

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-16545



**Atlas Air Worldwide Holdings, Inc.**

(Exact name of registrant as specified in its Charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**13-4146982**

**2000 Westchester Avenue, Purchase, New York**

(I.R.S. Employer Identification No.)

(Address of principal executive offices)

**10577**

(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            | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|-------------------|---|
| Common Stock, \$0.01 Par Value | AAWW              | 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 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 the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit). Yes  No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 December 31, 2022 was approximately \$1,263.8 million. As of February 16, 2023, there were 28,633,181 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Certain portions of the registrant's Proxy Statement relating to the 2023 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,” “could,” “would,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “believe,” “seek,” “project,” “estimate” and similar expressions used in this Report that do 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” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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. Such forward-looking statements speak only as of the date of this Report. 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 and expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

## 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.

|                       |  |
|-----------------------|--|
| ACMI                  | Service offering, 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 price risk. In addition, customers are generally responsible for landing, navigation and most 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               | “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.  |
| Charter               | Service offering, whereby we provide cargo and passenger aircraft charter services to customers. The customer generally pays a fixed charter fee that includes fuel, insurance, landing fees, navigation fees and most other operational fees and costs.   |
| CMI                   | Service offering, whereby we provide outsourced cargo and passenger aircraft operating solutions, generally including the provision of crew, Line Maintenance and insurance, but not the aircraft. Customers assume fuel, demand and price risk, and are responsible for providing the aircraft (which they may lease from us) and generally responsible for Heavy and Non-Heavy Maintenance, landing, navigation and most other operational fees and costs. |
| D Check               | “Heavy” airframe maintenance checks, which are the most extensive in scope and are generally performed every six or eight years depending on aircraft type.  |
| Dry Leasing           | Service offering, whereby we provide cargo and passenger aircraft and engine leasing solutions for compensation that is typically based on a fixed monthly amount. The customer operates, and is generally responsible for insuring and maintaining, the flight equipment.   |
| Heavy Maintenance     | Scheduled maintenance activities that are extensive in scope and are primarily based on time or usage intervals, which include, but are 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.   |
| Line Maintenance      | Maintenance 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.  |
| Utilization           | The average number of Block Hours operated per day per aircraft.   |
| Yield                 | The average amount a customer pays to fly one tonne of cargo one mile.   |

#### Overview

AAWW is a holding company with a wholly owned operating subsidiary, Atlas Air, Inc. (“Atlas”). It also has a 51% economic interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (“Polar”). In addition, AAWW is 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 and the largest outsourced airfreight provider in the world. We operate the world's largest fleet of 747 freighters and provide customers a broad array of 747, 777, 767 and 737 aircraft for domestic, regional and international cargo and passenger operations. We provide unique value to our customers by giving them access to highly reliable modern production freighters that deliver low unit costs combined with outsourced aircraft operating services that we believe lead the industry in terms of quality and global scale. Our customers include express delivery providers, e-commerce retailers, the U.S. Military Air Mobility Command ("AMC"), charter brokers, freight forwarders, direct shippers, airlines, manufacturers, sports teams and fans, and private charter customers. As of December 31, 2022, our fleet included 112 aircraft, including seven aircraft that are dry leased to other operators. We have extensive operations across the world in Africa, Asia, Australia, Europe, the Middle East, North America and South America.

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.

### **Merger Agreement**

On August 4, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Rand Parent, LLC ("Parent"), a company affiliated with certain funds managed by affiliates of Apollo Global Management, Inc., J.F. Lehman & Company, Inc. and Hill City Capital L.P. (collectively, the "Buyers") and Rand Merger Sub, Inc, a wholly owned subsidiary of Parent ("MergerCo"), pursuant to which, subject to the terms and conditions thereof, MergerCo will be merged with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Parent. Upon completion of the Merger, AAWW will become a privately held company and shares of AAWW common stock will no longer be listed or publicly traded on The NASDAQ Global Select Market (see Note 2 to our Financial Statements for further discussion).

Subject to the terms and conditions set forth in the Merger Agreement, which has been unanimously approved by the board of directors, at the effective time of the Merger (the "Effective Time"), each share of the Company's common stock issued and outstanding (subject to certain exceptions set forth in the Merger Agreement) shall be converted into the right to receive \$102.50 in cash, without interest (the "Merger Consideration").

On November 29, 2022, the shareholders of AAWW common stock adopted the Merger Agreement. We are working to complete the transaction in the first quarter of 2023, and continue to make progress toward obtaining necessary approvals. We are awaiting final approval from the U.S. Department of Transportation (the "DOT") and have received all other required shareholder and regulatory approvals.

### **Operations**

**Introduction.** Our business is organized into two operating segments based on our service offerings: Airline Operations and Dry Leasing. Our segments are directly or indirectly engaged in the business of air transportation services but have different commercial and economic characteristics. Each operating segment is separately reviewed by our chief operating decision maker to assess operating results and make resource allocation decisions. Additional information regarding our reportable segments can be found in Note 14 to the Financial Statements.

*Airline Operations.* The core of our business is generally providing cargo aircraft outsourcing services to customers on an ACMI, CMI and Charter basis. Most arrangements provide us with guaranteed minimum revenues at predetermined rates, levels of operation and defined periods of time. ACMI, CMI and long-term Charter contracts generally provide a predictable annual revenue and cost base by minimizing the risk of fluctuations such as price, fuel and demand risk in the air cargo business. ACMI and CMI flying is typically based on guaranteed minimum Block Hours operated for a customer, while long-term Charter flying is for specific flight rotations between locations based on a guaranteed number of weekly or monthly flights. In recent years, we have significantly expanded our long-term Charter programs, which include indexed fuel price adjustments to mitigate our exposure to fuel price volatility. Our revenues and most of our costs under our contracts are denominated in U.S. dollars, minimizing currency risks associated with international business.

All of our contracts provide that the aircraft remain under our exclusive operating control, possession and direction at all times. These contracts further provide that the routes to be operated may be subject to prior and periodic approvals of the U.S. or foreign governments. The original length of ACMI and CMI contracts generally ranges from two to seven years. The original length of long-term Charter program contracts generally ranges from two to five years. We also provide certain of these services on a short-term basis. In addition, Atlas provides limited airport-to-airport cargo Charter services to select markets, including several cities in Asia and South America, and occasionally earns revenue on subcontracted Charter flights.

*Dry Leasing.* Our Dry Leasing business provides aircraft and engines to customers, including some CMI customers, for compensation that is typically based on a fixed monthly amount. This business is operated by Titan, which is principally a cargo aircraft dry lessor, but also owns and manages aviation assets such as engines and related equipment. In addition, Titan also markets its expertise in passenger-to-freighter conversions and other aviation-related technical services. Our Dry Leasing portfolio diversifies our business mix and enhances our predictable, long-term revenue and earnings streams.

*Other Revenue.* Other revenue includes administrative and management support services and flight simulator training.

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. Our fleet of 767-300 and 737-800 freighter aircraft are well suited for regional and domestic operations.

We are focused on the further enhancement of all our services and we have the flexibility to expand our fleet in response to market conditions. In December 2021, we signed an agreement with The Boeing Company (“Boeing”) for the purchase of four new 777-200LRF aircraft. The first of the four new 777-200LRFs was delivered in November of 2022, with the other three expected to be delivered throughout 2023. In January 2021, we signed an agreement with Boeing for the purchase of four new 747-8F aircraft. The first three of these aircraft were delivered in May, October and November of 2022 and the last aircraft was delivered in January of 2023. All eight of these aircraft have been placed with customers under long-term contracts. We believe that our current fleet represents one of the most efficient, reliable freighter fleets in the market.

## **COVID-19 Pandemic**

Since the COVID-19 pandemic began, we have incurred and could incur further significant additional costs, including higher premium pay for pilots operating in certain areas significantly impacted by the pandemic and other operational costs, including costs for continuing to provide a safe working environment for our employees. In addition, COVID-19-related airport closures, employees who are unable to work, vaccine mandates, disruption of operations by our third-party service providers, availability of hotels and restaurants, ground handling delays or reductions in passenger flights by other airlines globally, have impacted and could have a further impact on overtime costs, crew travel costs and our ability to position employees to operate and fully utilize all of our aircraft. The continuation or worsening of the aforementioned and other factors has and could continue to materially affect our results for the duration of the COVID-19 pandemic.

For more information about the COVID-19 pandemic and its effect on our business, results of operations and financial condition, see Item 1A, (“Risk Factors”) and Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) of this Report.

## **Dry Leasing Joint Venture**

Titan Aircraft Investments Ltd (“TAI”), is a long-term joint venture we entered into with investment funds managed by Bain Capital Credit, LP (collectively “Bain Capital”) to develop a diversified freighter aircraft Dry Leasing portfolio that aims to capitalize on demand for cargo aircraft, underpinned by robust e-commerce and express market growth.

Titan provides management services to the joint venture, including aircraft acquisitions, lease-management, passenger-to-freighter aircraft conversion oversight, technical expertise and disposal of aircraft. Titan's expertise includes a wide range of freighters, as well as passenger aircraft that could be converted to freighters.

The following table summarizes the aircraft types managed by us in TAI as of December 31, 2022:

| Aircraft Type  | Total |
|----------------|-------|
| 777-300ER      | 1     |
| 777-200LRF     | 1     |
| 767-300ER      | 2     |
| 767-300ER BCF  | 1     |
| 767-300ER BDSF | 1     |
| 757-200 SF     | 3     |
| 737-800 SF     | 2     |
| Total          | 11    |

#### DHL Investment and Polar

DHL Network Operations (USA), Inc. ("DHL") holds a 49% equity interest and a 25% voting interest in Polar (see Note 5 to our Financial Statements). AAWW owns the remaining 51% equity interest and 75% voting interest. Under a 20-year blocked space agreement that expires in 2028 (the "BSA"), Polar provides air cargo capacity to DHL. Atlas and Polar also 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 with the opportunity for performance premiums that escalate 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. 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 placed in service with Polar for DHL and other customers' freight over the life of the agreements. DHL provides financial support and also assumes the risks and rewards of the operations of Polar.

