ATLAS AIR WORLDWIDE HOLDINGS INC
Form 10-K
February 14, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

o **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)*	**13-4146982** *(IRS Employer Identification No.)*
2000 Westchester Avenue, Purchase, New York *(Address of principal executive offices)*	**10577** *(Zip Code)*

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

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

Title of Each Class	Name of Each Exchange on Which Registered
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 þ   No o

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 o   No þ

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 þ   No o

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 o   No o

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 l0-K or any amendment to this Form 10-K. Yes o   No þ

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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, 2010 was approximately $1,201,820,728. 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 1, 2011, there were 25,938,301 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant s Proxy Statement relating to the 2011 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 may, should, expect, anticipate, intend, plan, continue, believe, seek, project, estimate and similar expressions used in this R not relate to historical facts are intended to identify forward-looking statements.

The forward-looking statements in this Report are not representations or guarantees of future performance and involve certain risks, uncertainties and assumptions. Such risks, uncertainties and assumptions include, but are not limited to, those described in 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 the airline and cargo industries. They are used by management to evaluate and measure operations, results, productivity and efficiency.

A Check	Low-level maintenance checks performed on aircraft at an interval of approximately 750 flight hours for a 747-200 aircraft and 1,000 flight hours for a 747-400 aircraft.
ACMI	A service arrangement whereby an airline provides an aircraft, crew, maintenance and insurance to a customer for compensation that is typically based on hours operated.
AMC Charter	The provision of full planeload charter flights to the U.S. Military Airlift Mobility Command (the AMC). The AMC pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs.
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 A Checks and are generally performed between 18 and 24 months depending on aircraft type.
CMI	A service arrangement whereby an airline provides crew, maintenance and insurance to a customer for compensation that is typically based on hours operated, with the customer providing the aircraft.
Commercial Charter	The provision of full planeload capacity to a customer for one or more flights based on a specific origin and destination. The customer pays a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs.
D Check	High-level or heavy airframe maintenance checks, which are the most extensive in scope and are generally performed every six to nine years depending on aircraft type.
Dry Lease	A leasing arrangement whereby an entity (lessor) provides a specific aircraft and/or engine without crew, maintenance or insurance to another entity (lessee) for compensation that is typically based on a fixed monthly amount.
Load Factor	The average amount of weight flown divided by the maximum available capacity.
Revenue Per Block Hour	An amount calculated by dividing operating revenues by Block Hours.
Yield	The average amount a customer pays to fly one ton of cargo one mile.

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Overview

AAWW is a holding company with a principal operating subsidiary, Atlas Air, Inc. (Atlas), which is wholly-owned, and also maintains a 49% interest in Global Supply Systems Limited (GSS). AAWW has a 51% economic interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (Polar). In addition, AAWW formed wholly owned subsidiaries, Titan Aviation Leasing Ltd., Titan Aviation Leasing Limited Americas, Inc. and Titan Aviation (Hong Kong) Limited (collectively referred to as Titan), to Dry Lease aircraft and engines. 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 air cargo assets and outsourced aircraft operating services and solutions. As such, we manage and operate the world s largest fleet of 747 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 Asia, the Middle East, Australia, Europe, South America, Africa and North America.

Global airfreight demand is highly correlated with global gross domestic product. The slowdown in global economic activity in 2008 and 2009 resulted in an unprecedented decline in airfreight volumes during the second half of 2008 that continued into the first half of 2009. In contrast, improving economic conditions, inventory restocking and new product demand in the fourth quarter of 2009 and throughout 2010 generated encouraging trends for airfreight demand and yields, which was consistent with the tight supply prevailing during those periods. Since the first quarter of 2010, airfreight demand has exceeded pre-recession levels. In early 2011, with strong airfreight demand and tight supply, we leased two 747-400 converted freighters for an average of approximately three and a half years and will place them in service during the second quarter of 2011.

We believe that our fleet of 24 modern, 747-400 freighter aircraft represents one of the most efficient 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.

Our growth plans are focused on the further enhancement of our ACMI market position with our order of 12 new, state-of-the-art 747-8F aircraft. We expect The Boeing Company (Boeing) to begin delivery of these 747-8F aircraft to us during the second half of 2011. We are currently the only operator offering these aircraft to the ACMI market. In addition to our order, we also hold rights to purchase an additional 14 747-8F aircraft, providing us with flexibility to further expand our fleet in response to market conditions. Our growth plans also include the continued expansion of our CMI business. We launched CMI service in 2010 for two new customers using a fleet of six customer provided aircraft and will continue to pursue additional growth opportunities to expand this service.

