effect on our business, results of operations and financial condition. Additionally, while we carry insurance against the risks inherent to our operations, which we believe are consistent with the insurance arrangements of other participants in our industry, we cannot provide assurance that we are adequately insured against all risks.

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Lessees are required under our Dry Leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and all-risk hull and war-risk hull insurance on the aircraft at agreed upon levels. If our lessees insurance is not sufficient to cover all types of claims that may be asserted against us or if our lessees fail to fulfill their indemnification obligations, we would be required to pay any amounts in excess of our insurance coverage, which could have a material adverse impact on our business, results of operations and financial condition.

We rely on third party service providers. If these service providers do not deliver the high level of service and support required in our business, we may lose customers and revenue.

We rely on third parties to provide certain essential services on our behalf, including maintenance, ground handling and flight attendants. In certain locations, there may be very few sources, or sometimes only a single source, of supply for these services. If we are unable to effectively manage these third parties, they may provide inadequate levels of support which could harm our customer relationships and have an adverse impact on our operations and the results thereof. Any material problems with the quality and timeliness of our contracted services, or an unexpected termination of those services, could have a material adverse effect on our business, results of operations and financial condition.

Some of our aircraft are periodically deployed in potentially dangerous situations, which may result in harm to our passengers, employees or contractors and/or damage to our aircraft/cargo.

Some of our aircraft are deployed in potentially dangerous locations and carry hazardous cargo incidental to the services we provide in support of our customers' activities. Some areas through which our flight routes pass are subject to geopolitical instability, which increases the risk of death or injury to our passengers, employees or contractors or a loss of, or damage to, our aircraft and/or its cargo. While we maintain insurance to cover injury to our passengers, employees and contractors as well as the loss/damage of aircraft/cargo, except for limited situations, we do not have insurance against the loss arising from business interruption. It may be difficult to replace lost or substantially damaged aircraft due to the high capital requirements and long delivery lead times for new aircraft or to locate appropriate in-service aircraft for lease or sale. Any injury to passengers, employees or contractors or loss/damage of aircraft/cargo could have a material adverse impact on our business, results of operations and financial condition.

We could be adversely affected by a failure or disruption of our computer, communications or other technology systems.

We are heavily and increasingly dependent on technology to operate our business. The computer and communications systems on which we rely could be disrupted due to various events, some of which are beyond our control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses, security breaches and cyber attacks. We have taken certain steps to implement business resiliency and cybersecurity to help reduce the risk of some of these potential disruptions. There can be no assurance, however, that the measures we have taken are adequate to prevent or remedy disruptions or failures of these systems. Any substantial or repeated failure of these systems could impact our operations and customer service, result in the loss of important data, loss of revenues, and increased costs, and generally harm our business. Moreover, a failure of certain of our vital systems could limit our ability to operate our flights for an extended period of time, which would have a material adverse impact on our business and operations.

Our ability to utilize net operating loss carryforwards for U.S. income tax purposes may be limited. In addition, we operate in multiple jurisdictions and may become subject to a wide range of income and other taxes.

As of December 31, 2014, we had approximately \$823.7 million of federal net operating loss carryforwards for U.S. income tax purposes, net of unrecognized tax benefits and valuation allowance, which will expire

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through 2033, if not utilized. Section 382 of the Internal Revenue Code imposes an annual limitation on the amount of a corporation's U.S. federal taxable income that can be offset by net operating losses (NOLs) if it experiences an ownership change , as defined. We experienced ownership changes, as defined, in 2004 and 2009. Accordingly, the use of our NOLs generated prior to these ownership changes is subject to an annual limitation. If certain changes in our ownership occur prospectively, there could be an additional annual limitation on the amount of utilizable carryforwards, which could have a material adverse impact on our business, results of operations and financial condition.

We operate in multiple jurisdictions and may become subject to a wide range of income and other taxes. If our operations become subject to significant income and other taxes, this could have a material adverse impact on our business, results of operations and financial condition.

Risks Related to Our ACMI Business

We depend on a limited number of significant customers for our ACMI business and the loss of one or more of such customers could materially adversely affect our business, results of operations and financial condition.

Our ACMI business depends on a limited number of customers, which has typically averaged between six and eight. In addition, as a percentage of our total operating revenue, Polar accounted for 18.1% in 2014, 17.8% in 2013 and 16.5% in 2012. We typically enter into long-term ACMI and CMI contracts with our customers. The terms of our existing contracts are scheduled to expire on a staggered basis. There is a risk that any one of our significant ACMI or CMI customers may not renew their contracts with us on favorable terms or at all, perhaps due to reasons beyond our control. For example, certain of our airline ACMI customers may not renew their ACMI contracts with us because they decide to exit the dedicated cargo business or as they take delivery of new aircraft in their own fleet. Select customers have the opportunity to terminate their long-term agreements in advance of the expiration date, following a significant amount of notice to allow for remarketing of the aircraft. Such agreements generally contain an early termination fee paid by the customer.

Entering into ACMI and CMI contracts with new customers generally requires a long sales cycle, and as a result, if our contracts are not renewed, and there is a resulting delay in entering into new contracts, it could have a material adverse impact on our business, results of operations and financial condition.

Our agreements with several ACMI and CMI customers require us to meet certain performance targets, including certain departure/arrival reliability standards. Failure to meet these performance targets could adversely affect our financial results.

Our ability to derive the expected economic benefits from our transactions with certain ACMI and CMI customers depends substantially on our ability to successfully meet strict performance standards and deadlines for aircraft and ground operations, which become increasingly stringent over time. If we do not meet these requirements, we may not be able to achieve the projected revenues and profitability from these contracts, and we could be exposed to certain remedies, including termination of the BSA in the most extreme of circumstances, as described below.

Risks Related to the BSA with DHL

Our agreements with DHL confer certain termination rights to them which, if exercised or triggered, may result in our inability to realize the full benefits of the BSA with DHL.

The BSA gives DHL the option to terminate the agreements for convenience by giving notice to us before the tenth or fifteenth anniversary of the agreement's commencement date. Further, DHL has a right to terminate the BSA for cause following a specified management resolution process if we default on our performance or we are unable to perform for reasons beyond our control. If DHL exercises any of these termination rights, we would not be able to earn the revenues and profitability from these contracts.

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Risks Related to Our Charter Business

We derive a significant portion of our revenues from the AMC, and a substantial portion of these revenues have been generated pursuant to expansion flying, as opposed to fixed contract arrangements with the AMC. We expect the revenues from the AMC to continue to decline from current levels.

As a percentage of our total operating revenue, revenue derived from the AMC was approximately 18.7% in 2014, 21.5% in 2013 and 29.7% in 2012. Historically, the revenues derived from expansion flights for the AMC significantly exceeded the value of the fixed flight component of our AMC contract.

Revenues from the AMC are derived from one-year contracts. Our AMC contract generally runs from October 1 through September 30 of each year. Changes in national and international political priorities can significantly affect the volume of business from the AMC. Any decrease in U.S. military activity could reduce revenue from the AMC. In addition, our share of the total business from the AMC depends on several factors, including the total fleet size we commit to the CRAF program and the total number of aircraft deployed by our teaming arrangement partners and competitors in the program.

The AMC also holds all carriers to certain on-time performance requirements as a percentage of flights flown and, as a result of reduced AMC demand, it has become more difficult to comply with those requirements. To the extent that we fail to meet those performance requirements or if we fail to pass bi-annual AMC audits, revenues from our business with the AMC could decline through a suspension or termination of our AMC contract. Our revenues could also decline due to a reduction in the revenue rate we are paid by the AMC, a greater reliance by the AMC on its own fleet or a reduction in our allocation of AMC flying. Any reduction in our AMC flying could also negatively impact our Charter revenue from commercial customers for trips related to one-way AMC missions. We expect revenues and profitability from our business with the AMC to continue to decline from current levels as the U.S. military continues to withdraw troops from areas of conflict around the world. If we are unable to effectively deploy the resultant capacity, it could have a material adverse effect on our business, results of operations and financial condition.

Our business with the AMC is sensitive to teaming arrangements which affect our relative share of AMC flying and the associated revenue. If one of our team members reduces its commitments or withdraws from the program, or if other carriers on other teams commit additional aircraft, our share of AMC flying may decline. In addition, any changes made to the commissions that we pay or receive for AMC flying or changes to the contracting mechanism could impact the revenues or profitability of this business.

Each year, the AMC allocates its air capacity requirements to different teams of participating airlines based on a mobilization value point system that is determined by the amount and types of aircraft that each team of airlines pledges to the program. We participate in the program through a teaming arrangement with other airlines, led by FedEx. Our team is one of two major teams participating in the program during our current contract year. Several factors could adversely affect the amount of AMC flying that is allocated to us, including:

changes in the contracting mechanism;

the formation of new competing teaming arrangements;

the withdrawal of any of our team's current partners, especially FedEx;

a reduction of the number of aircraft pledged by us or other members of our team; or

increased participation of other carriers on other teams.

Any changes that would result in a reduction in our share of, or profitability from, AMC flying could have a material adverse effect on our business, results of operations and financial condition.

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Risks Related to Our Dry Leasing Business

Any default by our Dry Lease customers, including (but not limited to) failure to make timely payments or failure to properly maintain our aircraft, could adversely affect our financial results

Our Dry Leasing business depends on the ability of our customers to satisfy their obligations under our leases, which may be affected by factors outside our control, including but not limited to: supply and demand of aircraft; competition; economic conditions; the price and availability of jet fuel; government regulations; the availability and cost of financing; and their overall financial condition and cash flow. Any default by our customers can result in reduced cash flow, termination of the lease and repossession of the related aircraft, any of which could have a material adverse effect on our business, results of operations and financial condition.

Dry Leasing customers are primarily responsible for maintaining our aircraft. Although we require many of our customers to pay us supplemental maintenance revenue, failure of a customer to perform required maintenance during the lease term could result in higher maintenance costs, a decrease in the value of our aircraft, the inability to re-lease aircraft at favorable rates, if at all, or impairment charges, which could have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO OUR INDUSTRY

The market for air cargo services is competitive and if we are unable to compete effectively, we may lose current customers or fail to attract new customers. We could also be adversely affected if a large number of long-haul freighter aircraft or freighter aircraft of different equipment types are introduced into the market.

Each of the markets we participate in is competitive and fragmented. We offer a broad range of aviation services and our competitors vary by geographic market and type of service and include other international and domestic contract carriers, regional and national ground handling and logistics companies, internal cargo units of major airlines and third party cargo providers. Competition in the air cargo and transportation market is influenced by several key factors, including quality, price and availability of assets and services. Regulatory requirements to operate in the U.S. domestic air cargo market have been reduced, facilitating the entry into domestic markets by non-U.S. air cargo companies. If we were to lose any major customers and/or fail to attract customers, it could have an adverse effect on our business, results of operations and financial condition.

Additionally, an increase in the number of aircraft in the freight market could cause Yields and rates to fall and/or could negatively affect our customer base. If either circumstance were to occur, our business, results of operations and financial condition could be materially and adversely affected.

We are subject to extensive governmental regulations and failure to comply with these regulations in the U.S. and abroad, or the adoption of any new laws, policies or regulations or changes to such regulations, may have an adverse effect on our business.

Our operations and our customers' operations are subject to complex aviation and transportation laws and regulations, including Title 49 of the U.S. Code, under which the DOT and the FAA exercise regulatory authority over air carriers. In addition, our business activities and our customers' business activities fall within the jurisdiction of various other federal, state, local and foreign authorities, including the U.S. Department of Defense, the TSA, U.S. Customs and Border Protection, the U.S. Treasury Department's Office of Foreign Assets Control and the U.S. EPA. In addition, other countries in which we operate have similar regulatory regimes to which we are subjected. These laws and regulations may require us to maintain and comply with the terms of a wide variety of certificates, permits, licenses, noise abatement standards, maintenance and other requirements and our failure to do so could result in substantial fines or other sanctions. These U.S. and foreign aviation regulatory agencies have the authority to modify, amend, suspend or revoke the authority and licenses issued to us for failure to comply with provisions of law or applicable regulations and may impose civil or criminal penalties for violations of applicable rules and regulations. Such fines or sanctions, if imposed, could have a material adverse effect on our mode of conducting business, results of operations and financial condition.

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In addition, U.S. and foreign governmental authorities may adopt, amend or interpret accounting standards, tax laws, regulations or treaties that could require us to take additional and potentially costly compliance steps or result in the grounding of some of our aircraft, which could increase our operating costs or result in a loss of revenues.

International aviation is increasingly subject to requirements imposed or proposed by foreign governments. This is especially true in the areas of transportation security, aircraft noise and emissions control, and greenhouse gas emissions. These may be duplicative of, or incompatible with U.S. government requirements, resulting in increased compliance efforts and expense. Even standing alone, foreign government requirements can be burdensome.

Foreign governments also place temporal and other restrictions on the ability of their own airlines to use aircraft operated by other airlines. For example, as a result of EU regulations finalized in 2008, EU airlines generally secure aircraft capacity from U.S. and other non-EU airlines for a maximum of two seven-month periods. This restriction could negatively impact our revenue and profitability. Additionally, the European Aviation Safety Agency (EASA) requires that the aircraft capacity secured from and operated by non-EU airlines meet internationally set standards and additional EASA requirements. These and other similar regulatory developments could have a material adverse effect on our business, results of operations and financial condition.

Initiatives to address global climate change may adversely affect our business and increase our costs.

To address climate change, governments continue to pursue various means to reduce aviation-related greenhouse gas emissions. Measures that are ultimately adopted could result in substantial costs for us.

In October 2013, the ICAO reached a non-binding agreement to address climate change by developing global-market-based measures to assist in achieving carbon neutral growth beginning in 2020. The ICAO is directing the effort in the hope of securing a definitive agreement in 2016. Additionally, the EU continues to pursue a parallel track through its ETS, which, in recognition of the ongoing ICAO effort, has been suspended with respect to flights to/from the EU and currently applies only to intra-EU flying. Following the end of every year, to the extent the ETS applies, each airline must tender the number of Allowances corresponding to carbon emissions generated by its flight activity during the year. If the airline's flight activity during the year has produced carbon emissions exceeding the number of carbon emissions allowances that it has been awarded, the airline must acquire Allowances from other airlines in the open market. There can be no assurance that the EU will maintain the current suspension of the ETS to all flights except intra-EU flying or that the ICAO will not ultimately adopt a similarly costly measure.