Combined with Polar, we provide ACMI, CMI, Charter and Dry Leasing services to support DHL's transpacific-express, North American, intra-Asian, and global networks. In addition, we fly between the Asia Pacific region, the Middle East and Europe on behalf of DHL and other customers. Atlas also provides incremental charter capacity to Polar and DHL from time to time. See Note 5 to our Financial Statements for a further discussion of our relationship with Polar.

The following table summarizes the aircraft types and services provided to Polar and DHL as of December 31, 2022:

| Aircraft   | Service             | Total |
|------------|---------------------|-------|
| 747-8F     | ACMI                | 6     |
| 777-200LRF | CMI                 | 6     |
| 777-200LRF | CMI and Dry Leasing | 2     |
| 777-200LRF | Dry Leasing         | 2     |
| 767-300    | CMI and Dry Leasing | 2     |
| 767-300    | CMI                 | 2     |
| Total      |                     | 20    |

#### Amazon

In May 2016, we entered into certain agreements with Amazon.com, Inc. and its subsidiary, Amazon Fulfillment Services, Inc., (collectively "Amazon"), which involve, among other things, CMI operation of Boeing 767-300 freighter aircraft for Amazon by Atlas, as well as Dry Leasing by Titan. The Dry Leases have a term of ten years from the commencement of each agreement, while the CMI operations are for seven years from the commencement of each agreement (with an option for Amazon to extend the term to ten years).

In March 2019, we amended the agreements entered into in 2016 with Amazon, pursuant to which we provide CMI services using Boeing 737-800 freighter aircraft provided by Amazon. The 737-800 CMI operations have a term of seven years from the commencement of each agreement (with an option for Amazon to extend the term to ten years).

In conjunction with these agreements, we granted Amazon warrants providing the right to acquire shares of our common stock. See Note 9 to our Financial Statements for a discussion of these agreements with Amazon.

The following table summarizes the freighter aircraft types and services provided to Amazon as of December 31, 2022:

| Aircraft | Service             | Total |
|----------|---------------------|-------|
| 767-300  | CMI and Dry Leasing | 17    |
| 767-300  | Dry Leasing         | 2     |
| 737-800  | CMI                 | 8     |
| Total    |                     | 27    |

## Sales and Marketing

We have regional sales offices in various locations around the world that cover the Americas, Asia Pacific, Europe, Africa and Middle East regions. These offices market our ACMI, CMI, Charter and Dry Leasing services to express delivery providers, e-commerce retailers, the U.S. military, charter brokers, freight forwarders, direct shippers, airlines, manufacturers, sports teams and fans, and private charter customers.

## Fuel

Historically, aircraft fuel is one of the most significant expenses for us. During 2022, 2021 and 2020, fuel costs represented 33.2%, 24.9%, and 16.2%, 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.

Our exposure to fluctuations in fuel price is limited to the shorter-term commercial portion of our Charter services, as fuel risk is largely mitigated by price adjustments, including those based on indexed fuel prices for longer-term commercial charter contracts. We do not incur fuel expense in providing ACMI and CMI services or in our Dry Leasing business as the cost of fuel is borne by the customer. Similarly, we generally have no fuel price risk for AMC charters because the price is set under our contract with the AMC, 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 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.

## Human Capital

### *Our People*

Our business depends on our team of highly qualified flight and ground employees. As of December 31, 2022, we had approximately 4,500 employees, approximately 2,700 of whom were pilots. We maintain a comprehensive training program for our pilots in compliance with U.S. Federal Aviation Administration (“FAA”) requirements, in which each pilot regularly attends recurrent training programs. In addition to the training programs provided to pilots, we also maintain comprehensive training programs for other safety-sensitive positions.

Pilots of Atlas and flight dispatchers of Atlas and Polar, are represented by the International Brotherhood of Teamsters (the “IBT”). These employees represented approximately 60% of our workforce as of December 31, 2022.

In March 2022, we signed a five-year collective bargaining agreement (“CBA”) with our pilots, effective as of September 2021. This long-term CBA was concluded through a binding interest arbitration process, with the arbitrator issuing a decision on September 10, 2021. The parties reached agreement on certain enhancements to the CBA in February 2022, which were incorporated into the CBA. The new pay rates became effective as of September 1, 2021, and we have continued to work closely together with the union’s new leadership on the final implementation of certain remaining provisions of the CBA. Under this industry competitive agreement, all of our pilots are receiving significantly higher pay, quality of life improvements and enhanced benefits. See Note 15 to our Financial Statements for further discussion of our labor matters.

We also had a CBA with our Atlas and Polar dispatchers, which became amendable in November 2021. Shortly thereafter, the Company and the IBT commenced collective bargaining for a successor CBA pursuant to Section 6 of the Railway Labor Act. The parties reached agreement on a new five-year CBA, which was ratified by the dispatchers in August 2022. The new CBA with the dispatchers became effective as of September 1, 2022.

## *Diversity, Equity and Inclusion (“DEI”)*

As an organization that carries the world, we care for the world we carry. Atlas seeks to foster a culture of inclusive diversity that is fundamental to attracting, retaining and developing the talent we need to fuel ongoing success. We value the individual differences represented by members of our workforce, and seek to ensure that our decision-making and strategic direction is informed by their unique perspectives. Underlying our DEI philosophy are five pillars of focus that serve as guiding principles for our DEI commitments: employee empowerment, learning and development, external advocacy, communication, and accountability and achievement. Our Employee and Executive Councils lead these important efforts.

Our board of directors endorse the concept of board and committee refreshment, which has resulted in the election of several new board members and the rotation of the chairman of the board and the chairs of our three standing committees over the last three years. Our board is 60% diverse (40% ethnically diverse and 30% gender diverse). We believe that diversity with respect to gender, ethnicity, background, professional experiences and perspectives is an important element in the board selection process.

## *Health and Wellness*

In addition to comprehensive health and retirement benefits provided to eligible employees, our core benefits are supplemented with specific programs to encourage preventive care, improve common health conditions, and manage more advanced issues for improved outcomes. In addition, we offer a variety of voluntary benefits and paid time away from work programs. We also provide a number of wellness resources designed to promote physical, emotional and financial well-being that transitioned to virtual programs to provide increased accessibility.

Safety is our top priority. To ensure the highest level of safety for our employees, we established a Coronavirus Task Force (“CTF”) responsible for policies and procedures related to COVID-19. Through the CTF, we closely monitor the evolving COVID-19 pandemic and take numerous precautions to ensure the safety of our operations around the world.

To attract and retain a broader and more diverse employee population, we leverage a flexible working environment for all of our physical facilities, as necessary, including key locations in New York, Kentucky, Florida and Hong Kong. In addition to capturing operational efficiencies, hybrid and remote work allows us to create even more inclusive ways of working. At the same time, our physical work locations reinforce our Company culture and remain a fundamental ingredient to networking, development, brainstorming and team-building.

## **Aircraft Maintenance**

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 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 regularly issues inspection and maintenance requirements for aircraft depending on 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 or power by the hour 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; and cyber business interruption.

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. 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.

## **Environmental, Social and Governance**

As a leading global provider of outsourced aviation operating services, we encounter and manage a broad range of environmental, social and governance (“ESG”) issues. We have established an ESG policy and identified our efforts in our 2021 ESG Report, which can be viewed on our website, [www.atlasairworldwide.com](http://www.atlasairworldwide.com), under “Corporate Responsibility” in the “About Us” section.

## **Governmental Regulation**

*General.* Atlas and Polar (collectively, the “Airlines”) are subject to regulation by the 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. The Airlines 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 or approvals. We believe the DOT will continue to find the Airlines’ fitness and citizenship favorable.

In addition, the Airlines are required to hold valid FAA-issued air carrier certificates and FAA-approved operations specifications authorizing operation in specific regions with specified equipment under specific conditions and are 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.

*International.* Air transportation in international markets (the vast majority of markets in which the Airlines operate) is subject to extensive additional regulation. The ability of the Airlines 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 airlines 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 the Airlines’ international operations. Foreign government authorities also impose substantial licensing and business registration requirements and, in some cases, require the advance filing 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, until recently, the EU placed temporal limits on the ability of EU carriers to use ACMI aircraft operated by airlines of non-EU member states. The regulations had a negative impact on our ACMI business opportunities.

*Airport Access.* The ability of the Airlines to operate suitable schedules is dependent on their ability to gain access to airports of their choice at commercially desirable times and on acceptable terms. In some cases, access is constrained by the need for the assignment of takeoff and landing "slots" or comparable operational rights. Like other air carriers, the Airlines are subject to such constraints at slot-restricted airports in cities such as Chicago and a variety of foreign locations (e.g., Amsterdam, Incheon, Hong Kong, Shanghai and Tokyo). The availability of slots is not assured and the inability of the Airlines or their ACMI and CMI carrier 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 Hong Kong and various airports in Europe, Canada and the U.S. These could have an adverse operational or economic impact.

Access to the New York airspace had presented an additional challenge in recent years even prior to the COVID-19 pandemic. 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 potentially could place limits on Charter flights once traffic levels reach their pre-pandemic levels.

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") and international regulatory bodies extensively regulate aviation security through rules, regulations and security directives that are designed to prevent unauthorized access to passenger 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 utilize the TSA, the intelligence community and the private sector as resources for our aggressive global threat-based risk-management program. There can be no assurance, however, that we will remain in compliance with existing or 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. 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 these requirements may necessitate redundant or costly measures or be in conflict with TSA requirements. We have successfully implemented all European Commission security programs allowing us unimpeded access to European markets. We screen all export cargo from the U. S. ensuring TSA regulatory compliance.

*Environmental.* We are subject to various international, federal, state and local laws relating to the protection of the environment and health and safety matters, including the discharge of pollution, the disposal of materials and chemical wastes, the cleanup of contamination and the regulation of aircraft noise, which are administered by numerous state, local, federal and foreign 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 subscribe to the International Civil Aviation Organization ("ICAO") Balanced Approach for addressing aircraft noise, which was codified in 2001 and updated as recently as 2018. 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 in the U.S., by the U.S. Environmental Protection Agency (the "EPA"), and the international jurisdictions in which we operate regarding air quality. We believe that all of our aircraft meet or exceed applicable fuel venting requirements and other air emissions standards.