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 747-400F aircraft and future 747-8F aircraft, including

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their anticipated superior fuel efficiency, range, capacity and loading capabilities, create a compelling value proposition for our customers and position us well for future growth.

Our primary service offerings encompass the following:

ACMI, whereby we provide outsourced aircraft operating solutions, including the provision of an aircraft crew, maintenance and insurance, while customers assume fuel, demand and yield risk. ACMI contracts typically range from three to five years. Also included within ACMI is the provision of express network ACMI, whereby we provide 747-400 aircraft to Polar that service the requirements of DHL Network Operations (USA), Inc. s (DHL) global express operations and meet the needs of other Polar customers. Beginning on April 8, 2009, we consolidated GSS, and the aircraft that are Dry Leased from Atlas to GSS are now included within ACMI;

CMI, which is part of our ACMI business segment, whereby we provide outsourced aircraft operating solutions including the provision of crew, maintenance and insurance, while customers provide the aircraft and assume fuel, demand and yield risk. We began performing CMI services during 2010;

Dry Leasing, whereby we provide aircraft and/or engine leasing solutions to third parties;

AMC Charter services, whereby we provide air cargo services for the AMC; and

Commercial Charter, whereby we provide aircraft charters to customers, including brokers, freight forwarders, direct shippers and airlines.

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. We currently operate our service offerings through the following reportable segments: 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. Financial information regarding our reportable segments can be found in Note 13 to our consolidated financial statements included in Item 8 of Part II of this Report (the Financial Statements).

ACMI. Historically, the core of Atlas business has been providing aircraft outsourcing services to customers on an ACMI basis. Under an ACMI agreement, customers typically contract for the use of an aircraft type that is operated, crewed, maintained and insured by Atlas in exchange for guaranteed minimum revenues at predetermined levels of operation for defined periods of time. During 2010, we began to offer CMI service to customers. CMI is similar to ACMI flying, except that the customer provides the aircraft. Under that arrangement, we are paid a Block Hour rate for hours operated above a guaranteed minimum level of flying. The aircraft are generally operated under the traffic rights of the customer. All other direct operating expenses, such as fuel, overfly and landing fees and ground handling, are generally borne by the customer, who also bears the commercial revenue risk of Load Factor and Yield.

ACMI provides a predictable annual revenue and cost base by minimizing the risk of fluctuations such as Yield, fuel and traffic demand risk in the air cargo business. Our ACMI revenues and most of our costs under ACMI contracts are denominated in U.S. dollars, minimizing currency risks associated with international business.

Beginning on October 27, 2008, we started to report revenue generated by providing express network ACMI services to Polar for air cargo capacity to DHL (Express Network) as ACMI.

All of our ACMI contracts provide that the aircraft remain under our exclusive operating control, possession and direction at all times. The ACMI contracts further provide that both the contracts and the routes to be operated may be subject to prior and/or periodic approvals of the U.S. or foreign governments.

As a percentage of our operating revenue, ACMI revenue represented 40.7% in 2010, 45.4% in 2009 and 22.3% in 2008. As a percentage of our operated Block Hours, ACMI represented 71.2% in 2010, 70.5% in 2009 and 48.7% in 2008. We recognize ACMI and CMI revenue as the actual Block Hours operated on behalf of a customer are incurred or according to the guaranteed minimum Block Hours defined in a contract.

We currently have 20 aircraft under ACMI contracts expiring at various times from 2011 to 2028, which includes renewals and two additional aircraft under an agreement with DHL signed in January 2011. The original length of these contracts generally ranged from three to twenty years, although we do offer contracts of shorter duration. In addition, we have also operated short-term, seasonal ACMI contracts and we expect to continue to provide such services in the future.

AMC Charter. The AMC Charter business provides full-planeload charter flights to the U.S. Military. We participate in the U.S. Civil Reserve Air Fleet (CRAF) Program under contracts with the AMC, which typically cover a one-year period. We have made available a substantial number of our aircraft to be used 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 of the aircraft, which include fuel, insurance, overfly and landing fees 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 AMC.

Airlines may participate in the CRAF Program either alone or through a teaming arrangement. There are currently three groups of carriers (or teams) and several independent carriers (that are not part of any team) that compete for AMC business. We are a member of a 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 bases: a fixed basis, which is awarded annually, 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. The majority of our AMC business is expansion flying. We also earn commissions on subcontracting certain flying of oversized cargo, or in connection with flying cargo into areas of military conflict where we cannot perform these services ourselves.