In the United States, various constituencies have continued to advocate for controls on greenhouse gas emissions. Previously, both houses of the U.S. Congress passed legislation to impose a carbon-related tax on fuel sold to airlines and other entities. However, a bill has not been signed into law. Also, at the urging of states and environmental organizations, the EPA has taken steps that could lead to EPA regulation of greenhouse gas emissions from aircraft.

Regardless of the outcome of these activities, it is possible that some type of climate change measures ultimately will be imposed in a manner adversely affecting airlines. The costs of complying with potential new environmental laws or regulations could have a material adverse effect on our business, results of operations and financial condition.

The airline industry is subject to numerous security regulations and rules that increase costs. Imposition of more stringent regulations and rules than those that currently exist could materially increase our costs.

The TSA has increased security requirements in response to increased levels of terrorist activity, and has adopted comprehensive new regulations governing air cargo transportation, including all-cargo services, in such

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areas as cargo screening and security clearances for individuals with access to cargo. Additional measures, including a requirement to screen cargo, have been proposed, which, if adopted, may have an adverse impact on our ability to efficiently process cargo and would increase our costs and those of our customers. The cost of compliance with increasingly stringent regulations could have a material adverse effect on our business, results of operations and financial condition.

Our future operations might be constrained by new FAA flight and duty time rules.

In 2009, following expressions of concern about pilot fatigue on certain long-range flights, the FAA convened an Aviation Rulemaking Committee comprised of various aviation stakeholders to recommend changes to the flight and duty time rules applicable to pilots. This was followed in 2010 by FAA issuance of a notice of proposed rulemaking containing new proposed flight and duty time rules. In December 2011, following the completion of a lengthy rulemaking process intended to reduce pilot fatigue, the FAA adopted a final rule containing new flight and duty time limitations and rest requirements. The rule went into effect in January 2014, resulting in more stringent scheduling requirements for pilots operating our passenger flights.

Finding that the costs of applying the new rule to all-cargo flights would greatly exceed the benefits, the FAA decided not to apply the rule to all-cargo operations. The Independent Pilots Association, representing UPS pilots, filed a judicial appeal of the FAA decision to exclude all-cargo operations from the rule. The proceeding was suspended pending FAA completion of a new cost-benefit analysis. On December 8, 2014, after completing that analysis, the FAA issued a final supplemental regulatory evaluation showing an even greater disparity between costs and benefits. The court case has been reactivated. Should the appeal be successful or the FAA decide either on its own initiative or pursuant to Congressional directive to change the final rule to include all-cargo operations, it would result in a material increase in crew costs for the Company, as well as air carriers that predominately fly nighttime and long-haul flights. It could also have a material impact on our business, results of operations and financial condition by limiting crew scheduling flexibility and increasing operating costs, especially with respect to long-range flights.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

U.S. citizenship requirements may limit common stock voting rights.

Under U.S. federal law and DOT requirements, we must be owned and actually controlled by citizens of the United States, a statutorily defined term requiring, among other things, that not more than 25% of our issued and outstanding voting stock be owned and controlled, directly or indirectly, by non-U.S. citizens. The DOT periodically conducts airline citizenship reviews and, if it finds that this requirement is not met, may require adjustment of the voting rights of the airline's issued shares.

As one means to effect compliance, our certificate of incorporation and by-laws provide that the failure of non-U.S. citizens to register their shares on a separate stock record, which we refer to as the Foreign Stock Record, results in a suspension of their voting rights. Our by-laws further limit the number of shares of our capital stock that may be registered on the Foreign Stock Record to 25% of our issued and outstanding shares. Registration on the Foreign Stock Record is made in chronological order based on the date we receive a written request for registration. As a result, if a non-U.S. citizen acquires shares of our common stock and does not or is not able to register those shares on our Foreign Stock Record, they may lose their ability to vote those shares.

Provisions in our restated certificate of incorporation and by-laws and Delaware law might discourage, delay or prevent a change in control of the Company and, therefore, depress the trading price of our common stock.

Provisions of our restated certificate of incorporation, by-laws and Delaware law may render more difficult or discourage any attempt to acquire our company, even if such acquisition may be believed to be favorable to the interests of our stockholders. These provisions may also discourage bids for our common stock at a premium over market price or adversely affect the market price of our common stock.

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Our common stock share price has been subject to fluctuations in value.

The trading price of our common shares is subject to material fluctuations in response to a variety of factors, including quarterly variations in our operating results, conditions of the airfreight market and global economic conditions or other events and factors that are beyond our control.

In the past, following periods of significant volatility in the overall market and in the market price of a company's securities, securities class action litigation has been instituted against these companies in some circumstances. If this type of litigation were instituted against us following a period of volatility in the market price for our common stock, it could result in substantial costs and a diversion of our management's attention and resources, which could have a material adverse effect on our business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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The following tables provide information about AAWW's aircraft and customer-provided aircraft, not including retired or permanently parked aircraft, as of December 31, 2014:

AAWW Aircraft

Aircraft Type	Tail #	Configuration	Ownership	Financing Type
<i>ACMI and Charter Segments</i>				
747-8F	N850GT	Freighter	Owned	Notes
747-8F	N851GT	Freighter	Owned	Notes
747-8F	N852GT	Freighter	Owned	Notes
747-8F	N853GT	Freighter	Owned	Notes
747-8F	N854GT	Freighter	Owned	Notes
747-8F	N855GT	Freighter	Owned	Notes
747-8F	N856GT	Freighter	Owned	Term Loan
747-8F	N857GT	Freighter	Owned	Term Loan
747-8F	N858GT	Freighter	Owned	Term Loan
747-400	N409MC	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N475GT	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N493MC	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N477GT	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N476GT	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N496MC	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N499MC	Freighter	Owned	Enhanced Equipment Trust Certificates
747-400	N408MC	Freighter	Leased	Enhanced Equipment Trust Certificates
747-400	N412MC	Freighter	Leased	Enhanced Equipment Trust Certificates
747-400	N492MC	Freighter	Leased	Enhanced Equipment Trust Certificates
747-400	N497MC	Freighter	Leased	Enhanced Equipment Trust Certificates
747-400	N498MC	Freighter	Leased	Enhanced Equipment Trust Certificates
747-400	N415MC	Freighter	Leased	Operating Lease
747-400	N416MC	Freighter	Leased	Operating Lease
747-400	N418MC	Freighter	Leased	Operating Lease
747-400	N450PA	Freighter	Leased	Operating Lease
747-400	N451PA	Freighter	Leased	Operating Lease
747-400	N452PA	Freighter	Leased	Operating Lease
747-400	N453PA	Freighter	Leased	Operating Lease
747-400	N454PA	Freighter	Leased	Operating Lease
747-400	N419MC	Freighter	Owned	None
747-400	N429MC	Converted Freighter	Owned	None
747-400	N464MC	Passenger	Owned	Term Loan
747-400	N465MC	Passenger	Owned	Term Loan
767-300ER	N640GT	Passenger	Owned	Term Loan
767-300ER	N641GT	Passenger	Owned	Term Loan
767-300ER	N642GT	Passenger	Owned	Term Loan
<i>Dry Leasing Segment</i>				
777-200LRF	38969	Freighter	Owned	Term Loan
777-200LRF	37138	Freighter	Owned	Term Loan
777-200LRF	39286	Freighter	Owned	Term Loan
777-200LRF	36200	Freighter	Owned	Term Loan
777-200LRF	36201	Freighter	Owned	Term Loan
777-200LRF	35606	Freighter	Owned	Notes
757-200	B-2808	Freighter	Owned	None

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737-800	29681	Passenger	Owned	Term Loan
737-800	35071	Passenger	Owned	None
737-300	26284	Freighter	Owned	None

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The following table summarizes AAWW's aircraft as of December 31, 2014:

Aircraft Type	Configuration	Owned	Operating Leased	Total	Average Age Years
ACMI and Charter Segments					
747-8F	Freighter	9		9	2.4
747-400	Freighter	8	13	21	14.9
747-400	Converted Freighter	1		1	24.2
747-400	Passenger	2		2	23.7
767-300ER	Passenger	3		3	22.6
Total		23	13	36	13.2
Dry Leasing Segment					
777-200LR	Freighter	6		6	4.0
757-200	Freighter	1		1	25.4
737-800	Passenger	2		2	7.5
737-300	Freighter	1		1	22.1
Total		10		10	8.7
Total Fleet		33	13	46	12.2

Lease expirations for our operating leased aircraft included in the above tables range from February 2020 to February 2025.

Customer-provided Aircraft for our CMI Service

The following table summarizes customer-provided aircraft as of December 31, 2014:

Aircraft Type	Tail #	Configuration	Ownership
747-400	263	Passenger	Sonangol*
747-400	322	Passenger	Sonangol*
747-400	718	Dreamlifter	Boeing**
747-400	747	Dreamlifter	Boeing**
747-400	249	Dreamlifter	Boeing**
747-400	780	Dreamlifter	Boeing**
767-200	650	Freighter	DHL
767-200	651	Freighter	DHL
767-200	652	Freighter	DHL
767-200	653	Freighter	DHL
767-200	655	Freighter	DHL
767-200	767	Passenger	MLW***
767-300	643	Freighter	DHL
767-300	644	Freighter	DHL

* Aircraft owned by the Sonangol Group, the multinational energy company of Angola.

** Aircraft owned by The Boeing Company (Boeing)

*** Aircraft owned by MLW Air, LLC (MLW Air).

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Ground Facilities

Our principal office is located in Purchase, New York, where we lease approximately 120,000 square feet under a long-term lease, for which the current term expires in 2017 with certain renewal options. This office includes both operational and administrative support functions, including flight and crew operations, maintenance and engineering, material management, human resources, legal, sales and marketing, finance and information technology. In addition, we lease a variety of smaller offices and ramp space at various station and regional locations generally on a short-term basis.

ITEM 3. *LEGAL PROCEEDINGS*

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 4. *MINE SAFETY DISCLOSURES*

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Since 2006, our common stock has been traded on The NASDAQ Global Select Market under the symbol **AAWW**.

Market Price of Common Stock

The following table sets forth the closing high and low sales prices per share of our common stock for the periods indicated.

	High	Low
2014 Quarter Ended		
December 31	\$ 49.30	\$ 31.40
September 30	\$ 37.64	\$ 32.00
June 30	\$ 39.58	\$ 34.23
March 31	\$ 43.85	\$ 30.13
2013 Quarter Ended		
December 31	\$ 49.64	\$ 36.40
September 30	\$ 48.50	\$ 42.43
June 30	\$ 47.10	\$ 37.40
March 31	\$ 47.89	\$ 40.76

The last reported sale price of our common stock on The NASDAQ National Market on December 31, 2014 was \$49.30 per share. As of February 3, 2015, there were approximately 24.8 million shares of our common stock issued and outstanding, and 55 holders of record of our common stock.

See Note 15 to our Financial Statements for a discussion of our stock repurchase program.

Equity Compensation Plans

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information regarding our equity compensation plans as of December 31, 2014.

Dividends

We have never paid a cash dividend with respect to our common stock and we do not anticipate paying a dividend in the foreseeable future. Moreover, certain of our financing arrangements contain financial covenants that could limit our ability to pay cash dividends.

Foreign Ownership Restrictions

Under our by-laws, U.S. federal law and DOT regulations, we must be controlled by U.S. citizens. In this regard, our President and at least two-thirds of our board of directors and officers must be U.S. citizens and not more than 25% of our outstanding voting common stock may be held by non-U.S. citizens. We believe that, during the period covered by this Report, we were in compliance with these requirements.

Table of Contents**Performance Graph**

The following graph compares the performance of AAWW common stock to the Russell 2000 Index, the Dow Jones Transportation Average and the NYSE Airline Index for the period beginning December 31, 2009 and ending on December 31, 2014. As the Dow Jones Transportation Average is the most widely recognized gauge of the transportation industry, we added it as a replacement for the NYSE Airline Index. The comparison assumes \$100 invested in each of our common stock, the Russell 2000 Index, the Dow Jones Transportation Average and the NYSE Airline Index and reinvestment of all dividends. The Standard & Poor's 500 Stock Index has been eliminated from the presentation as AAWW is a member of the Russell 2000 Index, and we believe that such index better reflects our performance.

Total Return Between 12/31/09 and 12/31/14

Cumulative Return	12/31/09	12/31/10	12/30/11	12/31/12	12/31/13	12/31/14
AAWW	\$100.00	\$149.88	\$103.17	\$118.98	\$110.47	\$132.35
Russell 2000 Index	\$100.00	\$125.31	\$118.47	\$135.81	\$186.07	\$192.63
NYSE Airline Index	\$100.00	\$139.11	\$95.98	\$130.92	\$206.36	\$308.22
Dow Jones Transportation Average	\$100.00	\$124.57	\$122.44	\$129.45	\$180.52	\$222.94

ITEM 6. SELECTED FINANCIAL DATA

The selected balance sheet data as of December 31, 2014 and 2013 and the selected statements of operations data for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited Financial Statements included elsewhere in this Report. The selected balance sheet data as of December 31, 2012, 2011 and 2010, and selected statements of operations data for the years ended December 31, 2011 and 2010 have been derived from our audited Financial Statements not included in this Report.

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In the following table, all amounts are in thousands, except for per share data.

	2014	2013	2012	2011	2010
Statement of Operations Data:					
Total operating revenues	\$ 1,799,198	\$ 1,656,900	\$ 1,646,032	\$ 1,398,216	\$ 1,337,774
Total operating expenses	1,623,226	1,470,110	1,419,541	1,247,116	1,109,888
Operating income	175,972	186,790	226,491	151,100	227,886
Net income	102,227	93,989	129,714	96,309	142,956
Less: Net income / (loss) Attributable to noncontrolling interests	(4,530)	152	(213)	226	1,146
Net income Attributable to Common Stockholders	\$ 106,757	\$ 93,837	\$ 129,927	\$ 96,083	\$ 141,810
Earnings per share (Basic)	\$ 4.26	\$ 3.67	\$ 4.92	\$ 3.66	\$ 5.50
Earnings per share (Diluted)	\$ 4.25	\$ 3.66	\$ 4.89	\$ 3.64	\$ 5.44
Balance Sheet Data:					
Total assets	\$ 4,101,620	\$ 3,718,259	\$ 3,152,685	\$ 2,390,998	\$ 1,936,102
Long-term debt (less current portion) *	\$ 1,782,744	\$ 1,539,139	\$ 1,149,282	\$ 680,009	\$ 391,036
Total equity	\$ 1,417,795	\$ 1,322,125	\$ 1,288,104	\$ 1,141,375	\$ 1,050,090

* See Note 7 to our Financial Statements for further discussion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements included in Item 8 of this report.