Various jurisdictions, including the EU, U.S. and other international governments and bodies, have implemented or are considering measures to respond to climate change and greenhouse gas emissions.

In October 2016, ICAO approved and subsequently amended a resolution to adopt a global market-based measure known as the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"), which is designed to offset any annual increases in total carbon emissions from international civil aviation above a baseline level determined by 2019 emissions. Although various details regarding the implementation of CORSIA still need to be finalized and have been impacted by the COVID-19 pandemic, a pilot phase began in 2021 and will run through 2023. Starting in 2019, the Airlines have voluntarily begun tracking and reporting emissions in accordance with the CORSIA methodology in 2020, even though it is not yet mandatory in ICAO member countries. As a result, starting in 2024, the Airlines may need to purchase allowances to offset their share of

emissions overages based on the reporting for the 2021 to 2023 compliance period, which utilizes baseline emissions from 2019. For subsequent compliance periods, 85% of 2019 baseline emissions will be utilized.

The EU continues to address climate change through its Emissions Trading Scheme (“ETS”). 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 covered 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. In recognition of ICAO’s adoption of CORSIA, the ETS has been suspended with respect to flights to and from non-European countries continues through December 31, 2023. However, the ETS remains applicable to intra-European flights. Additionally, various European constituencies have begun to advocate for supplemental controls on aviation greenhouse gas emissions through additional taxation and similar measures.

In the U.S., various constituencies have continued to advocate for controls on greenhouse gas emissions. On August 15, 2016, the EPA issued a final rule finding that greenhouse gas emissions from aircraft cause or contribute to air pollution that may reasonably be anticipated to endanger public health and welfare. It is possible that these or other developments could lead to the future regulation of greenhouse gas emissions from aircraft in the U.S.

*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 (the “U.S. 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. In August 2021, the U.S. Department of Defense activated the CRAF for the first time since 2002 to augment support to the U.S. Department of State in the evacuation of U.S. citizens and personnel, special immigrant visa applicants, and other at-risk individuals from Afghanistan. We provided three 747-400 passenger aircraft to support the CRAF activation, which ended in mid-September, and also provided additional 767 passenger aircraft in support of these evacuations for the AMC.

Under the CRAF Program, contracts with the AMC are for two-years with an option for the AMC to extend the contract for two additional two-year periods. 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-based contracts. Atlas bears all direct operating costs for both passenger and cargo aircraft, which include fuel, insurance, overfly, landing and ground handling expenses. The contracted charter rates (per mile) and fuel prices (per gallon) are fixed by the AMC periodically. 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 bases: 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 and Charter services, including long-term charter programs, is competitive. We believe that the most important basis for competition in this market is access to capacity, the efficiency and cost-effectiveness of the aircraft assets and

the scale, scope and quality of the outsourced operating services provided. Atlas is the market-leading provider of ACMI and Charter services utilizing the superior long-haul aircraft in the 747-8, 747-400 and 777 freighters. We will continue to develop new opportunities, including long-term charter programs, for aircraft not otherwise deployed in our ACMI business. Our primary competitors providing ACMI and Charter services for 777, 747, 767 and 737 freighter aircraft include the following: 21Air, LLC; Air Atlanta Icelandic; Air Transport Services Group, Inc.; Cargolux; Kalitta Air; National Air Cargo; Western Global Airlines; and other freighter operators.

Similar to the ACMI and Charter markets, the CMI market is also competitive. The most important basis for competition in this market is access to pilots, the efficiency and cost-effectiveness of the CMI solution and the scale, scope and quality of the outsourced operating services provided. We believe that we are the leading provider of such services to the market. Our primary competitors are operators that include Aerologic, Air Transport Services Group, Inc., Cargolux, Kalitta Air, Mesa Airlines, National Air Cargo, Sun Country Airlines and other airlines providing similar services.

The Dry Leasing business is also competitive with a large number of companies offering operating lease solutions globally. We believe that we have a competitive advantage as a leading lessor of freighter aircraft based on our extensive customer relationships in the airfreight market, our insights and expertise in aircraft types we operate, as well as access to capital, through our joint venture with Bain Capital, for funding the acquisition of incremental aircraft for conversion and leasing. Our primary competitors in the aircraft leasing market include AerCap Holdings N.V., Aero Capital Solutions, Altavair Air Finance, Air Transport Services Group, Inc., Avia AM, BBAM Aircraft and Leasing Management and Dubai Aerospace.

#### **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.atlasairworldwide.com](http://www.atlasairworldwide.com), as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. 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](http://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 the Proposed Merger**

***The Merger may not be completed on the terms or timeline currently contemplated or at all, which could adversely affect our stock price, business, financial condition and results of operations.***

On August 4, 2022, the Company entered into the Merger Agreement, which provides that the consummation of the Merger is subject to certain conditions, including (i) the absence of any law, order, judgment, decree, injunction or ruling prohibiting the consummation of the Merger; (ii) the accuracy of the other party's representations and warranties (subject to certain materiality qualifiers); (iii) the other party's compliance in all material respects with its pre-closing covenants; and (iv) receipt of certain required regulatory approvals, including receipt of approval from the DOT (which has not been received as of the date of this Report). While it is currently anticipated that the Merger will be consummated during the first quarter of 2023, there can be no assurance that the foregoing conditions will be satisfied in a timely manner or at all, or that an effect, event, development or change will not transpire that could delay or prevent these conditions from being satisfied.

If the Merger is not consummated for any reason, the trading price of our common stock may decline to the extent that the market price of the common stock reflects positive market assumptions that the Merger will be consummated and the related benefits will be realized. We may also be subject to additional risks if the Merger is not completed, including:

- the requirement in the Merger Agreement that, under certain circumstances, we pay Parent a termination fee of \$97.5 million in cash;
- incurring substantial costs related to the Merger, such as financial advisory, legal, accounting and other professional services fees that have already been incurred or will continue to be incurred until closing;
- limitations on our ability to retain and hire key personnel;
- reputational harm including relationships with investors, customers and business partners due to the adverse perception of any failure to successfully complete the Merger; and
- potential disruption to our business and distraction of our workforce and management team to pursue other opportunities that could be beneficial to us, in each case without realizing any of the benefits of having the Merger completed.

Further, we or Parent may terminate the Merger Agreement if the Merger has not been consummated by March 4, 2023 (subject to (i) an automatic extension until June 4, 2023 if all closing conditions other than those relating to a clearance, consent or restraint in respect of any regulatory law have not been received, (ii) a further extension to August 4, 2023 at the option of Parent or the Company if such regulatory closing conditions have not been satisfied, and (iii) whether or not otherwise extended, in the event that the marketing period for Parent's debt financing has commenced but has not completed, an extension, in Parent's sole discretion, until four business days following the then-scheduled expiration of the marketing period, the "Outside Date"). We or Parent also may terminate the Merger Agreement (i) by mutual written consent; (ii) if there is a final and nonappealable judgment enacted, promulgated, issued, entered, amended or enforced by any governmental authority of competent jurisdiction or any applicable law enjoining, restraining or otherwise prohibiting consummation of the Merger; or (iii) if the other party has breached its representations or warranties or failed to perform any of its covenants or agreements in a way that would prevent satisfaction of a closing condition by the Outside Date and such breach or failure to perform cannot be cured within 35 calendar days following receipt of written notice of such breach or failure to perform and an intent to terminate the Merger Agreement. The occurrence of the aforementioned could adversely affect our stock price, business, financial condition and results of operations.

***The announcement of the Merger Agreement and pendency of the Merger could negatively impact our business, financial condition and results of operations.***

The announcement or pendency of the Merger could adversely affect our business, financial condition and results of operations and may result in our inability to hire or the departure of key personnel. In connection with the Merger, some of our customers and business partners may delay or defer decisions or may end their relationships with us, which could negatively affect our revenues, earnings and cash flows, regardless of whether the Merger is completed. In addition, we have undertaken certain covenants in the Merger Agreement restricting the conduct of our business during the pendency of the Merger, including restrictions on undertaking certain significant financing transactions and certain other actions, even if such actions would prove beneficial to us. Similarly, our current and prospective employees may experience uncertainty about their future roles with us following the Merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the Merger.

***Our directors and executive officers have interests in the Merger that may be different from, or in addition to, the interests of our other stockholders.***

Our directors and executive officers have financial interests in the Merger that may be different from, or in addition to, the interests of our other stockholders. These interests may include:

- the treatment of Company long-term incentive awards provided for under the Merger Agreement;
- severance and other benefits payable in the case of certain qualifying terminations of employment under the terms of individual employment agreements or the Company's benefits program;
- vesting and payment of account balances in the Company's 401(k) restoration and voluntary deferral plan;
- the potential grant of cash-based retention awards under a program established for the benefit of certain Company employees; and
- continued indemnification and insurance coverage under the Merger Agreement, the organization documents of the Company and its subsidiaries and indemnification agreements the Company and any of its subsidiaries has entered into with each of its directors and executive officers.

***The Company has been involved in litigation relating to the Merger that could divert management's attention and harm its business.***

The Company and individual members of its Board of Directors have been defendants in lawsuits related to the Merger. The suits generally alleged, among other things, that the defendants violated Section 14(a) and 20(a) of the Exchange Act and certain rules and regulations promulgated thereunder by making untrue statements of material fact and omitting certain material facts related to the contemplated Merger in the relevant proxy statement. Each of these suits has been voluntarily dismissed and there is no active shareholder litigation relating to the Merger transaction, (see Note 15 to our Financial Statements for further discussion), however there can be no assurance that we will be successful in defending any suits that may be filed in the future. Defense of any additional suit that may be filed in the future may be expensive and may divert management's attention and resources, which could adversely affect the Company's business.