As a percentage of our operating revenue, AMC Charter revenue represented 29.1% in 2010, 31.0% in 2009 and 26.5% in 2008. As a percentage of our operated Block Hours, AMC Charter represented 14.6% in 2010, 17.5% in 2009 and 14.8% in 2008.

Commercial Charter. Our Commercial Charter business segment provides full planeload capacity to customers for one or more flights based on a specific origin and destination. Customers include charter brokers, freight forwarders, direct shippers and airlines. Charter customers pay a fixed charter fee that includes fuel, insurance, landing fees, overfly and all other operational fees and costs. The Commercial Charter business is generally booked on a short-term, as-needed, basis. In addition, Atlas provides limited airport-to-airport cargo services to a few select markets. The Commercial Charter business is similar to AMC Charter business in that we are responsible for all direct operating costs as well as the commercial revenue, Load Factor and Yield risk. Distribution costs are also borne by Atlas and consist of direct sales costs incurred through our own sales force and through commissions paid to general sales agents.

As a percentage of our operating revenue, Commercial Charter revenue represented 28.7% in 2010, 20.3% in 2009 and 7.9% in 2008. As a percentage of our operated Block Hours, Commercial Charter represented 13.7% in 2010, 11.6% in 2009 and 5.5% in 2008.

Dry Leasing. Our Dry Leasing segment provides for the leasing of aircraft and/or engines to customers primarily through Titan. As a percentage of our operating revenue, Dry Leasing revenue represented 0.5% in 2010, 1.2% in 2009 and 3.0% in 2008.

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Global Supply Systems

We hold a 49% interest in GSS, a private company. Atlas Dry Leases three owned 747-400s to GSS, which pays for rent and a provision for maintenance costs associated with the aircraft. GSS, in turn, provides ACMI services for these aircraft to British Airways Plc (British Airways).

On April 8, 2009, certain members of management of GSS, through an employee benefit trust, purchased shares of GSS from a former stockholder. These shares, which were not and have never been owned by us, represent a 51% controlling interest in GSS. Following this transaction, we determined that GSS is a variable interest entity and that we are the primary beneficiary of GSS for financial reporting purposes. Accordingly, GSS became a consolidated subsidiary of AAWW upon the closing of the transaction. Therefore, intercompany transactions with GSS are eliminated and the revenue and results of operations for GSS are reflected in the ACMI segment. Prior to this transaction, we accounted for GSS under the equity method and reported the revenue from GSS as Dry Leasing revenue in the consolidated statements of operations (see Note 4 to our Financial Statements).

SonAir

In 2009, we entered into an agreement with SonAir Serviço Aéreo, S.A. (SonAir), a wholly owned subsidiary of the Sonangol Group, the multinational energy company of Angola and member of the United States-Africa Energy Association (USAEA), to operate an outsourced premium passenger charter service with two newly customized 747-400 aircraft reconfigured into largely business and executive class configuration. The aircraft are being provided by SonAir s parent company. In 2010, we began the service, known as the Houston Express , which operates three weekly nonstop roundtrip flights between Houston, Texas and Luanda, Angola. Under our CMI agreement with SonAir, we receive contractually determined revenues for the operation of the aircraft without assuming responsibility for passenger revenue and certain direct costs, including fuel.

While the private charter is not open to the public, it provides USAEA members, which include many of the leading U.S. energy companies, with a premium non-stop transportation link to support long-term projects in the West African energy sector.

Boeing

In 2010, we signed a nine-year CMI agreement with Boeing to operate their Dreamlifter fleet of four modified 747-400 freighter aircraft. These aircraft are used to transport major assemblies for the 787 Dreamliner from suppliers around the world to Boeing production facilities in the United States. In July 2010, we began operating this service for Boeing.

DHL Investment and Polar

In 2007, DHL acquired a 49% equity interest and a 25% voting interest in Polar (see Note 3 to our Financial Statements). AAWW continues to own the remaining 51% equity interest in Polar with a 75% voting interest. Concurrent with the investment, DHL and Polar entered into a 20-year blocked space agreement that was subsequently amended (the Amended BSA), whereby Polar provides air cargo capacity to DHL through Polar s Scheduled Service network for Express Network, which began on October 27, 2008, (the DHL Commencement Date). In addition, Atlas entered into 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 flight crew administration, maintenance and insurance for the aircraft, with flight crewing also to be furnished once the merger of the Polar and Atlas crew forces has been completed. 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 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 in this Report as the DHL Agreements . The DHL Agreements provide us with a

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minimum guaranteed annual revenue stream from 747-400 aircraft that have been dedicated to Polar for Express Network ACMI and other customers freight over the life of the agreements.