Business Overview

We are a leading global provider of outsourced aircraft and aviation operating services, operating the world's largest fleet of 747 freighters, as well as operating 747 and 767 passenger aircraft and 767 freighters. We also own and Dry Lease a fleet of aircraft, including six 777 freighters. We provide unique value to our customers by giving them access to highly reliable new production freighters that deliver the lowest unit cost in the marketplace combined with outsourced aircraft operating services that we believe lead the industry in terms of quality and global scale. Our customers include airlines, express delivery providers, freight forwarders, the U.S. military and charter brokers. We provide global services with operations in Africa, Asia, Australia, Europe, the Middle East, North America and South America.

We believe that the following competitive strengths will allow us to capitalize on opportunities that exist in the global airfreight industry:

Market leader with leading-edge technology and innovative, value-creating solutions:

The 747-8F is the most efficient long-haul wide-body commercial freighter currently available and we are currently the only operator offering these aircraft to the ACMI market. Our current fleet includes nine 747-8F aircraft, twenty-two 747-400 freighter aircraft and two 747-400 and three 767-300ER passenger aircraft. Our CMI customers provide us with two 747-400 passenger aircraft, five 767-200 cargo aircraft, two 767-300 cargo

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aircraft, four Dreamlifters and one VIP-configured 767-200 passenger aircraft, which are included in our operating fleet statistics. Our operating model deploys our aircraft to drive maximum utilization and value from our fleet. The scale of our fleet enables us to have aircraft available globally to respond to our customers' needs, both on a planned and ad hoc basis. We believe that this provides us with a commercial advantage over our competitors that operate with smaller and less flexible fleets.

Our nine new 747-8F aircraft, which have improved operating performance relative to the 747-400, help us maintain our industry leading position. Both the 747-8F and 747-400, the core of our ACMI segment, are industry leaders for operating performance in the intercontinental air freighter market due to cost and capacity advantages over other freighters.

We significantly expanded our Dry Leasing business with the acquisition of three 777-200LRF aircraft in 2013 and three in 2014. All six aircraft are Dry Leased to customers on a long-term basis. The addition of the 777 freighters further diversifies our business mix with leading-edge technology.

Stable base of contractual revenue and reduced operational risk:

Our focus on providing long-term contracted aircraft and operating solutions to customers stabilizes our revenues and reduces our operational risk. Typically, ACMI and CMI contracts with customers generally range from two to five years, although some contracts have shorter or longer durations. Dry Leasing contracts with customers generally range from five to twelve years. Under ACMI, CMI and Dry Leasing, our customers assume fuel, demand and Yield risk resulting in reduced operational risk for AAWW. ACMI, CMI and Dry Leasing contracts typically provide us with a guaranteed minimum level of revenue and target level of profitability.

Our contract with DHL includes the allocation of blocked space capacity on a long-term basis for up to 20 years. This arrangement eliminates fuel, demand and Yield risks, similar to the rest of our ACMI business, for a minimum of six 747-400 aircraft, with an additional five 747-8F aircraft and one 747-400 aircraft under separate agreements.

Focus on asset optimization:

By managing the largest fleet of 747 freighter aircraft, we achieve significant economies of scale in areas such as aircraft maintenance, crew efficiency, crew training, inventory management and purchasing.

Our mix of aircraft is closely aligned with our customer needs. We believe that our 747-8F and 747-400 fleet are well-suited to meet the current and anticipated requirements of our customers.

We continually evaluate our fleet to ensure that we offer the most efficient and effective mix of aircraft. Our service model is unique in that we offer a portfolio of operating solutions that complement our freighter aircraft businesses. We believe this allows us to improve the returns we generate from our asset base by allowing us to flexibly redeploy aircraft to meet changing market conditions, ensuring the maximum utilization of our fleet. Our Charter services complement our ACMI services by allowing us to increase aircraft utilization during open time and to react to changes in demand and Yield in these segments. We have employees situated around the globe who closely monitor demand for commercial charter services in each region, enabling us to redeploy available aircraft quickly. We also endeavor to manage our portfolio to stagger contract terms to mitigate our remarketing risks and aircraft down time.

Long-term strategic customer relationships and unique service offerings:

We combine the global scope and scale of our efficient aircraft fleet with high quality, cost-effective operations and premium customer service to provide unique, fully integrated and reliable solutions for our customers. We believe this approach results in customers that are motivated to seek long-term relationships with us. This has historically allowed us to command higher prices than our competitors in several key areas. These long-term relationships help us to build resilience into our business model.

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Our customers have access to our solutions, such as inter-operable crews, flight scheduling, fuel efficiency planning, and maintenance spare coverage, which, we believe, set us apart from other participants in the aircraft operating solutions market. Furthermore, we have access to valuable operating rights to restricted markets such as Brazil, Japan and China. We believe our freighter services allow our customers to effectively expand their capacity and operate dedicated freighter aircraft without simultaneously taking on exposure to fluctuations in the value of owned aircraft and, in the case of our ACMI and CMI contracts, long-term expenses relating to crews and maintenance. Dedicated freighter aircraft enable schedules to be driven by cargo rather than passenger demand (for those customers that typically handle portions of their cargo operations via belly capacity on passenger aircraft), which we believe allows our customers to drive higher contribution from cargo operations.

We are focused on providing safe, secure and reliable services. Both Atlas and Polar successfully completed the International Air Transport Association's Operational Safety Audit (IOSA), a globally recognized safety and quality standard.

We provide outsourced aviation services and solutions to some of the world's premier airlines and largest freight forwarders. We will take advantage of opportunities to maintain and expand our relationships with our existing customers, while seeking new customers and new geographic markets.

Experienced management team:

Our management team has extensive operating and leadership experience in the airfreight, airline, aircraft leasing and logistics industries at companies such as United Airlines, US Airways, Lufthansa Cargo, GE Capital Aviation Services, Air Canada, Ansett Worldwide Aviation Services, Canadian Airlines, Continental Airlines, SH&E Air Transport Consultancy, ASTAR Air Cargo and KLM Cargo, as well as the United States Navy, Air Force and Federal Air Marshal Service. Our management team is led by William J. Flynn, who has over 30 years of experience in freight and transportation and has held senior management positions with several transportation companies. Prior to joining AAWW, Mr. Flynn was President and CEO of GeoLogistics, a global transportation and logistics enterprise.

Business Strategy

Our strategy includes the following:

Aggressively manage our fleet with a focus on leading-edge aircraft:

We continue to actively manage our fleet of leading-edge wide-body freighter aircraft to meet customer demands. The 747-8F aircraft are primarily utilized in our ACMI business while our 747-400s are utilized in our ACMI and Charter business. We aggressively manage our fleet and will evaluate potential opportunities for adding incremental aircraft to ensure that we provide our customers with the most efficient aircraft to meet their needs.

We have expanded our Dry Leasing business with the addition of six modern, efficient 777-200LRF aircraft and will continue to explore opportunities to invest in additional aircraft.

Focus on securing long-term contracts:

We will continue to focus on securing long-term contracts with customers, which provide us with stable revenue streams and predictable margins. In addition, these agreements limit our direct exposure to fuel and other costs and mitigate the risk of fluctuations in both Yield and demand in the airfreight business, while also improving the overall utilization of our fleet.

Drive significant and ongoing efficiencies and productivity improvements:

We continue to enhance our organization through an initiative called Continuous Improvement. We created a separate department to drive the process and to involve all areas of the organization in the effort to reexamine, redesign and improve the way we do business.

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Selectively pursue and evaluate future acquisitions and alliances:

From time to time, we explore business combinations and alliances with other cargo airlines, services providers, dry leasing and other companies to enhance our competitive position, geographic reach and service portfolio.

Business Developments

Our ACMI results for 2014, compared with 2013, were impacted by the following events:

In January and February 2013, we began CMI flying two new 767-300ERF aircraft owned by DHL.

In May 2013, we took delivery of a 747-8F aircraft that we placed into ACMI service with Etihad Airways (Etihad), which was the first 747-8F aircraft in its global network.

In July 2013, we began CMI flying a VIP-configured 767-200 passenger aircraft owned by MLW Air. MLW Air's 767-200 is the only all-first class 767 commercial charter aircraft with worldwide operations registered with the FAA.

In September 2013, we began ACMI flying a 747-400F for Astral Aviation Limited (Astral Aviation), which was the first 747-400F aircraft in its global network.

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

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

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

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

In August 2014, we agreed with DHL to operate four additional 767-200 freighters owned by DHL in its North American network. We expect to begin CMI flying all four aircraft during the first quarter of 2015.

In February 2015, we agreed with DHL to operate one additional 747-8F aircraft, which will initially replace a 747-400F aircraft. We expect to begin flying the 747-8F aircraft for DHL during the first quarter of 2015 following the aircraft's transition from Panalpina Air & Ocean Ltd.

Charter Block Hours increased during 2014, reflecting stronger demand and our redeployment of 747-8F and 747-400F aircraft from ACMI during remarketing periods, partially offset by the continuing reduction in demand from the AMC.

As a result of the continuing volatility in the air freight markets, we continually assess our 747-400F aircraft requirements and will make adjustments to our capacity as necessary. Some of these actions may involve grounding or disposing of aircraft, which could result in asset impairments or other charges in future periods.

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In 2013, we purchased three recently-manufactured Boeing 777-200LRF aircraft that are being Dry Leased by Titan to customers on a long-term basis. In the first quarter of 2014, we purchased three additional recently-manufactured Boeing 777-200LRF aircraft that are being Dry Leased by Titan to a customer on a long-term basis.

Table of Contents**Results of Operations***Years Ended December 31, 2014 and 2013***Operating Statistics**

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

The table below sets forth selected Operating Statistics in:

	2014	2013	Increase / (Decrease)	Percent Change
Block Hours				
ACMI	115,042	115,358	(316)	(0.3)%
Charter:				
Cargo	31,612	30,816	796	2.6%
Passenger	13,085	11,713	1,372	11.7%
Other	1,351	1,050	301	28.7%
Total Block Hours	161,090	158,937	2,153	1.4%
Revenue Per Block Hour				
ACMI	\$ 6,764	\$ 6,545	\$ 219	3.3%
Charter:				
Cargo	\$ 20,217	\$ 19,829	\$ 388	2.0%
Passenger	\$ 20,449	\$ 20,609	\$ (160)	(0.8)%
Charter Fuel				
Average fuel cost per gallon	\$ 3.07	\$ 3.28	\$ (0.21)	(6.4)%
Fuel gallons consumed (000s)	131,787	124,949	6,838	5.5%
Segment Operating Fleet (average aircraft equivalents during the period)				
ACMI*				
747-8F Cargo	8.5	7.8	0.7	
747-400 Cargo	12.0	12.6	(0.6)	
747-400 Dreamlifter	3.1	1.8	1.3	
767-300 Cargo	2.0	1.8	0.2	
767-200 Cargo	5.0	5.0		
747-400 Passenger	1.2	1.3	(0.1)	
767-300 Passenger		0.2	(0.2)	
767-200 Passenger	1.0	0.5	0.5	
Total	32.8	31.0	1.8	
Charter				
747-8F Cargo	0.5	0.6	(0.1)	
747-400 Cargo	9.0	10.3	(1.3)	
747-400 Passenger	1.7	1.7		
767-300 Passenger	2.9	2.8	0.1	
Total	14.1	15.4	(1.3)	

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	2014	2013	Increase / (Decrease)
Dry Leasing			
777-200 Cargo	6.0	1.7	4.3
757-200 Cargo	1.0	1.0	
737-300 Cargo	1.0	1.0	
737-800 Passenger	2.0	2.0	
Total	10.0	5.7	4.3
Total Operating Aircraft	56.9	52.1	4.8
Out-of-service**	1.0	0.9	0.1

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

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

Operating Revenue

The following table compares our Operating Revenue (in thousands):

	2014	2013	Increase / (Decrease)	Percent Change
Operating Revenue				
ACMI	\$ 778,091	\$ 755,008	\$ 23,083	3.1%
Charter	906,676	852,452	54,224	6.4%
Dry Leasing	100,059	35,168	64,891	NM
Other	14,372	14,272	100	0.7%
Total Operating Revenue	\$ 1,799,198	\$ 1,656,900	\$ 142,298	8.6%

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

ACMI revenue increased \$23.1 million, or 3.1%, primarily due to increased 747-8F and CMI flying, partially offset by lower 747-400 flying by certain ACMI customers. ACMI Revenue per Block Hour was \$6,764 for 2014, compared with \$6,545 in 2013, an increase of \$219 per Block Hour, or 3.3%. ACMI Block Hours of 115,042 were relatively unchanged. Blocks Hours were impacted by lower 747-400 flying by certain ACMI customers and the return of three 747-8F aircraft from British Airways in April and early May of 2014. Partially offsetting these reductions were improvements from the placement of three additional 747-8F aircraft with DHL in May and November 2014, the start-up of ACMI 747-8F flying for BST Logistics in February 2014 and Etihad in May 2013, and the start-up of ACMI 747-400 flying for Astral Aviation in September 2013. Block Hours were also positively impacted by an increase in CMI flying for Boeing, the start-up of CMI 767-200 passenger aircraft flying for MLW Air during the third quarter of 2013 and an increase in ACMI 747-400 flying for short-term holiday season customers.

Charter revenue increased \$54.2 million, or 6.4%, primarily driven by an increase in both passenger and cargo flying, and an increase in Revenue per Block Hour. Charter Block Hours were 44,697 in 2014 compared with 42,529 in 2013, an increase of 2,168 Block Hours, or 5.1%. The increase in Charter Block Hours was primarily driven by incremental passenger flying for the AMC as former competitors exited the Charter market and increased commercial cargo demand. Charter Revenue per Block Hour was \$20,285 for 2014, compared with \$20,044 in 2013, an increase of \$241 per Block Hour, or 1.2%. This increase reflects the impact of Charter revenue on subcontracted Charter flights with no associated Block Hours, partially offset by reduced market rates primarily driven by lower fuel prices.

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Dry Leasing revenue increased \$64.9 million, primarily due to the acquisition of three 777-200LRF aircraft in the first quarter of 2014, two 777-200LRF aircraft in the third quarter of 2013 and one 777-200LRF aircraft in the first quarter of 2013 that are being Dry Leased to customers on a long-term basis.