#### **Risks Related to Our Business Generally**

***Deterioration or disruption in the airfreight market, global economic conditions, financial markets or global supply chains, including the impact of geopolitical events, severe weather, natural disasters or health epidemics, 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 could be negatively impacted by changes in U.S. and foreign government trade policies, changes in economies throughout the world and limited access to certain markets, among other things. 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.

We also could be negatively impacted by disruptions caused by geopolitical events, severe weather, natural disasters or health epidemics. The ongoing COVID-19 pandemic has disrupted global manufacturing, supply chains, passenger travel and consumer spending, resulting in flight cancellations of certain cargo and passenger flights. We have incurred and could incur further significant additional costs, including higher premium pay for pilots operating in certain areas significantly impacted by the COVID-19 pandemic and other operational costs, including costs for continuing to provide a safe working environment for our

employees. In addition, COVID-19-related airport closures, employees who are unable to work, vaccine mandates, disruption of operations by our third-party service providers, availability of hotels and restaurants, ground handling delays or reductions in passenger flights by other airlines globally, have impacted and could have a further impact on overtime costs, crew travel costs and our ability to position employees to operate and fully utilize all of our aircraft. The continuation or worsening of the aforementioned and other factors could materially affect our results for the duration of the COVID-19 pandemic. Although we have implemented various initiatives to mitigate disruptions, given the dynamic nature of these circumstances, the duration of business disruption and the extent of customer cancellations, the related financial impact cannot be reasonably estimated at this time. If we are unable to maintain existing or implement additional initiatives to mitigate disruptions, it could materially affect 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 capital availability deteriorates, we may be unable to raise the capital necessary to finance business growth or other initiatives or to repay our debt when it matures. 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, if we fail to deploy or redeploy aircraft with customers at favorable rates, or if any of our aircraft are impaired. 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. We typically enter into long-term ACMI and Charter contracts with our customers for our aircraft. The terms of our existing contracts are generally scheduled to expire on a staggered basis. There is a risk that any of our ACMI or Charter customers may not renew their contracts with us on favorable terms or at all, perhaps due to reasons beyond our control. Also, certain customers have the opportunity to terminate their long-term agreements in advance of the expiration date, following notice to allow for remarketing of the aircraft. Entering into ACMI and Charter contracts with new customers sometimes 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 effect on our business, results of operations and financial condition.

If we have unutilized aircraft, we may seek to redeploy those aircraft in our Dry Leasing 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 is 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.

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. The airfreight market and Yields can be volatile and negatively affected by excess capacity due to factors such as global economic conditions and reduced customer demand. Asset impairments or other charges related to capacity could have a material adverse effect on our business, results of operations and financial condition.

***Global trade flows are typically seasonal, and our business, including our customers' business, experiences 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, CMI and long-term Charter contracts generally have contractual utilization minimums that typically allow our customers to cancel an agreed-upon percentage of the guaranteed hours of aircraft utilization or a certain number of flight rotations over the course of a year. Our customers have historically exercised those allowable 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 debt service, aircraft rent, depreciation and facilities costs, are fixed and cannot easily be reduced to match the seasonal drop in demand. In addition, we typically incur a higher proportion of Heavy Maintenance during the first half of the year. As a result, our net operating results are typically lower in the first quarter and increase as the year progresses.

***If we are unable to attract and retain qualified personnel, including pilots, it could have an adverse effect on our ability to maintain or expand our business operations.***

The FAA requires that all airline pilots, including new hires, must have a minimum of 1,500 hours of operational experience. This requirement and other factors, including retirements and reductions in the number of military pilots being trained by the U.S. armed forces, have led to increased demand for pilots.

In addition, competition for all qualified personnel is increasingly intense and there can be no assurance that we will be successful in hiring, training, and retaining such personnel in the future. The extent and duration of the impact of labor market challenges are subject to numerous factors, including the continuing impact of the COVID-19 pandemic, availability of qualified personnel and competition from other service providers within the markets we serve.

If we are unable to hire, train and retain qualified pilots and other personnel, it could have an adverse effect on our ability to maintain or expand our business operations or result in increased costs, which could have a material adverse effect on our business, results of operations and financial condition.

***We could be adversely affected by a significant data breach or disruption of our information technology systems.***

We are heavily and increasingly dependent on technology to operate our business. Our information technology systems or those of third parties on which we rely (including air traffic control), as well as our business more broadly, 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. In addition, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. A significant disruption could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property.

We have taken numerous steps to implement business resiliency and cybersecurity protections and have obtained cyber business interruption insurance to help reduce the risk and impact of some of the potential disruptions discussed above. There can be no assurance, however, that the measures we have taken are adequate to prevent or remedy disruptions or failures of our systems.

A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationships with our customers, employees and stockholders. In addition, a failure of certain of our vital systems could limit our ability to operate our flights for an extended period of time. Failure to appropriately address these issues could have a material adverse effect on our business, results of operations and financial condition.

***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 effect on our business, results of operations and financial condition.***

Aviation and other 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 increased 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 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 or that the premiums for such coverage will not increase substantially, which could have a material adverse effect on our business, results of operations and financial condition.

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. In addition, 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, business interruption or a loss of, or damage to, our aircraft or its cargo. 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, including coverage for weapons of mass destruction. We do not

have insurance against the loss arising from business interruption. Any injury to passengers, employees or contractors or loss/damage of aircraft/cargo incidents resulting in claims in excess of related insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

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 effect on our business, results of operations and financial condition.

***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, add costs to 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.

***Our financial condition may suffer if we experience unanticipated costs as a result of ongoing lawsuits and claims related to alleged pricing practices or other legal and regulatory matters.***

In the Netherlands, Stichting Cartel Compensation, successor in interest to claims of various shippers, has filed suit in the district court in Amsterdam against British Airways, KLM, Martinair, Air France, Lufthansa and Singapore Airlines seeking recovery for damages purportedly arising from allegedly unlawful pricing practices of such defendants. In response, British Airways, KLM, Martinair, Air France and Lufthansa filed third-party indemnification lawsuits against Polar Air Cargo, LLC ("Old Polar"), a consolidated subsidiary of the Company, and Polar, seeking indemnification in the event the defendants are found to be liable in the main proceedings. Another defendant, Thai Airways, filed a similar indemnification claim. Activities in the case have focused on various procedural issues and rulings, some of which are awaiting court decisions on appeal. The ultimate outcome of the lawsuit is likely to be affected by a decision readopted by the European Commission in March 2017, finding EU competition law violations by British Airways, KLM, Martinair, Air France and Lufthansa, among others, but not Old Polar or Polar.

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

In addition to the litigation 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 15 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.

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

The price of aircraft fuel is unpredictable and can be volatile. Our exposure to fluctuations in fuel price is limited to the shorter-term commercial portion of our Charter services, as fuel risk is largely mitigated by price adjustments, including those based on indexed fuel prices for longer-term commercial charter contracts. We do not incur fuel expense in providing ACMI and CMI services or in our Dry Leasing business as the cost of fuel is borne by customers. Similarly, we generally have no fuel price risk for AMC charters because the price is set under our contract with the AMC, and we receive or make payments to adjust for fuel price increases and decreases from the contractual rate. Regardless, 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 actions by customers or fuel price volatility for our short-term charters could have a material adverse effect 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. Any inability to obtain aircraft fuel at competitive prices could have a material adverse effect on our business, results of operations and financial condition.

***We rely on third parties to provide certain essential services. If these service providers do not deliver the high level of service and support required in our business at commercially reasonable terms, it could have a material adverse effect on our business, results of operations and financial condition.***

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 or charge commercially unreasonable amounts for their services, which could harm our customer relationships and ability to remain competitive. Any material problems with the quality, timeliness and cost 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.

***We have contractual obligations associated with our aircraft orders. If we are unable to make the remaining required payments or obtain financing for these aircraft, it could have a material adverse effect on our business, results of operations and financial condition.***

In January and December 2021, we placed orders with Boeing for four new 747-8F aircraft and four new 777-200LRF aircraft, respectively. We have paid the required pre-delivery payments for the 747-8F aircraft and 777-200LRF aircraft to Boeing. The first three 747-8F aircraft were delivered in May, October and November of 2022 and the last aircraft was delivered in January of 2023. The first of the four new 777-200LRFs was delivered in November of 2022, with the other three expected to be delivered throughout 2023. We expect to finance the three 777-200LRF aircraft delivery payments through secured debt financing. If we are unable to secure financing on acceptable terms, we may incur financing costs that are substantially higher than what we currently anticipate, which could have a material adverse effect on our business, results of operations and financial condition.

***We are party to a collective bargaining agreement covering our pilots and a collective bargaining agreement covering our Atlas and Polar flight dispatchers, which could result in higher labor costs than those faced by some of our non-unionized competitors. This could also result in a work interruption or stoppage.***

Pilots of Atlas (who operate Atlas and Polar flights) and flight dispatchers of Atlas and Polar are represented by the IBT. 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, which could negatively impact our business, results of operations and financial condition, including a reduction in our revenue and an increase in our operating costs. We cannot provide assurance that disputes, including disputes with certified collective bargaining representatives of our employees, will not arise in the future or will result in an agreement on terms satisfactory to us.

In addition, the costs associated with resolving such disputes could have a material adverse effect on our business, results of operations and financial condition, and any disruption in our business could negatively affect our reputation and relationship with our customers.

***Our agreements with the U.S. Treasury under a payroll support program contain certain requirements and restrictions. If we are unable to comply with these requirements and restrictions, it could have a material adverse effect on our business, results of operations and financial condition.***

In connection with agreements entered into with the U.S. Treasury (the “PSP Agreement”), with respect to payroll support funding (the “Payroll Support Program”) available to cargo air carriers under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), we are required to comply with the relevant requirements of the CARES Act. These requirements include that funds provided pursuant to the PSP Agreement were to be used exclusively for the payment of certain employee wages, salaries and benefits of Atlas (the “PSP Recipients”). Under the PSP Agreement, we must also maintain certain internal controls and records relating to the payroll support funding and we are subject to additional reporting obligations. If we do not comply with the requirements and restrictions within the Payroll Support Program, the U.S. Treasury could require repayment of amounts previously provided to us, among other actions, which could have a material adverse effect on our business, results of operations and financial condition.