On the DHL Commencement Date, Polar began full flying for DHL s trans-Pacific express network and DHL began to provide financial support and also assumed the risks and rewards of the operations of Polar. In addition to its trans-Pacific routes, Polar has also flown between the Asia Pacific regions, the Middle East and Europe on behalf of DHL and other customers.

Based upon changes to the various agreements entered into following DHL s investment in Polar and subsequent changes made to Polar s operations during 2008, we reviewed our investment in Polar and determined that a reconsideration event had occurred under accounting guidance for variable interest entities. We determined that DHL was the primary beneficiary of the variable interest entity on the DHL Commencement Date and, as a result of that determination, we deconsolidated Polar from our financial statements as of October 27, 2008 and began reporting Polar under the equity method of accounting.

Long-Term Revenue Commitments

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

2011	$ 497,418
2012	420,019
2013	290,789
2014	215,889
2015	167,572
Thereafter	1,411,099
Total	$ 3,002,786

Sales and Marketing

We have regional sales offices in the United States, England and Hong Kong, which cover the Americas, Europe, Africa, the Middle East and the Asia Pacific regions. These offices market our ACMI (including CMI), Dry Leasing and Commercial Charter services directly to other airlines and indirect air carriers, as well as to charter brokers and freight forwarders. Additionally, we have a dedicated charter business unit that directly manages the AMC Charter business, and also manages our Commercial Charter business, either directly or indirectly, through our sales organizations.

Maintenance

Maintenance represented our third-largest operating expense for the year ended December 31, 2010. Primary maintenance activities include scheduled and unscheduled work on airframes and engines. Scheduled maintenance activities encompass those activities specified in a carrier s 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 aircraft and/or engines or due to FAA airworthiness directives (ADs).

Scheduled airframe maintenance includes lower-level activities consisting of daily and weekly checks, as well as heavy maintenance checks, involving more complex activities that can generally take from one to four weeks to complete. Unscheduled maintenance, known as line-maintenance, rectifies events occurring during normal day-to-day operations. Scheduled maintenance activities are progressively higher in scope and duration, and are considered heavy airframe maintenance checks. 747-200 heavy checks are generally more involved than those performed on our 747-400 aircraft, primarily due to the age of the aircraft, its earlier evolution maintenance program and directives prescribed by the FAA. All lettered checks are currently performed by third-party service providers on a time-and-material basis as we believe they provide the most efficient means of maintaining our aircraft fleet and the most reliable way to meet our maintenance requirements.

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Our FAA-approved maintenance programs allow our engines to be maintained on an on condition basis. Under this arrangement, engines are sent for repair based on life-limited parts and/or performance deterioration.

Under the FAA ADs issued pursuant to its 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 the problems of corrosion and structural fatigue. As part of the FAA s overall Aging Aircraft Program, it has issued ADs requiring certain additional aircraft modifications. Other ADs have been issued that require inspections and minor modifications to 747-200 aircraft. The 747-400 freighter aircraft were delivered in compliance with all existing FAA ADs at their respective delivery dates. 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. The FAA is also considering a rule that would increase the inspection and maintenance burden on aging aircraft.

Insurance

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

Since the terrorist attacks of September 11, 2001, we and other airlines have been unable to obtain coverage for claims resulting from acts of terrorism, war or similar events (war-risk coverage) at reasonable rates from the commercial insurance market. We have, as have most other U.S. airlines, purchased our war-risk coverage through a special program administered by the U.S. government. The FAA is currently providing war-risk coverage for hull, passenger, cargo loss, crew and third-party liability insurance through September 30, 2011. If the U.S. government insurance program were to be terminated, we would likely face a material increase in the cost of war-risk coverage, and because of competitive pressures in the industry, our ability to pass this additional cost on to customers may be limited.

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 holds 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.

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 and conclude that Atlas and Polar are in material compliance with the DOT requirements described above.

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.

We believe Atlas and Polar are in material compliance with applicable FAA rules and regulations and maintain all documentation required by the FAA.