Operating Expenses

The following table compares our Operating Expenses (in thousands):

	2014	2013	Increase / (Decrease)	Percent Change
Operating Expenses				
Aircraft fuel	\$ 404,263	\$ 410,353	\$ (6,090)	(1.5)%
Salaries, wages and benefits	311,143	299,136	12,007	4.0%
Maintenance, materials and repairs	203,567	162,972	40,595	24.9%
Aircraft rent	140,390	160,415	(20,025)	(12.5)%
Navigation fees, landing fees and other rent	131,138	90,733	40,405	44.5%
Depreciation and amortization	120,793	86,389	34,404	39.8%
Passenger and ground handling services	86,820	72,503	14,317	19.7%
Travel	79,199	61,420	17,779	28.9%
Loss (gain) on disposal of aircraft	14,679	351	14,328	NM
Special charge	15,114	18,642	(3,528)	(18.9)%
Other	116,120	107,196	8,924	8.3%
Total Operating Expenses	\$ 1,623,226	\$ 1,470,110		

Aircraft fuel decreased \$6.1 million, or 1.5%, primarily due to fuel price decreases, partially offset by increased fuel consumption. The average fuel price per gallon for the Charter business was \$3.07 for 2014, compared with \$3.28 in 2013, a decrease of 6.4%. Fuel consumption increased by 6.8 million gallons, or 5.5%, reflecting the increase in Charter Block Hours operated. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

Salaries, wages and benefits increased \$12.0 million, or 4.0%, primarily driven by higher Block Hours and an increase in ground staff costs due to key initiatives.

Maintenance, materials and repairs increased \$40.6 million, or 24.9%, primarily driven by an increase of \$38.4 million for 747-400 and 747-8F aircraft. Heavy maintenance on 747-400 aircraft increased \$18.7 million due to an increase in the number of D Checks and an increase in the number of engine overhauls, partially offset by a decrease in the number of C Checks. Heavy Maintenance expense on 747-8F aircraft increased \$10.7 million due to an increase in unscheduled engine repairs and the number of C Checks in 2014. Line Maintenance expense on 747-400 aircraft and 747-8F aircraft increased \$7.3 million primarily due to increased flying in 2014 and more repairs to rotatable parts. Heavy airframe maintenance events and engine overhauls for 2014 and 2013 were:

Heavy Maintenance Events	2014	2013	Increase / (Decrease)
747-8F C Checks	5	3	2
747-400 C Checks	11	12	(1)
747-400 D Checks	6	1	5
767 C Checks	3	3	
CF6-80 engine overhauls	14	12	2

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Aircraft rent decreased \$20.0 million, or 12.5%, primarily due to the early termination of operating leases for two 747-400BCFs that we parked in December 2013 to reduce capacity.

Navigation fees, landing fees and other rent increased \$40.4 million, or 44.5%, primarily due to an increase in purchased capacity from subcontracting certain Charter flights. We reclassified purchased capacity from Aircraft rent to Navigation fees, landing fees and other rent and we reclassified previously reported amounts to conform to the current period's presentation.

Depreciation and amortization increased \$34.4 million, or 39.8%, due to additional aircraft operating in 2014.

Passenger and ground handling services increased \$14.3 million, or 19.7%, primarily due to an increase in cargo and passenger flying.

Travel increased \$17.8 million, or 28.9%, primarily due to higher rates related to crewmember travel to higher cost locations, as well as increased flying.

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

Special charge in 2014 represents a \$6.2 million loss on an aircraft held for sale, a \$4.7 million reserve related to a GSS receivable for a loan made to its 51% U.K. shareholder and a \$3.8 million expense recorded for termination benefits for certain GSS employees (see Note 4 to our Financial Statements).

Other increased \$8.9 million, or 8.3%, primarily due to increased third-party service provider costs required to support the increased flying and heavy maintenance, and accruals for legal matters.

Non-operating Expenses (Income)

The following table compares our Non-operating Expenses (Income) (in thousands):

	2014	2013	Increase / (Decrease)	Percent Change
Non-operating Expenses (Income)				
Interest income	\$ (18,480)	\$ (19,813)	\$ (1,333)	(6.7)%
Interest expense	104,252	83,659	20,593	24.6%
Capitalized interest	(453)	(2,350)	(1,897)	(80.7)%
Loss on early extinguishment of debt		5,518	(5,518)	NM
Other expense (income), net	1,104	1,954	(850)	(43.5)%

Interest expense increased \$20.6 million, or 24.6%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases in 2013 and 2014.

Capitalized interest decreased \$1.9 million, or 80.7%, resulting from 747-8F aircraft that entered service in 2013.

Loss on early extinguishment of debt was primarily related to the refinancing of term loans in 2013.

Income taxes. Our effective income tax rates were a benefit of 14.2% for 2014 and an expense of 20.2% for 2013. The effective income tax rate for 2014 is lower than in prior years primarily due to an income tax benefit of \$34.8 million, net of reserves, related to extraterritorial income (ETI) for 2014 compared to a benefit of

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\$14.2 million, net of reserves, from ETI for 2013. The effective income tax rate for 2014 also reflects an income tax benefit resulting from our mix of income in foreign tax jurisdictions, the favorable change in our deferred foreign tax rates, and the restructuring of GSS. The ETI tax benefit recorded in 2014 relates to income earned in prior years and was recognized in 2014 as a result of developments in the business and management decisions made during the year. The effective income tax rate for 2013 also reflects our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S.

Segments

We use an economic performance metric (Direct Contribution) representing Income (loss) before taxes excluding Special charges, pre-operating expenses, nonrecurring items, gains and losses on the disposal of aircraft, Loss on early extinguishment of debt, unallocated revenue and unallocated costs. Direct Contribution shows the profitability of each segment after allocation of direct operating and ownership costs. During the fourth quarter of 2014, we changed our operating and reportable segments, reflecting changes in our military business. We currently operate our service offerings through the following reportable segments: ACMI, Charter and Dry Leasing. Previously, our reportable segments were ACMI, AMC Charter, Commercial Charter and Dry Leasing. The following table compares the Direct Contribution for our reportable segments (see Note 11 to our Financial Statements for the reconciliation to Operating income) (in thousands):

	2014	2013	Increase / (Decrease)	Percent Change
Direct Contribution:				
ACMI	\$ 197,750	\$ 227,829	\$ (30,079)	(13.2)%
Charter	54,099	52,546	1,553	3.0%
Dry Leasing	33,224	14,017	19,207	NM
Total Direct Contribution	\$ 285,073	\$ 294,392	\$ (9,319)	(3.2)%
Unallocated income and expenses, net	\$ 165,731	\$ 152,059	\$ 13,672	9.0%

ACMI Segment

ACMI Direct Contribution decreased \$30.1 million, or 13.2%, primarily due to an increase in Heavy maintenance expense on 747-400 and 747-8F aircraft, and lower 747-400 flying by certain ACMI customers, partially offset by increased 747-8F and CMI flying.

Charter Segment

Charter Direct Contribution increased \$1.6 million, or 3.0%, primarily due to an increase in the volume of passenger and cargo flying, as well as higher cargo aircraft utilization driven by increased demand and our decision to reduce capacity at the end of 2013. This was partially offset by increased Heavy maintenance expense and increases in crewmember travel and ground handling expenses from flying to higher cost locations.

Dry Leasing Segment

Dry Leasing Direct Contribution increased \$19.2 million, primarily due to the addition of three 777-200LRF aircraft in the first quarter of 2014, two 777-200LRF aircraft in the third quarter of 2013, and one 777-200LRF aircraft in the first quarter of 2013 that are being leased to customers on a long-term basis.

Unallocated income and expenses, net

Unallocated income and expenses, net increased \$13.7 million, or 9.0%, primarily driven by an increase in ground staff and third-party service provider costs required to support key initiatives, reduced capitalized interest and increased accruals for legal matters.

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Years Ended December 31, 2013 and 2012

Operating Statistics

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

The table below sets forth selected Operating Statistics in:

	2013	2012	Increase / (Decrease)	Percent Change
Block Hours				
ACMI	115,358	107,130	8,228	7.7%
Charter:				
Cargo	30,816	31,546	(730)	(2.3)%
Passenger	11,713	12,866	(1,153)	(9.0)%
Other	1,050	1,165	(115)	(9.9)%
Total Block Hours	158,937	152,707	6,230	4.1%
Revenue Per Block Hour				
ACMI	\$ 6,545	\$ 6,368	\$ 177	2.8%
Charter:				
Cargo	\$ 19,829	\$ 21,506	\$ (1,677)	(7.8)%
Passenger	\$ 20,609	\$ 20,202	\$ 407	2.0%
Fuel				
Charter				
Average fuel cost per gallon	\$ 3.28	\$ 3.33	\$ (0.05)	(1.5)%
Fuel gallons consumed (000s)	124,949	131,012	(6,063)	(4.6)%
Segment Operating Fleet (average aircraft equivalents during the period)				
ACMI*				
747-8F Cargo	7.8	4.3	3.5	
747-400 Cargo	12.6	15.1	(2.5)	
747-400 Dreamlifter	1.8	1.3	0.5	
767-300 Cargo	1.8		1.8	
767-200 Cargo	5.0	2.5	2.5	
747-400 Passenger	1.3	1.1	0.2	
767-300 Passenger	0.2	0.1	0.1	
767-200 Passenger	0.5		0.5	
Total	31.0	24.4	6.6	
Charter				
747-8F Cargo	0.6		0.6	
747-200 Cargo		0.4	(0.4)	
747-400 Cargo	10.3	8.7	1.6	
747-400 Passenger	1.7	1.9	(0.2)	
767-300 Passenger	2.8	2.5	0.3	
Total	15.4	13.5	1.9	
Dry Leasing				
777-200 Cargo	1.7		1.7	
757-200 Cargo	1.0	1.0		
737-300 Cargo	1.0	0.4	0.6	
737-800 Passenger	2.0	2.0		

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Total	5.7	3.4	2.3
Total Operating Aircraft	52.1	41.3	10.8
Out-of-service**	0.9		0.9

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

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

Table of Contents**Operating Revenue**

The following table compares our Operating Revenue (in thousands):

	2013	2012	Increase / (Decrease)	Percent Change
Operating Revenue				
ACMI	\$ 755,008	\$ 682,189	\$ 72,819	10.7%
Charter	852,452	938,340	(85,888)	(9.2)%
Dry Leasing	35,168	11,843	23,325	197.0%
Other	14,272	13,660	612	4.5%
Total Operating Revenue	\$ 1,656,900	\$ 1,646,032	\$ 10,868	0.7%

ACMI revenue increased \$72.8 million, or 10.7%, primarily due to the entry of 747-8F aircraft into service and increased CMI flying, partially offset by the redeployment of 747-400 aircraft into other segments. ACMI Block Hours were 115,358 in 2013, compared with 107,130 in 2012, an increase of 8,228 Block Hours, or 7.7%. The increase in Block Hours was primarily driven by the start-up of ACMI 747-8F flying for DHL in October 2012 and Etihad in May 2013, as well as the start-up of ACMI 747-400 flying for Chapman Freeborn Airchartering Ltd. in April 2013 and Etihad in June 2012. The increase in Block Hours was also driven by the start-up of CMI flying of two 767-300 cargo aircraft for DHL in the first quarter of 2013, five 767-200 cargo aircraft for DHL during 2012 and one 767-200 passenger aircraft for MLW Air in July 2013, as well as an increase in CMI flying for Boeing. In addition, we utilized our passenger aircraft to provide short-term ACMI flying for other airlines. Partially offsetting these increases was the deployment of certain 747-400 cargo aircraft to other segments. ACMI Revenue per Block Hour was \$6,545 for 2013, compared with \$6,368 in 2012, an increase of \$177 per Block Hour, or 2.8%. The increase in Revenue per Block Hour primarily reflects the impact of higher rates on an increased number of 747-8F aircraft, partially offset by lower rates on increased CMI flying.

Charter revenue decreased \$85.9 million, or 9.2%, primarily driven by a reduction in both cargo and passenger flying for the AMC and a decrease in Revenue per Block Hour. Charter Block Hours were 42,529 in 2013 compared with 44,412 in 2012, a decrease of 1,883 Block Hours, or 4.2%. The decrease in Charter Block Hours was primarily driven by reduced cargo and passenger demand from the AMC, partially offset by an increase in Block Hours from the deployment of 747-400 and a 747-8F cargo aircraft during ACMI marketing periods and a change in the number and direction of one-way AMC missions. Revenue per Block Hour was \$20,044 for 2013, compared with \$21,128 in 2012, a decrease of \$1,084 per Block Hour, or 5.1%. This reflects the impact of lower Yields from softer demand and excess capacity in the air cargo market, and the impact of a reduction in Charters for commercial customers on return legs of one-way AMC missions. Partially offsetting these decreases were higher rates on 747-8F aircraft and higher rates for passenger charters for sporting events, concert tours, VIP and other private charters.

Dry Leasing revenue increased \$23.3 million, or 197.0%, primarily due to the acquisition of one 777-200LRF aircraft in the first quarter of 2013 and two 777-200LRF aircraft in the third quarter of 2013 that are leased to customers on a long-term basis.

Table of Contents**Operating Expenses**

The following table compares our Operating Expenses (in thousands):

	2013	2012	Increase / (Decrease)	Percent Change
Operating Expenses				
Aircraft fuel	\$ 410,353	\$ 436,618	\$ (26,265)	(6.0)%
Salaries, wages and benefits	299,136	293,881	5,255	1.8%
Maintenance, materials and repairs	162,972	165,069	(2,097)	(1.3)%
Aircraft rent	160,415	154,968	5,447	3.5%
Navigation fees, landing fees and other rent	90,733	71,698	19,035	26.5%
Depreciation and amortization	86,389	62,475	23,914	38.3%
Passenger and ground handling services	72,503	69,886	2,617	3.7%
Travel	61,420	56,461	4,959	8.8%
Loss (gain) on disposal of aircraft	351	(2,417)	(2,768)	(114.5)%
Special charge	18,642		18,642	NM
Other	107,196	110,902	(3,706)	(3.3)%
Total Operating Expenses	\$ 1,470,110	\$ 1,419,541		

Aircraft fuel decreased \$26.3 million, or 6.0%, primarily due to reduced fuel consumption. Fuel consumption decreased by 6.1 million gallons, or 4.6%, reflecting the decrease in flying for the AMC and a higher proportion of Block Hours flown on smaller 767 passenger aircraft, partially offset by increased flying for commercial customers. The average fuel price per gallon for the Charter business was \$3.28 for 2013, compared with \$3.33 in 2012, a decrease of 1.5%. We do not incur fuel expense in our ACMI or Dry Leasing businesses as the cost of fuel is borne by the customer.