***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, 2022, we had \$1.9 billion of federal net operating loss carryforwards (“NOLs”) for U.S. income tax purposes, net of unrecognized tax benefits and valuation allowance, approximately half of which will expire through 2037, if not utilized. Section 382 of the Internal Revenue Code (“Section 382”) imposes an annual limitation on the amount of a corporation’s U.S. federal taxable income that can be offset by NOLs if it experiences an “ownership change,” as defined by Section 382. We experienced ownership changes as defined by Section 382 and, 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 additional annual limitations on the amount of utilizable NOLs, which could have a material adverse effect 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 effect on our business, results of operations and financial condition. In addition, certain of our companies participate in an aircraft leasing incentive program in Singapore and qualify for a related concessionary income tax rate. If these companies do not remain in the program or the related concessionary rate increases in the future, we could be subject to additional Singapore income tax, which could have a material adverse effect on our business, results of operations and financial condition.

## **Risks Related to Our Airline Operations Business**

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

Our ability to derive the expected economic benefits from our transactions with certain customers depends substantially on our ability to successfully meet strict performance standards and deadlines for aircraft and ground operations. 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 agreements with Amazon and the BSA with DHL in the most extreme of circumstances, as described below.

***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. Revenues from the AMC may decline over time.***

As a percentage of our total operating revenue, revenue derived from the AMC was approximately 12.8% in 2022, 10.5% in 2021 and 15.9% in 2020. Historically, the revenues derived from expansion (or ad-hoc) flights for the AMC significantly exceeded the value of the fixed flight component of our AMC contract.

Revenues from the AMC are derived from two-year contracts with an option for the AMC to extend the contract for two additional two-year periods. 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, 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 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 AMC demand volatility, it has become more difficult to comply with those requirements. To the extent that we fail to meet those contract performance requirements or if we fail to pass biennial 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. We expect revenues and profitability from our business with the AMC to continue to change as the U.S. military continues to move troops and cargo to and from areas of conflict around the world. If we are unable to effectively deploy any resultant capacity during periods of reduced flying, 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 that 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.

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

The agreements give Amazon the option to terminate in certain circumstances and upon the occurrence of certain events of default, including a change of control or our failure to meet certain performance requirements. In particular, Amazon will have the right to terminate without cause the agreement providing for CMI operations upon providing us at least 180 days' prior written notice of termination.

Upon termination, Amazon will generally, subject to certain exceptions, retain the warrants that have vested prior to the time of termination and, depending on the circumstances giving rise to the termination, may have the right to accelerated vesting of the remaining warrants upon a change of control of our company. Upon termination, Amazon or we may also have the right to receive a termination fee from the other party depending on the circumstances giving rise to the right of termination.

If Amazon exercises any of these termination rights, it could have a material adverse effect on our business, results of operations and financial condition.

***Our future earnings per share could be adversely impacted by the warrants granted to Amazon and, if Amazon exercises its right to acquire additional shares of common stock pursuant to the warrants, it will dilute the ownership interests and could adversely affect the market price of our common stock.***

The warrants granted to Amazon increase the number of diluted shares reported, which has a negative effect on our fully diluted earnings per share. If Amazon exercises its right to acquire additional shares of our common stock pursuant to the warrants, it will dilute the ownership interests of our then-existing stockholders. In addition, any sales in the public market of any common stock issuable upon the exercise of the warrants by Amazon could adversely affect prevailing market prices of our common stock.

**If Amazon exercises its right to acquire additional shares of our common stock pursuant to the warrants, Amazon may become a significant stockholder and may be entitled to appoint a director to our board of directors.**

The warrants issued by us to Amazon granted Amazon the right to purchase, in the aggregate, up to 39.9%, as of the date of the agreements, of our common stock on a post-issuance basis. If the warrants granted to Amazon are exercised, Amazon may become a significant stockholder of our company. We have entered into a stockholders agreement with Amazon, pursuant to which Amazon's ability to vote in its discretion will generally be capped at 14.9% with the remainder to be voted in accordance with our board of directors' recommendation. In addition, under the stockholders agreement, Amazon will be entitled to appoint one director to our board of directors when Amazon owns 10% or more of our common stock. Until such time, Amazon is entitled to designate a non-voting observer to our board of directors.

### Risk Related to Our Dry Leasing Business

**Any default by our Dry Lease customers, including (but not limited to) failure to make timely payments, failure to maintain insurance 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 aircraft fuel; government regulations; the availability and cost of financing; failure to maintain insurance; 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 amounts for supplemental maintenance, 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.

**We may fail to realize the anticipated strategic and financial benefits of our Dry Leasing joint venture with Bain Capital.**

Realization of the anticipated benefits from our Dry Leasing joint venture with Bain Capital is subject to a number of challenges and uncertainties, including: realization of satisfactory returns on investment, having investment goals that are consistent with our partner, partners each funding their share of required capital contributions and reaching agreement to hold and sell aircraft. If we fail to realize the expected benefits, it 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 in which we participate is competitive and fragmented. We offer a broad range of aviation services and our competitors vary by geographic market and type of service. Competition in the air cargo and transportation market is influenced by several key factors, including quality, price and availability of assets and services. If we were to lose any major customers or fail to attract customers, it could have a material 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 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 laws and regulations and failure to comply with these laws and 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's Office of Foreign Assets Control and the U.S. EPA and similar state agencies. In addition, other jurisdictions 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, sanctions or penalties, if imposed, could have a material adverse effect on our mode of conducting business, results of operations and financial condition. There can also be no assurance that laws and regulations will not be changed in ways that will decrease demand for our services or subject us to escalating costs. 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 our inability to operate some of our aircraft in certain countries, which could have a material adverse effect on our business, results of operations and financial condition.

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.

Foreign governments also place temporal and other restrictions on the ability of their own airlines to use aircraft operated by other airlines. For example, 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 have implemented and continue to pursue various means to reduce aviation-related greenhouse gas emissions. Compliance with these or other measures that are ultimately adopted could result in substantial costs for us. In October 2016, the ICAO approved and subsequently amended the CORSIA, which is designed to offset any annual increases in total carbon emissions from international civil aviation above a baseline level determined by 2019 and 2020 emissions. Although various details regarding the implementation of CORSIA still need to be finalized and have been impacted by the COVID-19 pandemic, a pilot phase began in 2021 and will run through 2023.

Starting in 2019, the Airlines have voluntarily begun tracking and reporting emissions in accordance with the CORSIA methodology, even though it is not yet mandatory in ICAO member countries. As a result, starting in 2024, the Airlines may need to purchase allowances to offset their share of emissions overages based on the reporting for the 2021 to 2023 compliance period, which utilized baseline emissions from 2019. For subsequent compliance periods, 85% of 2019 baseline emissions will be utilized. There is uncertainty with respect to the future supply, demand and price of sustainable or lower carbon aircraft fuel, carbon offset credits and technologies that could allow us to reduce our emissions of carbon dioxide.

Additionally, the EU continues to pursue a parallel track to address climate change through the EU ETS. 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 covered 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 additional allowances from other airlines in the open market. In recognition of ICAO's adoption of CORSIA, the ETS has been suspended with respect to flights to and from non-European countries through December 31, 2023. However, the ETS remains applicable to intra-European flights. Additionally, various European constituencies have begun to advocate for supplemental controls on aviation greenhouse gas emissions through additional taxation and similar measures.

In the U.S., various constituencies have continued to advocate for controls on greenhouse gas emissions. On August 15, 2016, the EPA issued a final rule finding that greenhouse gas emissions from aircraft cause or contribute to air pollution that may reasonably be anticipated to endanger public health and welfare. It is possible that these or other developments could lead to the future regulation of greenhouse gas emissions from aircraft in the U.S. Certain airports have also adopted, and others could in the future adopt, greenhouse gas emission or climate-related goals and requirements that could impact our operations or require us to make changes or investments in our infrastructure.

It is possible that these or similar climate change measures will be imposed in a manner adversely affecting airlines. The costs of complying with potential new environmental laws, regulations or taxes 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 our costs. Imposition of more***

***stringent regulations and rules than those that currently exist could materially increase our costs.***

The TSA has increased security requirements over the past several years in response to possible increased levels of terrorist activity, and has adopted comprehensive regulations governing air cargo transportation, including all-cargo services, in such 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.

## RISKS RELATED TO OUR LEASE AND DEBT OBLIGATIONS

***Our substantial lease and debt obligations, including aircraft leases and other obligations, could impair our financial condition and adversely affect our ability to raise additional capital to fund our aircraft purchases, operations or other 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, 2022, we had total debt obligations of approximately \$2.4 billion and total aircraft operating leases and other lease obligations of \$0.2 billion. We cannot provide assurance that we will be able to obtain future financing arrangements or on terms attractive to us. 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, as well as our continued access to the capital markets. All such matters are 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 and lease 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:

- borrow under certain financing arrangements;
- 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 or aviation-related and similar businesses; 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, either of which could have a material adverse effect on our business, results of operations and financial condition.

***We may not have the ability to raise the funds necessary to settle conversions of our convertible notes or to repurchase the convertible notes upon either a fundamental change or a make-whole fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the convertible notes.***

We issued convertible senior notes (the “Convertible Notes”) in May 2017, which contain conditional conversion features that allow the holders of the Convertible Notes the option to convert if certain trading conditions are met or upon the occurrence of

specified corporate events. In the event a conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes issued in 2017, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

The holders of the Convertible Notes also may require us to repurchase their Convertible Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes) at a price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. However, we may not have enough available cash to fund these obligations or be able to obtain financing on favorable terms, or at all, at the time we are required to make repurchases of Convertible Notes surrendered or Convertible Notes being converted. Our failure to repurchase Convertible Notes at a time when the repurchase is required by the applicable indenture or to pay any cash payable on future conversions of the Convertible Notes as required by the applicable indenture would constitute a default under such indenture, which could result in acceleration of the principal amount of the notes and additional funding obligations by us.