In 2009, following expressions of concern about pilot fatigue on certain long-range flights, the FAA convened an Aviation Rulemaking Committee (ARC) comprised of various aviation stakeholders to recommend changes to the flight and duty time rules applicable to pilots. In 2010, the FAA issued a proposed rule to enhance flight and duty time regulations with the stated goal of reducing pilot fatigue. Adoption of the proposed rule would result in increased crew costs for air carriers (such as Atlas and Polar) that predominately fly nighttime and long-haul flights. The statutory deadline for adopting this new rule is August 1, 2011. If adopted, the specific rule proposed by the FAA could 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, such as with Japan and China, 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 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 modified the licensing requirements of air carriers of its member states in 2008 to place new limits on the ability of EU carriers to use ACMI aircraft from airlines of non-EU member states. The revised regulations have a negative impact on ACMI business opportunities. Similarly, the European Aviation Safety Agency (EASA) has proposed new rules that would prohibit EU airlines from providing ACMI services from non-EU airlines without first satisfying their regulators that the aircraft to be used satisfy both international and EASA-imposed requirements. Finalization of the proposed regulations could increase costs and inhibit business opportunities.

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Airport Access. The ability of Atlas, Polar and Atlas other ACMI 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 restrictions of certain airports could, if expanded, 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 caps on JFK operations of those carriers offering scheduled services. Additionally, the FAA adopted and then withdrew a rule to impose slot limitations on scheduled operations at JFK and Newark Liberty International (EWR) airports and to establish a slot auction process that would include the involuntary withdrawal of slots from current holders. The rule also would have placed severe hourly limitations on unscheduled operations at JFK and EWR. If a new rule with similar constraints on unscheduled operations were to be adopted in the future, our business operations could be adversely affected.

As a further means to address congestion, the FAA has issued a rule allowing U.S. airports to raise landing fees to defray the costs of airfield facilities under construction or reconstruction. The rule is being challenged in court. Any landing fee increases implemented pursuant to the rule would have an impact on airlines generally. A similar proposal is under consideration in the EU.

Security. Following the terrorist attacks on September 11, 2001, the aviation security functions previously performed by the FAA were transferred to the U.S. Transportation Security Administration (TSA). The TSA extensively regulates aviation security through rules, regulations and security directives which are designed to prevent unauthorized access to freighter aircraft and the introduction of weapons and explosives onto such aircraft. Atlas and Polar currently operate pursuant to a TSA-approved security program that, we believe, maintains the security of all aircraft in the fleet. There can be no assurance, however, that we will remain in compliance with the existing and any additional TSA requirements 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 threat-based risk management approach is utilized to target specific at-risk cargo. This approach could 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. Additionally, there has been legislation introduced in the U.S. House of Representatives that, if enacted, could substantially increase the security burden on all-cargo air carriers.

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. 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. Since a new session of U.S. Congress began in January 2011, legislation of that type cannot become law without first having been reintroduced and voted upon. In September 2009, the EPA proposed regulations that would impose controls on greenhouse gas emissions. The proposed regulations would not directly control greenhouse gas emissions by air carriers. However, a number of states and environmental organizations have asked the EPA to regulate greenhouse gas emissions from aircraft. In addition, the EU has enacted legislation that will extend its emissions trading scheme to aviation commencing in 2012, and airlines serving the EU have had to submit compliance plans for review and approval. Under the EU mechanism, airlines will only be able to exceed specified carbon emissions levels by acquiring carbon emissions rights from other entities. The U.S. and other governments have objected to the EU s unilateral implementation and are seeking to have the matter addressed, instead, by the International Civil Aviation Organization. Some airlines and organizations are also challenging the EU mechanism in court. 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.

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 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. Atlas and Polar both participate in the 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.

Future Regulation. The U.S. Congress, the DOT, the FAA and other government agencies are currently considering and in the future may consider and adopt 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 and solutions provided. Atlas, Air Atlanta Icelandic, World Airways and Evergreen International Aviation are the primary providers presently in the 747-400F and 747-400 BCF/SF ACMI markets. Competition is more significant in the ACMI market for the older, less-efficient 747-200 aircraft. We have withdrawn from that market and redeployed our 747-200 ACMI assets into the AMC and Commercial Charter segments, where our operating returns for operating the aircraft are comparatively higher. Operators remaining in the 747-200 ACMI segment include Air Atlanta Icelandic, Evergreen International Aviation, Kalitta Air, LLC and Southern Air, Inc. World Airways also operates MD11s in cargo ACMI services, which compete directly in some markets with 747 freighters. In addition, competition may intensify with the utilization of the 777F aircraft, in certain markets in lieu of a 747.