Salaries, wages and benefits increased \$5.3 million, or 1.8%, primarily driven by costs to support additional aircraft operating in 2013.

Maintenance, materials and repairs decreased by \$2.1 million, or 1.3%, primarily driven by a decrease of \$19.6 million for 747-400 aircraft, partially offset by increases of \$13.4 million for 747-8F aircraft and \$5.5 million for 767 aircraft. Heavy Maintenance expense on 747-400 aircraft decreased approximately \$6.0 million primarily due to a reduction in D Checks and engine overhauls compared with 2012. Heavy Maintenance expense on 767 aircraft increased approximately \$2.6 million primarily due to an increase in the number of C Checks in 2013. Non-heavy Maintenance expense on 747-400 aircraft decreased \$1.9 million. Line Maintenance expense increased \$11.2 million for 747-8F aircraft and \$2.8 million for 767 aircraft primarily driven by increased flying. Line Maintenance expense decreased \$11.7 million for 747-400 aircraft primarily driven by decreased flying. Heavy airframe maintenance events and engine overhauls for 2013 and 2012 were:

	2013	2012	Increase / (Decrease)
Heavy Maintenance Events			
747-8F C Checks	3		3
747-400 C Checks	12	11	1
747-400 D Checks	1	3	(2)
767 C Checks	3		3
CF6-80 engine overhauls	12	14	(2)

Aircraft rent increased \$5.4 million, or 3.5%, primarily due to return condition obligations incurred prior to parking two leased 747-400BCFs in December 2013.

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Navigation fees, landing fees and other rent increased \$19.0 million, or 26.5%, primarily due to an increase in purchased capacity from subcontracting certain Charter flights and a higher proportion of flying to commercial airports relative to military bases during 2013. We reclassified purchased capacity from Aircraft rent to Navigation fees, landing fees, and other rent and reclassified previously reported amounts to conform to the current period's presentation.

Depreciation and amortization increased \$23.9 million, or 38.3%, primarily due to additional operating aircraft in 2013.

Passenger and ground handling services increased \$2.6 million, or 3.7%, primarily due to higher rates for ground handling from Charter flying to more expensive locations, partially offset by a reduction in rates for passenger catering during 2013.

Travel increased \$5.0 million, or 8.8%, primarily due to increased travel for crew related to increased flying during 2013.

Special charge in 2013 represents a lease termination charge of \$17.8 million related to two leased 747-400BCFs that were parked in December 2013 and an impairment charge of \$0.8 million related to a customer relationship intangible asset (see Note 4 to our Financial Statements).

Other decreased \$3.7 million, or 3.3%, primarily due to a decrease in commission expense on lower Charter revenue from the AMC.

Non-operating Expenses (Income)

The following table compares our Non-operating Expenses (Income) (in thousands):

	2013	2012	Increase / (Decrease)	Percent Change
Non-operating Expenses (Income)				
Interest income	\$ (19,813)	\$ (19,636)	\$ 177	0.9%
Interest expense	83,659	64,532	19,127	29.6%
Capitalized interest	(2,350)	(18,727)	(16,377)	(87.5)%
Loss on early extinguishment of debt	5,518	576	4,942	NM
Other expense (income), net	1,954	(5,529)	7,483	NM

Interest expense increased \$19.1 million, or 29.6%, primarily due to an increase in our average debt balances related to the financing of aircraft purchases throughout 2012 and 2013.

Capitalized interest decreased \$16.4 million, or 87.5%, resulting from 747-8F aircraft that entered service.

Loss on early extinguishment of debt was primarily related to the refinancing of term loans with lower rate notes (see Note 7 to our Financial Statements).

Other expense (income), net increased \$7.5 million, primarily due to an insurance gain of \$6.3 million related to flood damage at a warehouse in 2012.

Income taxes. Our effective income tax rates were 20.2% in 2013 and 36.8% in 2012. During 2013, we recognized income tax benefits related to ETI from certain of our aircraft based on a decision in a court case and also related to our assertion to indefinitely reinvest the net earnings of certain foreign subsidiaries outside the U.S. That assertion is expected to provide an ongoing benefit to our effective income tax rate. In addition, the reduction in the effective rate reflected the net impact of resolution of income tax liabilities in both periods.

Table of Contents**Segments**

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

	2013	2012	Increase / (Decrease)	Percent Change
Direct Contribution:				
ACMI	\$ 227,829	\$ 191,497	\$ 36,332	19.0%
Charter	52,546	131,670	(79,124)	(60.1)%
Dry Leasing	14,017	4,598	9,419	204.8%
Total Direct Contribution	\$ 294,392	\$ 327,765	\$ (33,373)	(10.2)%
Unallocated income and expenses, net	\$ 152,059	\$ 124,331	\$ 27,728	22.3%

ACMI Segment

ACMI Direct Contribution increased \$36.3 million, or 19.0%, primarily due to higher profitability on our new 747-8F aircraft and increased CMI flying for DHL and Boeing during 2013, partially offset by the redeployment of 747-400 aircraft into other segments.

Charter Segment

Charter Direct Contribution decreased \$79.1 million, or 60.1%, primarily due to a decrease in Block Hours driven by reduced demand from the AMC, partially offset by the deployment of 747-400 and a 747-8F cargo aircraft during ACMI marketing periods. Charter Direct Contribution was also impacted by a reduction in cargo Revenue per Block Hour driven by softer demand, excess capacity in the air cargo market and the impact of a reduction in Charters for commercial customers on return legs of one-way AMC missions. Partially offsetting these reductions were higher rates on 747-8F aircraft and passenger charters for sporting events, concert tours, VIP and other private charters. In addition, Charter Direct Contribution was negatively impacted by increased aircraft ownership costs from the deployment of 747-400 cargo aircraft into this segment, increases in volume-driven operating expenses, higher costs from flying to more expensive locations and increased heavy maintenance expense.

Dry Leasing Segment

Dry Leasing Direct Contribution increased \$9.4 million, primarily due to the addition of one 777-200LRF aircraft in the first quarter of 2013 and two 777-200LRF aircraft in the third quarter of 2013 that are being leased to customers on a long-term basis.

Unallocated income and expenses, net

Unallocated income and expenses, net increased \$27.7 million, or 22.3%, primarily due to a reduction in capitalized interest of \$16.4 million on 747-8F aircraft that entered service, an insurance gain related to flood damage at a warehouse in 2012 and an increase in employee costs to support additional aircraft.

Reconciliation of GAAP to non-GAAP Financial Measures

To supplement our Financial Statements presented in accordance with accounting principles generally accepted in the United States of America (GAAP), we present certain non-GAAP financial measures to assist in the evaluation of our business performance. These non-GAAP financial measures include Adjusted Net Income Attributable to Common Stockholders and adjusted diluted earnings per share (Adjusted Diluted EPS), which exclude certain items that impact year-over-year comparisons of our results. These non-GAAP financial measures may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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We use these non-GAAP financial measures in assessing the performance of our ongoing operations and in planning and forecasting future periods. We believe that these adjusted measures provide meaningful information to assist investors and analysts in understanding our business results and assessing our prospects for future performance.

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The following is a reconciliation of Net Income Attributable to Common Stockholders and Diluted EPS to the corresponding non-GAAP financial measures (in thousands, except per share data):

	2014	2013	Percent Change
Net Income Attributable to Common Stockholders	\$ 106,757	\$ 93,837	13.8%
After-tax impact from:			
ETI tax benefit	(34,755)	(14,160)	
Loss on disposal of aircraft	9,389	224	
Special charge (a)	10,930	11,714	
Accrual for legal matters	1,150		
Loss on early extinguishment of debt (b)		5,160	
Adjusted Net Income Attributable to Common Stockholders	\$ 93,471	\$ 96,775	(3.4%)
Diluted EPS	\$ 4.25	\$ 3.66	16.1%
After-tax impact from:			
ETI tax benefit	(1.38)	(0.55)	
Loss on disposal of aircraft	0.37	0.01	
Special charge (a)	0.43	0.46	
Accrual for legal matters	0.05		
Loss on early extinguishment of debt (b)		0.20	
Adjusted Diluted EPS	\$ 3.72	\$ 3.78	(1.6%)

	2013	2012	Percent Change
Net Income Attributable to Common Stockholders	\$ 93,837	\$ 129,927	(27.8%)
After-tax impact from:			
ETI tax benefit	(14,160)		
Special charge (a)	11,714		
Loss on early extinguishment of debt (b)	5,160	367	
Loss (gain) on disposal of aircraft	224	(1,540)	
Fleet retirement costs (c)		2,252	
Insurance gain (d)		(4,032)	
Adjusted Net Income Attributable to Common Stockholders	\$ 96,775	\$ 126,974	(23.8%)
Diluted EPS	\$ 3.66	\$ 4.89	(25.1%)
After-tax impact from:			
ETI tax benefit	(0.55)		
Special charge (a)	0.46		
Loss on early extinguishment of debt (b)	0.20	0.01	
Loss (gain) on disposal of aircraft	0.01	(0.06)	
Fleet retirement costs (c)		0.08	
Insurance gain (d)		(0.15)	
Adjusted Diluted EPS	\$ 3.78	\$ 4.78	(20.9%)

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Items do not sum due to rounding.

- a) Included in Special charge in 2014 were employee termination benefits, a loan reserve, professional fees and tax adjustments related to GSS, and a loss on a 737-800 aircraft held for sale. Included in Special charge in 2013 were lease termination charges related to two leased 747-400BCFs and an impairment charge for a customer relationship intangible asset.
- b) Loss on early extinguishment of debt was related to the financing of 747-8F and 777-200LRF aircraft.
- c) Fleet retirement costs included incremental employee costs related to the retirement of our 747-200 fleet.
- d) Insurance gain was related to flood damage at a warehouse.

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Liquidity and Capital Resources

Significant liquidity events in 2014 were as follows:

Treasury Stock Transactions

In 2014, we paid \$15.0 million to repurchase 458,937 shares under an open market repurchase program. See Note 15 to our Financial Statements for a discussion of our stock repurchase program.

Debt Transactions

In the first quarter of 2014, we entered into six separate term loans in the aggregate amount of \$432.0 million to finance the purchase of three 777-200LRF aircraft that are Dry Leased to a customer on a long-term basis.

In the first quarter of 2014, we refinanced a bridge loan with a note guaranteed by the Export-Import Bank of the United States (Ex-Im Bank) for \$140.6 million secured by a mortgage on a 747-8F aircraft.

Operating Activities. Net cash provided by operating activities for 2014 was \$273.1 million, compared with \$302.1 million for 2013. The decrease primarily reflects changes in the timing of working capital.

Investing Activities. Net cash used for investing activities was \$548.4 million for 2014, consisting primarily of \$519.4 million of purchase deposits and delivery payments for flight equipment, which included \$0.5 million of capitalized interest, and \$24.9 million of core capital expenditures, excluding flight equipment, and a \$7.8 million increase in restricted cash. Partially offsetting these investing activities were \$3.7 million of proceeds from short-term investments. Purchase deposits and delivery payments for flight equipment were primarily related to the purchase of three 777-200LRF aircraft. All capital expenditures for 2014 were funded through working capital, except for the aircraft financed as discussed above. Net cash used for investing activities was \$590.0 million for 2013, consisting primarily of \$573.4 million of purchase deposits and delivery payments for flight equipment, which included \$2.4 million of capitalized interest and \$29.5 million of core capital expenditures. Partially offsetting these investing activities were \$9.1 million of proceeds from insurance.

Financing Activities. Net cash provided by financing activities was \$252.0 million for 2014, which primarily reflected the proceeds from debt issuance of \$572.6 million and \$17.6 million of customer maintenance reserves received, partially offset by \$301.6 million of payments on debt obligations, \$19.5 million related to the purchase of treasury stock and \$17.1 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of the \$103.6 million bridge loan with an Ex-Im Bank guaranteed note. Net cash provided by financing activities was \$199.9 million for 2013, which primarily reflected the proceeds from debt issuance of \$709.5 million, partially offset by \$412.2 million of payments on debt obligations, \$81.0 million related to the purchase of treasury stock and \$19.8 million of debt issuance costs. The proceeds from debt issuance and payments of debt obligations reflect the refinancing of \$231.0 million in term loans with two Ex-Im Bank guaranteed notes.

We consider Cash and cash equivalents, Short-term investments, Restricted cash and Net cash provided by operating activities to be sufficient to meet our debt and lease obligations, to fund capital expenditures for 2015 and to repurchase shares of our stock. Core capital expenditures for 2015 are expected to be approximately \$45.0 million, which excludes flight equipment and capitalized interest.

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 2012 that enables us to sell a yet to be determined amount of debt and/or equity securities over the subsequent three years, depending on market conditions, our capital needs and

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other factors. Our access to capital markets can be adversely impacted by prevailing economic conditions and by financial, business and other factors, some of which are beyond our control. Additionally, our borrowing costs are affected by market conditions and may be adversely impacted by a tightening in credit markets.

We do not expect to pay any significant U.S. federal income tax until 2018 or later. Our business operations are subject to income tax in several foreign jurisdictions. We do not expect to pay any significant cash income taxes in foreign jurisdictions for at least several years. We currently do not intend to repatriate cash from certain foreign subsidiaries that is indefinitely reinvested outside the U.S. Any repatriation of cash from these subsidiaries or certain changes in U.S. tax laws could result in additional tax expense.

Contractual Obligations

The table below provides details of our balances available under credit agreements and future cash contractual obligations as of December 31, 2014 (in millions):

	Total Obligations	2015	Payments Due by Period		Thereafter
			2016 - 2017	2018 - 2019	
Debt (1)	\$ 2,009.0	\$ 196.0	\$ 406.0	\$ 411.6	\$ 995.4
Interest on debt (2)	396.1	78.7	131.2	94.4	91.8
Aircraft and engine operating leases	1,120.6	131.2	259.1	271.2	459.1
Other operating leases	9.2	4.3	4.0	0.4	0.5
Total Contractual Obligations	\$ 3,534.9	\$ 410.2	\$ 800.3	\$ 777.6	\$ 1,546.8

(1) Debt reflects gross amounts (see Note 7 to our Financial Statements for a discussion of the related unamortized discount).

(2) Amount represents interest on fixed and floating rate debt at December 31, 2014.