In addition, if a make-whole fundamental change (as defined in the applicable indenture), including specified corporate transactions, occurs prior to the maturity date, under certain circumstances, it would increase the conversion rate. The increase in the conversion rate would be determined based on the date on which the specified corporate transaction becomes effective and the price paid (or deemed to be paid) per share of our common stock in such transaction, but in no event would increase to greater than 16.3713 shares of our common stock for our convertible notes issued in 2017 per \$1,000 of principal, subject to adjustment in the same manner as the conversion rates. The increase in the conversion rate for Convertible Notes converted in connection with a make-whole fundamental change may result in us having to pay out additional cash in respect of the Convertible Notes upon conversion, or result in additional dilution to our shareholders if the conversion is settled partially in shares of our common stock.

***The Convertible Note hedge and warrant transactions may affect the value of our common stock.***

In connection with the Convertible Notes offerings, we entered into Convertible Note hedge transactions with option counterparties. The Convertible Note hedge transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of notes or offset any cash payments we are required to make in excess of the principal amount of converted notes, as the case may be. We also entered into warrant transactions with the option counterparties. However, the warrant transactions could separately have a dilutive effect on our earnings per share to the extent that the market price per share of our common stock exceeds the applicable strike prices of the warrants. Accordingly, when the Convertible Note hedge transactions and the warrant transactions are taken together, the extent to which the Convertible Note hedge transactions reduce the potential dilution to our common stock (or the cash payments in excess of the principal amount of the notes) upon conversion of the notes is effectively capped by the warrant transactions at the strike price of the warrants.

The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various hedging transactions, including (without limitation) derivatives, with respect to our common stock or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the notes (and are likely to do so during any observation period related to a conversion of notes). This activity could cause or avoid an increase or a decrease in the market price of our common stock.

**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, and our issuance of warrants to Amazon, might discourage, delay or prevent a change in control of AAWW 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. In addition, the vesting of warrants issued by us to Amazon will generally, subject to certain exceptions, be accelerated upon a change of control of our company, which may discourage attempts to acquire our company.

***Our common stock share price is 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.

## ITEM 2. PROPERTIES

### Aircraft

The following tables provide information about AAWW's aircraft and customer-provided aircraft:

#### AAWW Aircraft

The following table summarizes AAWW's aircraft as of December 31, 2022:

| Segment and Aircraft Type         | Configuration       | Owned*    | Leased** | Total     | Average Age Years |
|-----------------------------------|---------------------|-----------|----------|-----------|-------------------|
| <b>Airline Operations Segment</b> |                     |           |          |           |                   |
| 747-8F                            | Freighter           | 13        | 0        | 13        | 7.9               |
| 747-400                           | Freighter           | 19        | 7        | 26        | 22.6              |
| 747-400BCF                        | Converted Freighter | 3         | 1        | 4         | 29.4              |
| 747-400                           | Passenger           | 5         | 0        | 5         | 22.7              |
| 767-300ER                         | Passenger           | 6         | 0        | 6         | 29.4              |
| 767-300ER                         | Converted Freighter | 3         | 0        | 3         | 29.7              |
| 777-200LRF                        | Freighter           | 1         | 1        | 2         | 6.9               |
| <b>Total</b>                      |                     | <b>50</b> | <b>9</b> | <b>59</b> | <b>20.3</b>       |
| <b>Dry Leasing Segment</b>        |                     |           |          |           |                   |
| 777-200LRF                        | Freighter           | 7         | 0        | 7         | 11.3              |
| 767-300ER                         | Converted Freighter | 21        | 0        | 21        | 26.9              |
| <b>Total</b>                      |                     | <b>28</b> | <b>0</b> | <b>28</b> | <b>22.8</b>       |
| <b>Total Fleet</b>                |                     | <b>78</b> | <b>9</b> | <b>87</b> | <b>21.2</b>       |

\* See Note 10 to our Financial Statements for a description of our financing facilities.

\*\* See Note 11 to our Financial Statements for a description of our lease obligations.

Lease expirations for our leased aircraft included in the above tables range from April 2023 to June 2032.

#### Customer-provided Aircraft for CMI Service

The following table summarizes customer-provided aircraft as of December 31, 2022:

| Aircraft Type | Configuration | Provided by | Total     |
|---------------|---------------|-------------|-----------|
| 777-200       | Freighter     | DHL         | 6         |
| 747-400       | Freighter     | NCA*        | 5         |
| 747-400       | Dreamlifter   | Boeing**    | 4         |
| 767-300       | Freighter     | DHL         | 2         |
| 737-800       | Freighter     | Amazon      | 8         |
| <b>Total</b>  |               |             | <b>25</b> |

\* Aircraft owned by Nippon Cargo Airlines Co., Ltd. ("NCA")

\*\* Aircraft owned by Boeing

### Ground Facilities

Our principal office is located in Purchase, New York, where we lease approximately 52,000 square feet of office space, which expires in 2023. This office includes administrative support functions. We also lease approximately 100,000 square feet of office space in Erlanger, Kentucky for operational functions, which expires in 2036, approximately 33,000 square feet of office space in Miami, Florida for sales and training support, which expires in 2023 and approximately 17,000 square feet of office space in Hong Kong for sales and administrative support, which expires in 2025. In addition, we lease a variety of smaller offices and ramp space at various airport 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 15 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.

#### **INFORMATION ABOUT OUR EXECUTIVE OFFICERS**

**John W. Dietrich.** Mr. Dietrich, age 58, has been our President and Chief Executive Officer and a member of our Board of Directors since January 2020. Prior to January 2020, he served as our President and Chief Operating Officer from July 2019 and our Executive Vice President and Chief Operating Officer from September 2006. In addition, he was President and Chief Operating Officer of Atlas Air, Inc. from October 2014 to December 2019. During the period from March 2003 to September 2006, Mr. Dietrich held a number of senior executive positions in the Company, including Senior Vice President, General Counsel, Chief Human Resources Officer, Corporate Secretary and head of the IT and Corporate Communications functions. Mr. Dietrich joined Atlas in 1999 as Associate General Counsel. Prior to joining us, he was a litigation attorney at United Airlines from 1992 to 1999, where he provided legal counsel to all levels of management, particularly on employment and commercial litigation issues. He also serves as Chairman of the National Defense Transportation Association and a director of the National Air Carrier Association. Mr. Dietrich earned a Bachelor's of Science degree from Southern Illinois University and received his Juris Doctorate, *cum laude*, from the University of Illinois at Chicago John Marshall Law School. He is a member of the New York, Illinois and Colorado Bars.

**James A. Forbes.** Mr. Forbes, age 65, has been our Executive Vice President and Chief Operating Officer since January 2020. He also serves as Executive Vice president and Chief Operating Officer of Atlas Air, Inc. Prior to January 2020, he was Senior Vice President and Chief Operating Officer of Southern Air, Inc. since April 2016. Mr. Forbes has over 40 years of aviation operating experience, including more than 20 years with the Company. He joined us in 1997 as Senior Director of Ground Operations, where he helped construct the global infrastructure upon which we have grown. He became Vice President, Worldwide Ground Operations in 2001, overseeing station operations for all of Atlas Air, Inc. and Polar Air Cargo, Inc. In 2008, Mr. Forbes was named Senior Vice President for System Performance and Quality for Polar, where he led the transformation of an all-cargo network into a leading on-time express operation that supports DHL's worldwide air network. He held that position until April 2016, when he was promoted to lead Southern Air, Inc. operations.

**Adam R. Kokas.** Mr. Kokas, age 51, has been our General Counsel and Secretary since October 2006, and Executive Vice President since January 2014. Mr. Kokas is responsible for directing all of the Company's legal and regulatory affairs, as well as overseeing government affairs and public policy matters. In November 2007, Mr. Kokas assumed responsibility for the Company's Human Resources Department. He served as our Chief Human Resources Officer until March 2018. Mr. Kokas joined us from Ropes & Gray LLP, where he was a partner in their Corporate Department, focusing on general corporate, securities, transactions and business law matters. Mr. Kokas also serves as the Chair of the International Air Transport Association's Legal Advisory Council and is a member of the board of directors and Audit and Finance Committee of the Society of Corporate Governance. He also served as the Chairman of the Board of the Cargo Airlines Association from 2011 to 2019. Mr. Kokas earned a Bachelor of Arts degree from Rutgers University and is a *cum laude* graduate of the Boston University School of Law, where he was an Edward M. Hennessey scholar. Mr. Kokas is a member of the New York and New Jersey Bars.

**Michael T. Steen.** Mr. Steen, age 56, has been Executive Vice President and Chief Commercial Officer since November 2010. In addition, he was named President and Chief Executive Officer of Titan Aviation Holdings, Inc. effective October 2014. Prior to November 2010, he was our Senior Vice President and Chief Marketing Officer from April 2007. Mr. Steen joined us from Exel plc where he served as Senior Vice President of Sales and Marketing. Mr. Steen led the sales and marketing activities for Exel Freight's management and technology sector. Following Exel's acquisition by Deutsche Post World Net, he held senior-level positions with the merged company in global supply chain logistics. Prior to joining Exel, he served in a variety of roles with KLM Cargo over 11 years, including Vice President of the Americas, Head of Global Sales and Marketing for the Logistics Unit and Director of Sales for EMEA. Mr. Steen has been a Director for CHC Helicopter since May 2017 and is the Chairman of IATA's Cargo Committee. Mr. Steen earned a degree in economic science from Katrinelund in Gothenburg, Sweden, and is an alumnus of the Advanced Executive Program at the Kellogg School of Management at Northwestern University.