We participate through our AMC Charter business segment in the CRAF Program. While our AMC Charter business has been profitable each year since 2004, the formation of additional competing teaming arrangements, increased participation of other independent carriers, an increase by other air carriers in their commitment of aircraft to the

CRAF program, the withdrawal of any of the current team members, especially FedEx, or a reduction of the number of aircraft pledged to the CRAF program by our team, and the uncertainty of future demand for commercial airlift by the U.S. Military, could adversely affect the amount of AMC business awarded to us in the future. To the extent that we receive a reduction in our awards or

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expansion business, we will re-deploy the available aircraft to our other business segments or remove the capacity from our fleet.

The Commercial Charter market is highly competitive, with a number of operators, including Southern Air, Inc.; Evergreen International Aviation; Kalitta Air, LLC; Lufthansa Group and other passenger airlines providing similar services. Many of our ad hoc charter flights are one-way return flights from Asia or Europe, positioned by one-way AMC flights that originate from the United States and terminate in Europe or the Middle East. We continue to develop new opportunities in the Commercial Charter market as alternative deployments for the 747-200 aircraft remaining in our fleet or 747-400 aircraft not otherwise deployed in our ACMI or AMC business.

Titan s primary focus in the Dry Leasing business is freighter aircraft and engine leasing. While there is competition among operating lessors in this market, we believe that we are uniquely positioned in this business due to our depth and understanding of the demand drivers and operator base. The primary competitors in the freighter leasing business are GE Capital Aviation Services; Guggenheim Aviation Partners, LLC; Air Castle Ltd. and AerCap Holdings, N.V. Titan may also compete 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 passenger leasing market are GE Capital Aviation Services, International Lease Finance Corp., Ansett Worldwide Aviation Services, CIT Aerospace, Aviation Capital Group Corp., Air Castle Ltd., AerCap Holdings N.V., and RBS Aviation Capital.

Fuel

Historically, aircraft fuel is one of the most significant expenses for us. During 2010, 2009 and 2008, fuel costs represented 27.1%, 22.1%, and 41.8%, respectively, of our total operating expenses. Fuel prices and availability are subject to wide price fluctuations based on geopolitical issues and supply and demand, which we can neither control nor accurately predict. The following table summarizes our total fuel consumption and costs:

	2010	2009	2008
Gallons consumed (in thousands)	119,176	101,451	201,002
Average price per gallon, including tax	$ 2.52	$ 1.98	$ 3.37
Cost (in thousands)	$ 300,229	$ 201,207	$ 677,544
Fuel burn gallons per Block Hour (excluding ACMI)	3,221	3,159	3,231

Subsequent to the DHL Commencement Date, our exposure to fluctuations in fuel price is now limited to a portion of our Commercial Charter business only. For this business, we shift a portion of the burden of price increases to customers by imposing a surcharge. While we believe that fuel price volatility in 2010, 2009 and 2008 was partly reduced as a result of increased fuel surcharges, these surcharges did not completely offset the underlying increases in fuel prices. The ACMI segment, including Express Network, has no direct fuel price exposure because ACMI contracts require our customers to pay for aircraft fuel. Similarly, we generally have no fuel price risk in the AMC business because the price is set under our contract, and we receive or make subsequent payments to adjust for price increases and decreases from the contractual rate. AMC fuel expense was $155.5 million in 2010, $118.4 million in 2009 and $199.9 million in 2008.

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.

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Employees

Our business depends on highly qualified management and flight crew personnel. As a percentage of our consolidated operating expenses, salaries, wages and benefits accounted for approximately 21.5% in 2010, 23.7% in 2009 and 13.7% in 2008. As of December 31, 2010, we had 1,532 employees, 877 of whom were crewmembers. We maintain a comprehensive training program for our crewmembers in compliance with FAA requirements, in which each pilot and flight engineer regularly attends recurrent training programs.

Crewmembers of Atlas and Polar are represented by the International Brotherhood of Teamsters (the IBT). These employees represented approximately 51.5% of our workforce as of December 31, 2010. 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.

The Atlas collective bargaining agreement became amendable in February 2006. The Polar collective bargaining agreement became amendable in April 2007. While both units filed Railway Labor Act Section 6 notices to begin negotiations for amended agreements, those negotiations have been placed on hold in favor of completing the merger of the two crew forces. In November 2004, we initiated steps to merge the represented crewmember bargaining units of Atlas and Polar. The respective collective bargaining agreements provide for a seniority integration process and the negotiation of a single collective bargaining agreement (SCBA). This seniority list integration process was completed in November 2006.

We received the integrated seniority l