We maintain a non-current liability for unrecognized income tax benefits. To date, we have not resolved the ultimate cash settlement of this liability. As a result, we are not in a position to estimate with reasonable certainty the date upon which this liability would be payable.

Description of Our Debt Obligations

See Note 7 to our Financial Statements for a description of our debt obligations.

Off-Balance Sheet Arrangements

Thirteen of our forty-six operating aircraft are under operating leases (this excludes aircraft provided by CMI customers). Five are leased through trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. All fixed price options reflect a fair market value purchase option, and as such, we are not the primary beneficiary of the leasing entities. We are generally not the primary beneficiary of the leasing entities if the lease terms are consistent with market terms at the inception of the lease and the leases do not include a residual value guarantee, fixed-price purchase option or similar feature that would obligate us to absorb decreases in value or entitle us to participate in increases in the value of the aircraft. We have not consolidated any of the aircraft-leasing trusts because we are not the primary beneficiary. In addition, we reviewed the other eight Atlas aircraft that are under operating leases but not financed through a trust and determined that none of them would be consolidated upon the application of accounting for consolidations. Our maximum exposure under all operating leases is the remaining lease payments, which amounts are reflected in the future lease commitments above and described in Note 8 to our Financial Statements.

There were no changes in our off-balance sheet arrangements during the fiscal year ended December 31, 2014.

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Critical Accounting Policies and Estimates

General Discussion of Critical Accounting Policies and Estimates

An appreciation of our critical accounting policies and estimates is important to understand our financial results. Our Financial Statements are prepared in conformity with GAAP. Our critical policies require management to make estimates and judgments that affect the amounts reported. Actual results may differ significantly from those estimates. The following is a brief description of our current critical accounting policies involving significant management judgment:

Accounting for Long-Lived Assets

We record our property and equipment at cost, and once assets are placed in service, we depreciate them on a straight-line basis over their estimated useful lives to their estimated residual values over periods not to exceed forty years for flight equipment (from date of original manufacture) and three to five years for ground equipment.

We record impairment charges on long-lived assets when events and circumstances indicate that the assets may be impaired, the undiscounted cash flows estimated to be generated by those assets are less than their carrying amount and the net book value of the assets exceeds their estimated fair value. In making these determinations, we use certain assumptions, including, but not limited to: (i) estimated fair value of the assets and (ii) estimated future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, revenue generated, associated costs, length of service and estimated residual values. To conduct impairment testing, we group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For flight equipment used in our ACMI and Charter segments, assets are grouped at the operating fleet level. For flight equipment used in our Dry Leasing segment, assets are grouped on an individual basis.

In developing these estimates for flight equipment, we use industry data for the equipment types and our anticipated utilization of the assets.

Heavy Maintenance

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. This method can result in expense volatility between quarterly and annual periods, depending on the number and type of heavy maintenance events performed.

We account for heavy maintenance costs for airframes and engines used in our Dry Leasing segment using the deferral method. Under this method, we capitalize the cost of heavy maintenance events, which are depreciated on a straight-line basis over the estimated period until the next maintenance event is required.

Income Taxes

Deferred income taxes are recognized for the tax consequences of reporting items in our income tax returns at different times than the items are reflected in our financial statements. These temporary differences result in deferred tax assets and liabilities that are calculated by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. If necessary, deferred income tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount, if any, of the valuation allowance.

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In addition, we establish tax reserves when we believe that certain tax positions are subject to challenge and may not be sustained on audit. These reserves are based on subjective estimates and assumptions involving the relative filing positions and the potential exposure from audits and litigation.

Business Combinations and Intangible Assets

We account for business combinations using the purchase method. Under the purchase method, we record net assets acquired and liabilities assumed at their estimated fair value on the date of acquisition. The determination of the fair value of the assets acquired and liabilities assumed requires us to make estimates and assumptions that affect our financial statements. Intangible assets acquired have finite lives and are amortized over their estimated useful lives. The estimated useful lives are based on estimates of the period during which the assets are expected to generate revenue.

Legal and Regulatory Matters

We are party to legal and regulatory proceedings with respect to a variety of matters. We evaluate the likelihood of an unfavorable outcome of these proceedings each quarter. Our judgments are subjective and are based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with legal counsel. Due to the inherent uncertainties of the legal and regulatory proceedings in the multiple jurisdictions in which we operate, our judgments may be different from the actual outcomes.

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We currently do not hedge against foreign currency fluctuations or aircraft fuel. The potential loss arising from adverse changes to the price and availability of aircraft fuel and interest rates is discussed below. The sensitivity analyses presented herein do not consider the effects that such adverse changes might have on our overall financial performance, nor do they consider additional actions we may take to mitigate our exposure to such changes. Variable rate leases are not considered market-sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below.

Aircraft Fuel. Our results of operations are affected by changes in the price and availability of aircraft fuel. We have limited fuel risk for our Charter business. Market risk is estimated at a hypothetical 20% increase or decrease in the 2014 average cost per gallon of fuel. Based on actual 2014 fuel consumption for commercial customers in Charter, such an increase would have resulted in an increase to aircraft fuel expense of approximately \$54.3 million in 2014. For our AMC-related Charter flights, the contracted fuel prices are established and fixed by the AMC. We receive reimbursements from the AMC each month if the price of fuel paid by us to vendors for AMC-related Charter flights exceeds the fixed price; if the price of fuel paid by us is less than the fixed price, then we pay the difference to the AMC. ACMI and Dry Leasing do not create an aircraft fuel market risk, as the cost of fuel is borne by the customer.

Variable Interest Rates. Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable rate debt instruments and on interest income generated from our cash and investment balances. As of December 31, 2014, approximately \$104.6 million of our debt at face value had variable interest rates. If interest rates would have increased or decreased by a hypothetical 20% in the underlying rate as of December 31, 2014, our annual interest expense would have changed in 2014 by approximately \$0.5 million.

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Fixed Rate Debt. On December 31, 2014, we had approximately \$1.8 billion of fixed rate long-term debt. If interest rates were 20% lower than the stated rate, the fair value of this debt would have been \$58.9 million higher as of December 31, 2014.

Foreign Currency. We have limited exposure to market risk from changes in foreign currency exchange rates, interest rates and equity prices that could affect our results of operations and financial condition. Our largest exposure comes from the Brazilian real, the Euro and the British pound.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Atlas Air Worldwide Holdings, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Atlas Air Worldwide Holdings, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 12, 2015

Table of Contents**Atlas Air Worldwide Holdings, Inc.****Consolidated Balance Sheets***(in thousands, except share data)*

	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 298,601	\$ 321,816
Short-term investments	17,802	10,904
Restricted cash	14,281	6,491
Accounts receivable, net of allowance of \$1,658 and \$1,402, respectively	162,092	132,159
Prepaid maintenance	20,806	31,620
Deferred taxes	40,923	54,001
Prepaid expenses and other current assets	51,599	36,962
Total current assets	606,104	593,953
Property and Equipment		
Flight equipment	3,448,791	2,969,379
Ground equipment	51,418	46,951
Less: accumulated depreciation	(348,036)	(256,685)
Purchase deposits for flight equipment	20,054	69,320
Property and equipment, net	3,172,227	2,828,965
Other Assets		
Long-term investments and accrued interest	120,478	130,267
Deposits and other assets	135,401	131,216
Intangible assets, net	67,410	33,858
Total Assets	\$ 4,101,620	\$ 3,718,259
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 42,864	\$ 65,367
Accrued liabilities	251,594	194,292
Current portion of long-term debt	190,340	157,486
Total current liabilities	484,798	417,145
Other Liabilities		
Long-term debt	1,782,744	1,539,139
Deferred taxes	350,868	371,655
Other liabilities	65,415	68,195
Total other liabilities	2,199,027	1,978,989
Commitments and contingencies		
Equity		
Stockholders' Equity		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 28,561,160 and 28,200,213 shares issued, 24,807,718 and 25,038,629, shares outstanding (net of treasury stock), as of December 31, 2014 and December 31, 2013, respectively		
	286	282
Additional paid-in-capital	573,133	561,481
Treasury stock, at cost; 3,753,442 and 3,161,584 shares, respectively	(145,322)	(125,826)
Accumulated other comprehensive loss	(9,572)	(10,677)
Retained earnings	999,270	892,513
Total stockholders' equity	1,417,795	1,317,773

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Noncontrolling interest		4,352
Total equity	1,417,795	1,322,125
Total Liabilities and Equity	\$ 4,101,620	\$ 3,718,259

See accompanying Notes to Consolidated Financial Statements

Table of Contents**Atlas Air Worldwide Holdings, Inc.****Consolidated Statements of Operations***(in thousands, except per share data)*

	For the Years Ended December 31,		
	2014	2013	2012
Operating Revenue			
ACMI	\$ 778,091	\$ 755,008	\$ 682,189
Charter	906,676	852,452	938,340
Dry leasing	100,059	35,168	11,843
Other	14,372	14,272	13,660
Total Operating Revenue	1,799,198	1,656,900	1,646,032
Operating Expenses			
Aircraft fuel	404,263	410,353	436,618
Salaries, wages and benefits	311,143	299,136	293,881
Maintenance, materials and repairs	203,567	162,972	165,069
Aircraft rent	140,390	160,415	154,968
Navigation fees, landing fees and other rent	131,138	90,733	71,698
Depreciation and amortization	120,793	86,389	62,475
Passenger and ground handling services	86,820	72,503	69,886
Travel	79,199	61,420	56,461
Loss (gain) on disposal of aircraft	14,679	351	(2,417)
Special charge	15,114	18,642	
Other	116,120	107,196	110,902
Total Operating Expenses	1,623,226	1,470,110	1,419,541
Operating Income	175,972	186,790	226,491
Non-operating Expenses (Income)			
Interest income	(18,480)	(19,813)	(19,636)
Interest expense	104,252	83,659	64,532
Capitalized interest	(453)	(2,350)	(18,727)
Loss on early extinguishment of debt		5,518	576
Other expense (income), net	1,104	1,954	(5,529)
Total Non-operating Expenses (Income)	86,423	68,968	21,216
Income before income taxes	89,549	117,822	205,275
Income tax expense (benefit)	(12,678)	23,833	75,561
Net Income	102,227	93,989	129,714
Less: Net income (loss) attributable to noncontrolling interests	(4,530)	152	(213)
Net Income Attributable to Common Stockholders	\$ 106,757	\$ 93,837	\$ 129,927
Earnings per share:			
Basic	\$ 4.26	\$ 3.67	\$ 4.92
Diluted	\$ 4.25	\$ 3.66	\$ 4.89

Weighted average shares:

Basic	25,031	25,541	26,419
Diluted	25,127	25,627	26,549

See accompanying Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,		
	2014	2013	2012
Net Income	\$ 102,227	\$ 93,989	\$ 129,714
Other comprehensive income (loss):			
Interest rate derivatives:			
Net change in fair value	(251)	1,386	(713)
Reclassification to interest expense	2,724	3,064	2,652
Income tax benefit (expense)	(1,022)	(1,207)	(704)
Foreign currency translation:			
Translation adjustment	(168)	700	256
Income tax benefit (expense)			122
Other comprehensive income (loss)	1,283	3,943	1,613
Comprehensive Income	103,510	97,932	131,327
Less: Comprehensive income (loss) attributable to noncontrolling interests	(4,352)	509	(20)
Comprehensive Income Attributable to Common Stockholders	\$ 107,862	\$ 97,423	\$ 131,347

See accompanying Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,		
	2014	2013	2012
Operating Activities:			
Net Income Attributable to Common Stockholders	\$ 106,757	\$ 93,837	\$ 129,927
Net income (loss) attributable to noncontrolling interests	(4,530)	152	(213)
Net Income	102,227	93,989	129,714
Adjustments to reconcile Net Income to net cash provided by operating activities:			
Depreciation and amortization	138,324	101,671	72,194
Accretion of debt securities discount	(7,947)	(8,889)	(8,560)
Provision for allowance for doubtful accounts	643	178	837
Special charge, net of cash payments	12,013	18,642	
Loss on early extinguishment of debt		5,518	576
Loss (gain) on disposal of aircraft	14,679	351	(2,417)
Deferred taxes	(12,714)	22,856	75,365
Stock-based compensation expense	13,606	16,690	18,202
Changes in:			
Accounts receivable	(21,070)	(6,029)	(25,217)
Prepaid expenses and other current assets	27,079	(4,298)	48,213
Deposits and other assets	(3,474)	4,106	(26,027)
Accounts payable and accrued liabilities	9,779	57,308	(27,380)
Net cash provided by operating activities	273,145	302,093	255,500
Investing Activities:			
Capital expenditures	(24,920)	(29,531)	(31,266)
Purchase deposits and delivery payments for flight equipment	(519,399)	(573,416)	(520,770)
Changes in restricted cash	(7,790)	(6,491)	
Investment in debt securities			(6,658)
Proceeds from short-term investments	3,728	5,569	4,342
Proceeds from insurance		9,109	3,300
Proceeds from disposal of aircraft		4,780	3,215
Net cash used for investing activities	(548,381)	(589,980)	(547,837)
Financing Activities:			
Proceeds from debt issuance	572,552	709,484	1,211,560
Customer maintenance reserves received	17,555	2,907	2,997
Refund of accelerated share repurchase		21,886	
Prepayment of accelerated share repurchase		(21,886)	
Proceeds from stock option exercises	69		
Purchase of treasury stock	(19,496)	(80,976)	(3,351)
Excess tax benefit from stock-based compensation expense	8	465	551
Payment of debt issuance costs	(17,117)	(19,769)	(34,141)
Payments of debt	(301,550)	(412,171)	(662,627)
Net cash provided by financing activities	252,021	199,940	514,989
Net increase (decrease) in cash and cash equivalents	(23,215)	(87,947)	222,652
Cash and cash equivalents at the beginning of period	321,816	409,763	187,111

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Cash and cash equivalents at the end of period	\$ 298,601	\$ 321,816	\$ 409,763
Non-cash Investing and Financing Activities:			
Acquisition of flight equipment and assumed debt	\$	\$ 90,498	\$
Acquisition of flight equipment included in Accounts payable and accrued liabilities	\$ 29,087	\$ 21,823	\$
Disposition of aircraft included in Accounts receivable	\$ 5,072	\$	\$

See accompanying Notes to Consolidated Financial Statements

Table of Contents**Atlas Air Worldwide Holdings, Inc.****Consolidated Statements of Stockholders' Equity***(in thousands, except share data)*