**Spencer Schwartz.** Mr. Schwartz, age 56, has been Executive Vice President since January 2014 and Chief Financial Officer since June 2010. Prior to January 2014, he was Senior Vice President from June 2010. Prior to June 2010, he was our Vice President and Corporate Controller from November 2008. Mr. Schwartz joined us from Mastercard, where he was employed for over 12 years and served as Group Head of Global Risk Management; Senior Vice President and Business Financial Officer; Senior Vice President, Corporate Controller and Chief Accounting Officer; and Vice President of Taxation. Prior to joining Mastercard, Mr. Schwartz held financial positions of increasing responsibility with Price Waterhouse LLP (now PricewaterhouseCoopers LLP) and Carl Zeiss, Inc. Mr. Schwartz earned a Bachelor's degree in Accounting from The Pennsylvania State University and a Master's degree in Business Administration, with a concentration in management, with *honors*, from New York University's Leonard N. Stern School of Business. He is a certified public accountant.

**Keith H. Mayer.** Mr. Mayer, age 57, has been Senior Vice President and Chief Accounting Officer since January 2018 and Corporate Controller since November 2010. Prior to January 2018, he was Vice President since November 2010. Mr. Mayer joined us from PepsiCo, Inc. In his most recent role at PepsiCo, he served as Chief Financial Officer of an international coffee partnership between PepsiCo and Starbucks Corporation. Mr. Mayer also served PepsiCo in a variety of roles since 1999, including Director of External Reporting, Assistant Controller for PepsiCo International, Senior Group Manager of Financial Accounting for Frito-Lay North America, and Group Manager of Technical Accounting. Prior to joining PepsiCo, Mr. Mayer held financial positions of increasing responsibility with Coopers & Lybrand LLP (now PricewaterhouseCoopers LLP). Mr. Mayer earned a Bachelor's degree in Accounting from the University of Bridgeport where he graduated *magna cum laude*. He is a certified public accountant.

Executive Officers are elected by our board of directors, and their terms of office continue until the next annual meeting of the board of directors or until their successors are elected and have qualified. There are no family relationships among our executive officers.

## 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".

As of February 14, 2023, there were approximately 28.6 million shares of our common stock issued and outstanding, and 24 holders of record of our common stock.

#### **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, 2022.

#### **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.

## **Performance Graph**

The following graph compares the performance of AAWW common stock to the Russell 2000 Index and the Dow Jones Transportation Average for the period beginning December 31, 2017 and ending on December 31, 2022. The comparison assumes \$100 invested in each of our common stock, the Russell 2000 Index and the Dow Jones Transportation Average and reinvestment of all dividends.



**Total Return between 12/31/17 and 12/31/2022**

| Cumulative Return                | 12/31/17  | 12/31/18 | 12/31/19  | 12/31/20  | 12/31/2021 | 12/31/2022 |
|----------------------------------|-----------|----------|-----------|-----------|------------|------------|
| AAWW                             | \$ 100.00 | \$ 71.94 | \$ 47.01  | \$ 92.99  | \$ 160.48  | \$ 171.87  |
| Russell 2000 Index               | \$ 100.00 | \$ 87.84 | \$ 108.67 | \$ 128.63 | \$ 146.24  | \$ 114.72  |
| Dow Jones Transportation Average | \$ 100.00 | \$ 86.41 | \$ 102.72 | \$ 117.85 | \$ 155.28  | \$ 126.19  |

## **ITEM 6. [RESERVED]**

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

The following discussion and analysis 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. We operate the world's largest fleet of 747 freighters and provide customers a broad array of 747, 777, 767 and 737 aircraft for domestic, regional and international cargo and passenger operations. We provide unique value to our customers by giving them access to highly reliable modern 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 are primarily under long-term contracts and include express delivery providers, e-commerce retailers, the U.S. military, charter brokers, freight forwarders, direct shippers, airlines, manufacturers, sports teams and fans, and private charter customers. 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 differentiated, value-creating solutions***

The 747-8F and 777-200LRF aircraft are two of the most efficient long-haul wide-body commercial freighters available and we are currently the only operator offering both of these aircraft under ACMI and CMI agreements. 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 this provides us with a commercial advantage over our competitors that operate smaller and less flexible fleets.

Our Dry Leasing business is primarily focused on a portfolio of 777-200LRF aircraft, and our fleet of 767-300 freighter aircraft for regional and domestic applications. These aircraft are Dry Leased to customers on a long-term basis, which further diversifies our business mix and enhances our predictable, long-term revenue and earnings streams.

#### ***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. ACMI and CMI contracts with customers generally range from two to seven years. Long-term Charter programs provide customers with dedicated Charter capacity generally ranging from one to three years. We also provide certain of these services on a short-term basis. Dry Leasing contracts with customers generally range from five to nine years. Under these types of contracts, our customers assume fuel, demand and price risk resulting in reduced operational risk for AAWW, while typically providing us with a guaranteed minimum level of revenue and target level of profitability.

#### ***Focus on asset optimization***

By managing the largest fleet of outsourced 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. By providing the broadest array of 747, 777, 767 and 737 aircraft for domestic, regional and international applications, we believe that we 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 to meet our customers' needs. 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 businesses. 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, which mitigates our remarketing risks and aircraft down time.

### ***Long-term strategic customer relationships and unique innovative 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.

Our customers have access to our innovative 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 outsourced aircraft and aviation operating services 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 long-term Charter 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. The Airlines have successfully completed the International Air Transport Association's Operational Safety Audit, a globally recognized safety and quality standard.

We provide outsourced aircraft and aviation services to some of the world's premier express delivery providers, e-commerce retailers, airlines and 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, GE, Air Canada, Canadian Airlines, America West Airlines, American Airlines, JetBlue Airways, ICF International, ASTAR Air Cargo, FPG Amentum, KLM Cargo, SMBC Aviation Capital, Spirit Airlines, Spirit AeroSystems, Singapore Airlines Cargo and China Cargo Airlines, as well as the United States Army, Navy, Air Force and Federal Air Marshal Service. In addition, our management team has a diversity of experience from other industries at companies such as Mastercard, PepsiCo, Moody's, Ralph Lauren, Kate Spade, Avon Products, New York Life Insurance, Hess and Unisys, as well as nationally recognized accounting and law firms. Our management team is led by John W. Dietrich, who has more than 30 years of experience in all facets of aviation and airline management.

## **Business Strategy**

Our strategy includes the following:

### ***Secure long-term customer contracts***

We will continue to focus on securing long-term contracts with fast-growing customers, including those in express, e-commerce and the fastest-growing regional markets, which provide us with relatively stable revenue streams and 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.

### ***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. Our 747-8F and 777-200LRF freighter 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 to ensure that we provide our customers with the most efficient aircraft to meet their needs.

Our Dry Leasing business is primarily focused on a portfolio of modern, efficient 777-200LRF aircraft and our fleet of 767-300 freighter aircraft for regional and domestic applications. We will continue to explore opportunities to invest in additional aircraft.

### ***Drive significant and ongoing productivity improvements***

We continue to enhance our organization through a cost saving and productivity enhancing 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 re-examine, redesign and improve the way we do business.

### ***Selectively pursue and evaluate future acquisitions and alliances***

From time to time, we explore business combinations, joint ventures and alliances with express delivery providers, e-commerce retailers, airlines, freight forwarders and other companies to enhance our competitive position, geographic reach and service portfolio.

### ***Appropriately manage capital allocation and deliver value to shareholders***

Our commitment to creating, enhancing and delivering value to our shareholders reflects a disciplined and balanced capital allocation strategy. Our focus is on growing our business while generating returns above our cost of capital, maintaining a strong balance sheet and returning capital to shareholders.

### ***Merger Agreement***

On August 4, 2022, we entered into a Merger Agreement with Parent and MergerCo, pursuant to which, subject to the terms and conditions thereof, MergerCo will be merged with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Parent.

On November 29, 2022, the shareholders of AAWW common stock adopted the Merger Agreement. We are working to complete the transaction in the first quarter of 2023, and continue to make progress toward obtaining necessary approvals. At this time, we are awaiting final approval from the DOT and have received all other required shareholder and regulatory approvals. Upon completion of the Merger, AAWW will become a privately held company and shares of AAWW common stock will no longer be listed or publicly traded on The NASDAQ Global Select Market (see Note 2 to our Financial Statements for further discussion). The Company has incurred and will incur certain costs relating to the proposed Merger, such as financial advisory, legal, accounting and other professional services fees.

### ***Business Developments***

Our Airline Operations results for 2022, compared with 2021, reflected higher Yields, net of fuel. These were more than offset by increased pilot costs related to our new CBA, higher overtime pay driven by an increase in COVID-19 cases and higher premium pay for pilots operating in certain areas significantly impacted by the COVID-19 pandemic. In addition, our results were negatively impacted by lower aircraft utilization and higher crew travel costs driven by operational disruptions related to an abnormal increase in COVID-19 cases (which were significantly higher from late June through August) and severe weather events, as well as higher commercial passenger airfare rates. The higher Yields, net of fuel, include the impact of expanding and enhancing our relationships with strategic customers through new and extended long-term contracts driven by strong customer demand and increased cargo flying for the AMC. The increase in COVID-19 cases and severe weather events negatively impacted our crew availability and our ability to position them due to widespread and well-publicized cancellations of commercial passenger flights. We closely monitor the evolving COVID-19 pandemic and take numerous precautions to ensure the safety of our operations around the world and to help mitigate the impact of any disruptions, including continuously adjusting routes to limit exposure to regions significantly impacted.

Given the dynamic nature of the COVID-19 pandemic, the financial impact cannot be reasonably estimated at this time. We have incurred and could incur further significant additional costs, including higher premium pay for pilots operating in certain areas significantly impacted by the COVID-19 pandemic and other operational costs, including costs for continuing to provide a safe working environment for our employees. In addition, COVID-19-related airport closures, employees who are unable to work, vaccine mandates, disruption of operations by our third-party service providers, availability of hotels and restaurants, ground handling delays or reductions in passenger flights by other airlines globally, have impacted and could have a further impact on overtime costs, crew travel costs and our ability to position employees to operate and fully utilize all of our aircraft. The continuation or worsening of the aforementioned and other factors could materially affect our results for the duration of the COVID-19 pandemic.

We manage our fleet to profitably serve our customers with modern, efficient aircraft and have entered into the following transactions to secure capacity to meet strong customer demand.