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2011	\$ 275	\$ (41,499)	\$ 525,670	\$ (15,683)	\$ 668,749	\$ 1,137,512	\$ 3,863	\$ 1,141,375
Net Income (loss)					129,927	129,927	(213)	129,714
Other comprehensive income (loss)				1,420		1,420	193	1,613
Stock option and restricted stock compensation			18,202			18,202		18,202
Purchase of 72,131 shares of treasury stock		(3,351)				(3,351)		(3,351)
Issuance of 210,808 shares of restricted stock	2		(2)					
Tax benefit on restricted stock and stock options			551			551		551
Balance at December 31, 2012	\$ 277	\$ (44,850)	\$ 544,421	\$ (14,263)	\$ 798,676	\$ 1,284,261	\$ 3,843	\$ 1,288,104
Net Income (loss)					93,837	93,837	152	93,989
Other comprehensive income (loss)				3,586		3,586	357	3,943
Stock option and restricted stock compensation			16,690			16,690		16,690
Purchase of 1,932,101 shares of treasury stock		(80,976)				(80,976)		(80,976)
Issuance of 527,289 shares of restricted stock	5		(5)					
Prepayment of accelerated share repurchase			(21,886)			(21,886)		(21,886)
Refund of accelerated share repurchase			21,886			21,886		21,886
Reversal of prior year deferred tax			(90)			(90)		(90)
Tax benefit on restricted stock and stock options			465			465		465
Balance at December 31, 2013	\$ 282	\$ (125,826)	\$ 561,481	\$ (10,677)	\$ 892,513	\$ 1,317,773	\$ 4,352	\$ 1,322,125
Net Income (loss)					106,757	106,757	(4,530)	102,227
Comprehensive Income				1,105		1,105	178	1,283
Stock option and restricted stock compensation			13,606			13,606		13,606
Purchase of 591,858 shares of treasury stock		(19,496)				(19,496)		(19,496)
Exercise of 2,500 employee stock options			69			69		69
Issuance of 358,447 shares of restricted stock	4		(4)					
Tax benefit (expense) on restricted stock and stock options			(2,019)			(2,019)		(2,019)
Balance at December 31, 2014	\$ 286	\$ (145,322)	\$ 573,133	\$ (9,572)	\$ 999,270	\$ 1,417,795	\$	\$ 1,417,795

See accompanying Notes to Consolidated Financial Statements

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Atlas Air Worldwide Holdings, Inc.

Notes to Consolidated Financial Statements

December 31, 2014

1. Basis of Presentation

Our consolidated financial statements include the accounts of the holding company, Atlas Air Worldwide Holdings, Inc. (AAWW) and its consolidated subsidiaries. AAWW is the parent company of its principal operating subsidiary, Atlas Air, Inc. (Atlas), and of Polar Air Cargo LLC (Old Polar). AAWW is also the parent company of several subsidiaries related to our dry leasing services (collectively referred to as Titan). In addition, we are the primary beneficiary of Global Supply Systems Limited (GSS), a consolidated subsidiary. 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.

Noncontrolling interest represents the interest not owned by us and is recorded for consolidated entities in which we own less than 100% of the interest. All significant intercompany accounts and transactions have been eliminated. We account for investments in entities under the equity method of accounting when we hold between 20% and 50% ownership in the entity and exercise significant influence or when we are not the primary beneficiary of a variable interest entity. The terms we, us, our, and the Company mean AAWW and all entities included in its consolidated financial statements.

We provide outsourced aircraft and aviation operating services throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance (ACMI), as well as those through which we provide crew, maintenance and insurance, with the customer providing the aircraft (CMI); (ii) cargo and passenger charter services (Charter); and (iii) dry leasing aircraft and engines (Dry Leasing or Dry Lease).

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

Certain reclassifications have been made to prior periods consolidated financial statement amounts and related note disclosures to conform to the current year s presentation, including the presentation of segments (see Note 11 for further discussion).

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and judgments that affect the amounts reported in the Financial Statements and the related disclosures. Actual results may differ from those estimates. Estimates are used in determining, among other items, asset lives and residual values, cash flows for impairment analysis, maintenance accruals, valuation allowances (including, but not limited to, those related to receivables, expendable parts inventory and deferred taxes), income tax accounting, business combinations and intangible assets, stock-based compensation, self-insurance employee benefit accruals and contingent liabilities (including, but not limited to litigation accruals).

Revenue Recognition

Revenue from ACMI and CMI contracts is typically recognized as the block hours are operated on behalf of a customer during a given month, as defined contractually, based on flight departure. The time interval between when an aircraft departs the terminal until it arrives at the destination terminal is measured in hours and called Block Hours . If a customer flies below a minimum contracted Block Hour guarantee, the contracted minimum revenue amounts are recognized as revenue. We recognize revenue for Charter upon flight departure.

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We record Dry Lease rental income on a straight-line basis over the term of the operating lease. In limited cases, leases provide for additional rentals based on usage, which is recorded as revenue as it is earned under the terms of the lease. Usage is calculated based on hourly usage or number of flights operated, depending on the lease agreement, and is typically reported monthly by the lessee. 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 Leases 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 until the end of the lease, when we are able to finalize the amount, if any, to be reimbursed to the customer.

The Company recognizes revenue for management and administrative support services when the services are provided.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other cash investments that are highly liquid in nature and have original maturities of three months or less at acquisition.

Short-Term Investments

Short-term investments are primarily comprised of certificates of deposit, current portions of debt securities and money market funds.

Restricted Cash

Cash that is restricted under secured aircraft debt agreements, whereby it can only be used to make principal and interest payments on the related debt secured by those aircraft, is classified as Restricted cash.

Accounts Receivable

We perform a monthly evaluation of our accounts receivable and establish an allowance for doubtful accounts based on our best estimate of probable credit losses resulting from the inability or unwillingness of our customers to make required payments. Account balances are charged off against the allowance when we determine that it is probable that the receivable will not be recovered.

Escrow Deposits and Letters of Credit

We had \$5.3 million as of December 31, 2014 and \$5.7 million as of December 31, 2013, for certain deposits required in the normal course of business for various items including, but not limited to, surety and customs bonds, airfield privileges, judicial deposits, insurance and cash pledged under standby letters of credit related to collateral. These amounts are included in Deposits and other assets.

Expendable Parts

Expendable parts, materials and supplies for flight equipment are carried at average acquisition costs and are included in Prepaid expenses and other current assets. When used in operations, they are charged to maintenance expense. Allowances for excess and obsolescence for expendable parts expected to be on hand at the date aircraft are retired from service are provided over the estimated useful lives of the related aircraft and engines. These allowances are based on management estimates, which are subject to change as conditions in the business evolve. The net book value of expendable parts inventory was \$17.5 million as of December 31, 2014 and \$19.2 million at December 31, 2013, net of allowances for expendable obsolescence of \$16.6 million at December 31, 2014 and \$11.7 million at December 31, 2013.

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Property and Equipment

We record property and equipment at cost and depreciate these assets on a straight-line basis over their estimated useful lives or average remaining fleet lives to their estimated residual values. We review these assumptions at least annually and adjust depreciation on a prospective basis. Expenditures for major additions, improvements and flight equipment modifications are generally capitalized and depreciated over the shorter of the estimated life of the improvement or the modified assets remaining life or remaining lease term if any modifications or improvements are made to operating lease equipment. Substantially all property and equipment is specifically pledged as collateral for our indebtedness. The estimated useful lives of our property and equipment are as follows:

	Range
Flight equipment	6 to 40 years
Computer software and equipment	3 to 5 years
Ground handling equipment and other	3 to 5 years

Depreciation expense related to property and equipment was \$114.0 million in 2014, \$83.9 million in 2013 and \$60.2 million in 2012.

The net book value of flight equipment on Dry Lease to customers was \$890.1 million as of December 31, 2014 and \$507.1 million as of December 31, 2013. The accumulated depreciation for flight equipment on Dry Lease to customers was \$38.8 million as of December 31, 2014 and \$18.7 million as of December 31, 2013.

Rotable parts are recorded in Property and equipment, net, and are depreciated over their average remaining fleet lives and written off when they are determined to be beyond economic repair. The net book value of rotable parts inventory was \$108.2 million as of December 31, 2014 and \$97.5 million as of December 31, 2013.

Capitalized Interest on Pre-delivery Deposits

Interest on funds used to finance the acquisition of flight equipment up to the date the asset is ready for its intended use is capitalized and included in the cost of the asset if the asset is actively under construction. Included in capitalized interest is the interest paid on the pre-delivery deposit borrowings directly associated with the acquisition of flight equipment. The remainder of capitalized interest recorded on the acquisition of flight equipment is determined by taking the weighted average cost of funds associated with our other debt and applying it against the amounts paid as pre-delivery deposits.

Impairment of Long-Lived Assets

We record impairment charges on long-lived assets when events and circumstances indicate that the assets may be impaired, the undiscounted cash flows estimated to be generated by those assets are less than their carrying amount and the net book value of the assets exceeds their estimated fair value.

For flight equipment used in our ACMI and Charter segments, assets are grouped at the operating fleet level for impairment testing. For flight equipment used in our Dry Leasing segment, assets are tested on an individual basis for impairment.

In developing these estimates for flight equipment, we use external appraisals and other industry data for the equipment types and our anticipated utilization of the assets.

Long-term Investments

Long-term investments consist of debt securities, including accrued interest, for which management has the intent and ability to hold to maturity. These investments are classified as held-to-maturity and are reported at amortized cost. Interest on debt securities and accretion of discounts using the effective interest method are included in Interest income.

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Variable Interest Entities and Off-Balance Sheet Arrangements

We hold a 49% interest in GSS, a private company. GSS is a variable interest entity and we are the primary beneficiary of GSS for financial reporting purposes. Atlas previously Dry Leased three 747-8F owned aircraft to GSS. The leases provided for payment of rent and a provision for maintenance costs associated with the aircraft. GSS provided ACMI services to British Airways Plc (British Airways) using these three aircraft. British Airways returned the three 747-8F aircraft in April and May 2014. GSS continues to provide Dry Leasing support services to Titan.

Our investment in GSS was zero as of December 31, 2014 and \$2.8 million as of December 31, 2013 and our maximum exposure to losses from the entity is limited to our investment in GSS and any operating losses of GSS. GSS does not have any third-party debt obligations.

We hold a 50% interest in Global Aviation Technical Solutions Co, Ltd. (GATS), a joint venture with an unrelated third party. The purpose of the joint venture is to purchase rotatable parts and provide repair services for those parts, primarily for our 747-8F aircraft. The joint venture is a variable interest entity and we have not consolidated GATS because we are not the primary beneficiary as we do not exercise financial control. Our investment in GATS was \$16.4 million as of December 31, 2014 and \$13.2 million as of December 31, 2013 and our maximum exposure to losses from the entity is limited to our investment, which is composed primarily of rotatable inventory parts. GATS does not have any third-party debt obligations. We had Accounts payable to GATS of \$1.5 million as of December 31, 2014.

A portion of our operating aircraft are owned or effectively owned and leased through trusts established specifically to purchase, finance and lease aircraft to us. We have not consolidated any aircraft in the related trusts because we are not the primary beneficiary. Our maximum exposure under these operating leases is the remaining lease payments, which amounts are reflected in the future lease commitments more fully described in Note 8.

Income Taxes

Deferred income taxes are recognized for the tax consequences of reporting items in our income tax returns at different times than the items are reflected in our financial statements. These temporary differences result in deferred tax assets and liabilities that are calculated by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. If necessary, deferred income tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount, if any, of the valuation allowance.

In addition, we establish tax reserves when we believe that certain tax positions are subject to challenge and may not be sustained on audit. These reserves are based on subjective estimates and assumptions involving the relative filing positions and the potential exposure from audits and litigation.

Heavy Maintenance

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 using the deferral method. Under this method, we capitalize the cost of heavy maintenance events, which are depreciated on a straight-line basis over the estimated period until the next maintenance event is required.

Prepaid Maintenance Deposits

Certain of our aircraft financing agreements require security deposits to our finance providers to ensure that we perform major maintenance as required. These are substantially refundable to us and are, therefore, accounted

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for as deposits and included in Prepaid maintenance and in Deposits and other assets. Such amounts were \$54.5 million as of December 31, 2014 and \$48.8 million at December 31, 2013.

Foreign Currency

While most of our revenues are denominated in U.S. dollars, our results of operations may be exposed to the effect of fluctuations in the U.S. dollar value of foreign currency-denominated operating revenues and expenses. Our largest exposures come from the Brazilian real, the British pound and the Euro. We do not currently have a foreign currency hedging program related to our foreign currency-denominated transactions. Gains or losses resulting from foreign currency transactions are included in Non-operating expenses (income).

Stock-Based Compensation

We have various stock-based compensation plans for certain employees and outside directors, which are described more fully in Note 13. We recognize compensation expense, net of estimated forfeitures, on a straight-line basis over the vesting period for each award based on the fair value on grant date. We estimate grant date fair value for all option grants using the Black-Scholes-Merton option pricing model. We estimate option and restricted stock unit forfeitures at the time of grant and periodically revise those estimates in subsequent periods if actual forfeitures differ from those estimates. As a result, we record stock-based compensation expense only for those awards that are expected to vest.

Legal and Regulatory Matters

We are party to legal and regulatory proceedings with respect to a variety of matters. We evaluate the likelihood of an unfavorable outcome of these proceedings each quarter. Our judgments are subjective and are based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with legal counsel. Due to the inherent uncertainties of the legal and regulatory proceedings in the multiple jurisdictions in which we operate, our judgments may be different from the actual outcomes.

Supplemental Cash Flow Information

Cash interest paid to lenders is calculated on the face amount of our various debt instruments based on the contractual interest rates in effect during each payment period.

The amortization of debt discount shown as a reconciling item in cash flows from operating activities is the difference between interest expense and cash interest owed to lenders. This amount arises from the amortization of the difference between the fair value of our debt recorded on the balance sheet and the face amount of debt payable to lenders.

The following table summarizes interest and income taxes paid:

	2014	2013	2012
Interest paid	\$ 84,265	\$ 68,026	\$ 54,790
Income taxes paid, net of refunds	\$ 1,181	\$ 238	\$ (27,371)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board amended its accounting guidance for revenue recognition. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the 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

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of revenue and cash flows arising from contracts with customers. The amended guidance is effective as of the beginning of 2017 and we are currently assessing the impact it will have on our financial statements. Early adoption is not permitted.

3. DHL Investment and 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 and we do not consolidate Polar 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. In addition to the BSA, Atlas and Polar have a flight services agreement, whereby Atlas is compensated by Polar on a per Block Hour basis, subject to a monthly minimum Block Hour guarantee, at a predetermined rate that escalates annually. Under the flight services agreement, Atlas provides Polar with crew, maintenance and insurance for the aircraft. Under other separate agreements, Atlas and Polar supply administrative, sales and ground support services to one another. DP has guaranteed DHL s (and Polar s) obligations under the various transaction agreements described above. AAWW has agreed to indemnify DHL for and against various obligations of Polar and its affiliates. Collectively, these agreements are referred to herein as the DHL Agreements . The DHL Agreements provide us with a guaranteed revenue stream from six 747 aircraft that have been dedicated to Polar for outsourced airport-to-airport wide-body cargo aircraft solutions for the benefit of DHL and other customers freight due to monthly minimum Block Hour guarantees over the life of the agreements.

In accordance with the DHL Agreements, Polar flies for DHL s trans-Pacific express network and DHL provides financial support and also assumed the risks and rewards of the operations of Polar. In addition to its trans-Pacific routes, Polar is also flying between the Asia Pacific regions, Middle East and Europe on behalf of DHL and other customers.

The BSA established DHL s capacity purchase commitments on Polar flights. DHL has the right to terminate the 20-year BSA at the tenth and fifteenth anniversaries of commencement, which was on October 27, 2008. Either party may terminate for cause (as defined) at any time. With respect to DHL, cause includes Polar s inability to meet certain departure and arrival criteria for an extended period of time and upon certain change-of-control events, in which case DHL may be entitled to liquidated damages from Polar.

In addition to six 747-400 freighter aircraft, there are four 747-8F aircraft operated by Polar, and one additional 747-400 and one additional 747-8F aircraft that are operated by Atlas to support the Polar network and DHL through an alliance agreement whereby Atlas provides ACMI services to Polar as of December 31, 2014. We also provide charter capacity to Polar on an as-needed basis. Except for any liquidated damages that we could incur as described above, we do not have any continuing financial exposure to fund debt obligations or operating losses of Polar. The following table summarizes our transactions with Polar:

Revenue and Expenses:	2014	2013	2012
ACMI segment revenue from Polar	\$ 313,682	\$ 283,021	\$ 259,757
Other revenue from Polar	\$ 11,371	\$ 11,380	\$ 11,349
Ground handling and airport fees paid to Polar	\$ 1,909	\$ 1,174	\$ 1,654
Accounts receivable/payable as of December 31:	2014	2013	
Receivables from Polar	\$ 5,702	\$ 4,249	
Payables to Polar	\$ 2,611	\$ 3,464	
Aggregate Carrying Value of Polar Investment as of December 31:	2014	2013	
	\$ 4,870	\$ 4,870	

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In December 2014, we entered into an agreement to sell a 737-800 aircraft used in our Dry Lease business. As of December 31, 2014, we classified the aircraft as held for sale, recognized a loss of \$6.2 million and ceased depreciation on the aircraft. The aggregate carrying value of the aircraft held for sale at December 31, 2014 was \$25.0 million, which was included within Prepaid expenses and other current assets in the consolidated balance sheets. The sale is expected to be completed during the first quarter of 2015.

In December 2013, we recorded an impairment charge of \$0.8 million related to a customer relationship intangible asset due to British Airways notification to us that they would be returning three 747-8F aircraft in 2014. Given the impact of this to GSS, we recognized \$3.8 million of employee termination benefits and professional fees during 2014 after management determined that such costs were probable and estimable. Substantially all cash payments related to employee termination benefits and professional fees are expected to be paid by the end of 2015. In addition, we recognized a reserve of \$4.7 million during 2014 related to a loan from GSS to its 51% U.K. shareholder.

In December 2013, we parked two 747-400BCF aircraft that we had leased following 747-8F aircraft delivery delays. With the completed deliveries of our 747-8F aircraft and the relatively stagnant airfreight environment at that time, these two aircraft were deemed to be no longer needed. As a result, in 2013, we recorded a special charge of \$17.8 million related to the early termination of the operating leases. Substantially all remaining cash payments related to this charge are expected to be paid by 2016.

	Lease Termination Costs	GSS Employee Termination Benefits	Other	Total
Liability as of December 31, 2013	\$ 12,773	\$	\$	\$ 12,773
Special charge items, net	10	3,772	429	4,211
Cash payments	(10,346)	(2,758)	(329)	(13,433)
Liability as of December 31, 2014	\$ 2,437	\$ 1,014	\$ 100	\$ 3,551

5. Intangible Assets, net

The following table presents our Intangible assets, net as of December 31:

	2014	2013
Fair value adjustments on operating leases	\$ 45,531	\$ 45,531
Lease intangibles	57,203	14,230
Less: accumulated amortization	(35,324)	(25,903)
	\$ 67,410	\$ 33,858

Fair value adjustments on operating leases represent the capitalized discount recorded in prior years to adjust the lease commitments for our 747-400 aircraft to fair market value and are amortized on a straight-line basis over the life of the leases. Lease intangibles resulted from the acquisition of various aircraft that are Dry Leased to customers on a long-term basis and are amortized on a straight-line basis over the life of the leases.

In the first quarter of 2014, we recognized lease intangibles of \$42.7 million related to the purchase of three 777-200LRF aircraft.

Amortization expense related to intangible assets amounted to \$9.4 million in 2014, \$4.9 million in 2013 and \$4.7 million in 2012.

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The estimated future amortization expense of intangible assets as of December 31, 2014 is as follows:

2015	\$ 8,925
2016	8,214
2017	7,922
2018	7,647
2019	6,948
Thereafter	27,754
Total	\$ 67,410

6. Accrued Liabilities

Accrued liabilities consisted of the following as of December 31:

	2014	2013
Customer maintenance reserves	\$ 64,756	\$ 17,274
Maintenance	50,702	26,539
Salaries, wages and benefits	48,548	36,450
Aircraft fuel	15,078	14,905
Deferred revenue	10,705	26,279
Other	61,805	72,845
Accrued liabilities	\$ 251,594	\$ 194,292

7. Debt

Our debt obligations, as of December 31:

	2014	2013
Ex-Im Bank guaranteed notes	\$ 803,561	\$ 739,741
Term loans	957,784	702,668
EETCs	211,739	254,216
Total debt	1,973,084	1,696,625
Less current portion of debt	(190,340)	(157,486)
Long-term debt	\$ 1,782,744	\$ 1,539,139

At December 31, 2014 and 2013, we had \$35.9 million and \$41.4 million, respectively, of unamortized discount related to the fair market value adjustments recorded against debt in prior years.

Many of our financing instruments have cross default provisions and contain limitations on our ability to, among other things, pay certain dividends or make certain other restricted payments, consummate certain asset sales, merge or consolidate with any other person or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

Description of our Debt Obligations

Ex-Im Bank Guaranteed Notes

Since 2012, we have issued six separate notes guaranteed by the Export-Import Bank of the United States (Ex-Im Bank), each secured by a mortgage on a 747-8F aircraft (the Ex-Im Guaranteed Notes). In

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connection with the issuance of Ex-Im Guaranteed Notes, we paid usual and customary commitment and other fees associated with this type of financing. In addition, there are customary covenants, events of default and certain operating conditions that we must meet for the Ex-Im Guaranteed Notes. These notes accrue interest at a fixed rate with principal and interest payable quarterly.

In 2013, we issued a fixed-rate note guaranteed by the Ex-Im Bank secured by a mortgage on a 777-200LRF aircraft that accrues interest at a fixed rate with principal and interest payable quarterly. This note contains customary covenants and event of default provisions.

The following table summarizes the terms and balances for each note guaranteed by Ex-Im Bank as of December 31 (in millions):

	Issue Date	Face Value	Collateral Aircraft Tail Number	Original Term	Fixed Interest Rate	2014	2013
First 2014 Ex-Im Guaranteed Note	2014	\$ 140.6	N854GT	134 months	2.67%	\$ 129.8	\$
First 2013 Ex-Im Guaranteed Note	2013	143.0	N855GT	12 years	1.83%	126.8	137.6
Second 2013 Ex-Im Guaranteed Note	2013	88.0	MSN 35606	90 months	1.84%	74.2	85.3
First 2012 Ex-Im Guaranteed Note	2012	142.0	N850GT	12 years	2.02%	115.2	126.1
Second 2012 Ex-Im Guaranteed Note	2012	142.7	N851GT	12 years	1.73%	118.4	129.3
Third 2012 Ex-Im Guaranteed Note	2012	142.8	N852GT	12 years	1.56%	118.1	129.2
Fourth 2012 Ex-Im Guaranteed Note	2012	143.2	N853GT	12 years	1.48%	121.1	132.2
						\$ 803.6	\$ 739.7

Term Loans

We have entered into various term loans to finance the acquisition of aircraft. Each term loan requires payment of principal and interest paid quarterly in arrears. Funds available under each term loan agreement are subject to certain up-front and commitment fees, and funds drawn under the loan agreements bear interest at LIBOR, plus a margin. Each facility is guaranteed by us and subject to customary covenants and events of default.

In the first quarter of 2014, we purchased three 777-200LRF aircraft that are leased to a customer on a long-term basis and entered into six separate term loans in the aggregate amount of \$432.0 million each secured by a mortgage on the aircraft and the attached leases. In connection with entry into these term loans, we paid usual and customary fees. The term loans accrue interest with principal and interest payable quarterly and contain customary covenants and event of default provisions.

The following table summarizes the terms and balances for each term loan outstanding as of December 31 (in millions):

	Issue Date	Face Value	Collateral Aircraft Tail Number	Original Term	Interest Rate Type	Interest Rate at		2014	2013
						2014	2013		
First 2014 Term Loan	2014	\$ 115.0	MSN 38969	114 months	Fixed	4.48%	0.00%	\$ 108.9	\$
Second 2014 Term Loan	2014	30.8	MSN 38969	114 months	Fixed	7.30%	0.00%	28.1	
Third 2014 Term Loan	2014	115.0	MSN 37138	118 months	Fixed	4.57%	0.00%	108.3	
Fourth 2014 Term Loan	2014	29.0	MSN 37138	118 months	Fixed	7.29%	0.00%	26.8	
Fifth 2014 Term Loan	2014	115.0	MSN 39286	116 months	Fixed	4.51%	0.00%	109.9	
Sixth 2014 Term Loan	2014	27.2	MSN 39286	116 months	Fixed	7.35%	0.00%	25.7	
First 2013 Term Loan	2013	119.5	MSN 36201	89 months	Variable	3.06%	3.08%	104.6	112.9
First 2013 Bridge Loan	2013	105.4	N854GT	1 year	Variable	0.00%	4.66%		103.6

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	Issue Date	Face Value	Collateral Aircraft Tail Number	Original Term	Interest				
					Interest Rate Type	Rate at		2014	2013
						2014	2013		
Third 2013 Term Loan	2013	110.0	MSN 36200	88 months	Fixed	4.18%	4.18%	100.6	107.9
First 2012 Term Loan	2012	35.7	N464MC, N465MC, N640GT, N641GT	5 years	Fixed	6.91%	6.91%	15.5	23.0
Second 2012 Term Loan	2012	8.5	N642GT	5 years	Fixed	6.89%	6.89%	3.9	5.8
Third 2012 Term Loan	2012	26.0	MSN 29681	7 years	Fixed	4.27%	4.27%	18.6	22.3
First 2011 Term Loan	2011	120.3	G-GSSD	12 years	Fixed	6.16%	6.16%	101.9	108.0
Second 2011 Term Loan	2011	120.0	G-GSSE	12 years	Fixed	6.37%	6.37%	102.5	108.6
Third 2011 Term Loan	2011	120.0	G-GSSF	12 years	Fixed	6.37%	6.37%	102.5	108.6
2010 Term Loan	2010	8.1	B-2808	50 months	Fixed	4.33%	4.33%		2.0
								\$ 957.8	\$ 702.7

Leveraged Lease Structure

In three separate transactions in 1998, 1999 and 2000, we issued enhanced equipment trust certificates (EETCs) to finance the acquisition of twelve 747-400F aircraft, five of which are financed as leveraged leases. In a leveraged lease, the owner trustee is the owner of record for the aircraft. Wells Fargo Bank Northwest, National Association (Wells Fargo) serves as the owner trustee with respect to the leveraged leases in each of our EETC transactions. As the owner trustee of the aircraft, Wells Fargo serves as the lessor of the aircraft under the EETC lease between us and the owner trustee. Wells Fargo also serves as trustee for the beneficial owner of the aircraft, the owner participant. The original owner participant for each aircraft invested (on an equity basis) approximately 20% of the original cost of the aircraft. The remaining approximately 80% of the aircraft cost was financed with debt issued by the owner trustee on a non-recourse basis in the form of equipment notes.

The equipment notes were generally issued in three series, for each aircraft, designated as Series A, B and C equipment notes. The loans evidenced by the equipment notes were funded by the public offering of EETCs. Like the equipment notes, the EETCs were issued in three series, for each EETC transaction designated as Series A, B and C EETCs. Each series of EETCs was issued by the trustee for separate Atlas pass through trusts with the same designation as the series of EETCs issued. Each of these pass through trustees is also the holder and beneficial owner of the equipment notes bearing the same series designation.

We could be subject to additional monthly lease rentals (AMLR), which could require payment of up to an additional \$0.1 million per month in rent on each of the five leased EETC aircraft, subject to an \$11.0 million per aircraft limit over the remaining term. The AMLR payments would be applied to the underlying notes in the leveraged leases, and would only arise if we exceed certain financial targets and if it is determined that the then fair market monthly rental for the aircraft exceeds a certain level. We have not made any AMLR payments and do not anticipate making any AMLR payments in 2015. We perform this test annually in the third quarter.

In connection with each of these secured debt financings, we executed equipment notes with original interest rates ranging from 6.88% to 9.70% and according to the terms of the equipment notes, principal payments vary and are payable monthly through each maturity.

With respect to the seven EETC-financed aircraft that are currently owned by us, there is no leveraged lease structure or EETC lease. We are the beneficial owner of the aircraft and the issuer of the equipment notes with respect thereto. The equipment notes issued with respect to owned aircraft are with full recourse to us.

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The following table summarizes the terms and balances for each EETC outstanding as of December 31 (in millions):

Issue	Face	Collateral Aircraft	Original	Fixed Equipment	Effective Interest
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