- In January 2021, we signed an agreement with Boeing for the purchase of four new 747-8F aircraft. The first three of these aircraft were delivered in May, October and November of 2022 and the last aircraft was delivered in January of 2023. All four of these aircraft have been placed with customers under long-term contracts.
- Between May and October 2021, we acquired six of our existing 747-400 freighter aircraft that were previously on lease to us. In May and June of 2021, we reached agreement with several of our lessors to purchase five of our other 747-400 freighters at the end of their existing lease terms, all of which were acquired between March and December 2022. In November 2022, we reached agreement with one of our lessors to purchase a 747-400 freighter at the end of its existing lease term. The acquisition of the aircraft will be completed by April 2023.
- In December 2021, we signed an agreement with Boeing for the purchase of four new 777-200LRF aircraft. The first of these aircraft was delivered in November of 2022 and the remaining three are expected to be delivered throughout 2023. All four of these aircraft have been placed with a customer under a long-term agreement.

We continually assess our aircraft requirements and will make adjustments to our capacity as necessary. Some of these actions may involve grounding or disposing of aircraft or engines, which could result in asset impairments or other charges in future periods.

In March 2022, we signed a five-year CBA with our pilots, effective as of September 2021. Under this industry competitive agreement, all of our pilots are receiving significantly higher pay, quality of life improvements and enhanced benefits. Labor costs arising from this CBA are materially greater than the costs under our previous CBAs with our pilots (see Note 15 to our Financial Statements for further discussion).

## **Results of Operations**

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

### **Years ended December 31, 2022 and 2021**

#### **Operating Statistics**

The following tables compare our Segment Operating Fleet (average aircraft equivalents during the period) and total Block Hours operated:

| <b>Segment Operating Fleet</b>                      | <b>2022</b>  | <b>2021</b>  | <b>Inc/(Dec)</b> |
|---|--------------|--------------|------------------|
| <b>Airline Operations*</b>                          |              |              |                  |
| 747-8F Cargo  | 10.9         | 10.0         | 0.9              |
| 747-400 Cargo                                       | 34.7         | 34.5         | 0.2              |
| 747-400 Dreamlifter                                 | 0.5          | 0.8          | (0.3)            |
| 747-400 Passenger                                   | 4.7          | 4.8          | (0.1)            |
| 777-200 Cargo                                       | 9.1          | 9.0          | 0.1              |
| 767-300 Cargo                                       | 24.0         | 24.0         | -                |
| 767-300 Passenger                                   | 5.6          | 4.9          | 0.7              |
| 767-200 Cargo                                       | -            | 2.0          | (2.0)            |
| 767-200 Passenger                                   | -            | 0.1          | (0.1)            |
| 737-800 Cargo                                       | 8.0          | 8.0          | -                |
| <b>Total</b>  | <b>97.5</b>  | <b>98.1</b>  | <b>(0.6)</b>     |
| <b>Dry Leasing</b>                                  |              |              |                  |
| 777-200 Cargo                                       | 7.0          | 7.0          | -                |
| 767-300 Cargo                                       | 21.0         | 21.0         | -                |
| 737-300 Cargo                                       | -            | 1.0          | (1.0)            |
| <b>Total</b>  | <b>28.0</b>  | <b>29.0</b>  | <b>(1.0)</b>     |
| Less: Aircraft Dry Leased to CMI customers          | (21.0)       | (21.0)       | -                |
| <b>Total Operating Average Aircraft Equivalents</b> | <b>104.5</b> | <b>106.1</b> | <b>(1.6)</b>     |

\* Airline Operations average fleet excludes spare aircraft provided by CMI customers.

| <b>Block Hours</b>         | <b>2022</b>    | <b>2021</b>    | <b>Inc/(Dec)</b> | <b>% Change</b> |
|----------------------------|----------------|----------------|------------------|-----------------|
| <b>Total Block Hours**</b> | <b>330,738</b> | <b>364,061</b> | <b>(33,323)</b>  | <b>(9.2)%</b>   |

\*\* Includes Airline Operations and other Block Hours.

## Operating Revenue

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

|                                       | 2022                | 2021                | Inc/(Dec)  | % Change |
|---------------------------------------|---------------------|---------------------|------------|----------|
| <b>Operating Revenue</b>              |                     |                     |            |          |
| Airline Operations                    | \$ 4,395,905        | \$ 3,888,601        | \$ 507,304 | 13.0 %   |
| Dry Leasing                           | 170,908             | 163,365             | 7,543      | 4.6 %    |
| Customer incentive asset amortization | (39,764)            | (44,162)            | (4,398)    | (10.0) % |
| Other                                 | 22,055              | 23,025              | (970)      | (4.2) %  |
| <b>Total Operating Revenue</b>        | <b>\$ 4,549,104</b> | <b>\$ 4,030,829</b> |            |          |

### Airline Operations

|                                 | 2022           | 2021           | Inc/(Dec)       | % Change       |
|---------------------------------|----------------|----------------|-----------------|----------------|
| <b>Block Hours</b>              |                |                |                 |                |
| Cargo                           | 315,983        | 343,957        | (27,974)        | (8.1) %        |
| Passenger                       | 12,067         | 15,905         | (3,838)         | (24.1) %       |
| <b>Total Airline Operations</b> | <b>328,050</b> | <b>359,862</b> | <b>(31,812)</b> | <b>(8.8) %</b> |

### Revenue Per Block Hour

|                    |           |           |          |        |
|--------------------|-----------|-----------|----------|--------|
| Airline Operations | \$ 13,400 | \$ 10,806 | \$ 2,594 | 24.0 % |
| Cargo              | \$ 13,053 | \$ 10,413 | \$ 2,640 | 25.4 % |
| Passenger          | \$ 22,480 | \$ 19,290 | \$ 3,190 | 16.5 % |

Airline Operations revenue increased \$507.3 million, or 13.0%, primarily due to an increase in Revenue per Block Hour, partially offset by a reduction in Block Hours. Revenue per Block Hour rose primarily due to higher fuel prices and Yields, net of fuel, including the impact of new and extended long-term contracts and increased cargo flying for the AMC. Block hours decreased primarily due to operational disruptions, including an abnormal increase in COVID-19 cases (which were significantly higher from late June through August) and severe weather events, as well as a reduction in less profitable smaller gauge CMI service flying and our operation of fewer passenger flights. The increase in COVID-19 cases and severe weather events also adversely impacted our crew availability and our ability to position them due to the widespread and well-publicized cancellations of commercial passenger flights.

### Dry Leasing

Dry Leasing revenue increased \$7.5 million, or 4.6%, primarily due to \$5.0 million of revenue from maintenance payments related to the scheduled return of an aircraft during the first quarter of 2022, which was subsequently sold during that quarter.

## Operating Expenses

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

|  | 2022                | 2021                | Inc/(Dec)  | % Change |
|--|---------------------|---------------------|------------|----------|
| <b>Operating Expenses</b>                    |                     |                     |            |          |
| Aircraft fuel                                | \$ 1,335,622        | \$ 824,928          | \$ 510,694 | 61.9 %   |
| Salaries, wages and benefits                 | 1,135,153           | 924,440             | 210,713    | 22.8 %   |
| Maintenance, materials and repairs           | 425,959             | 472,537             | (46,578)   | (9.9) %  |
| Depreciation and amortization                | 303,220             | 281,209             | 22,011     | 7.8 %    |
| Travel                                       | 211,902             | 162,986             | 48,916     | 30.0 %   |
| Navigation fees, landing fees and other rent | 159,212             | 184,060             | (24,848)   | (13.5) % |
| Passenger and ground handling services       | 140,381             | 156,962             | (16,581)   | (10.6) % |
| Aircraft rent                                | 52,268              | 67,745              | (15,477)   | (22.8) % |
| Loss (gain) on disposal of flight equipment  | 3,098               | (794)               | (3,892)    | NM       |
| Special charge                               | 16,215              | -                   | 16,215     | NM       |
| Transaction-related expenses                 | 9,746               | 1,001               | 8,745      | NM       |
| Other  | 233,934             | 244,461             | (10,527)   | (4.3) %  |
| <b>Total Operating Expenses</b>              | <b>\$ 4,026,710</b> | <b>\$ 3,319,535</b> |            |          |

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



*Aircraft fuel* increased \$510.7 million, or 61.9%, primarily due to an increase in the average fuel cost per gallon, partially offset by lower consumption related to decreased Charter flying. Our exposure to fluctuations in fuel price is generally limited to the shorter-term commercial portion of our Charter services, as fuel risk is largely mitigated by price adjustments, including those based on indexed fuel prices for longer-term commercial charter contracts. We do not incur fuel expense in providing ACMI and CMI services or in our Dry Leasing business as the cost of fuel is borne by the customer. Similarly, we generally have no fuel price risk for AMC charters because the price is typically set under our contract with the AMC, and we receive or make payments to adjust for price increases and decreases from the contractual rate. Average fuel cost per gallon and fuel consumption for 2022 and 2021 were:

|                              | <b>2022</b> | <b>2021</b> | <b>Inc/(Dec)</b> | <b>% Change</b> |
|------------------------------|-------------|-------------|------------------|-----------------|
| Average fuel cost per gallon | \$ 3.42     | \$ 2.00     | \$ 1.42          | 71.0 %          |
| Fuel gallons consumed (000s) | 390,808     | 411,845     | (21,037)         | (5.1)%          |

*Salaries, wages and benefits* increased \$210.7 million, or 22.8%, primarily due to increased pilot costs related to our new CBA and higher premium pay for pilots operating in certain areas significantly impacted by the COVID-19 pandemic, partially offset by decreased flying and a \$29.2 million adjustment to paid time-off benefits that was expensed in 2021 related to our new CBA.

*Maintenance, materials and repairs* decreased by \$46.6 million, or 9.9%, primarily reflecting \$25.2 million of lower Heavy Maintenance expense and \$18.9 million of reduced Line Maintenance expense. Heavy Maintenance expense on 747-400 aircraft decreased \$13.0 million primarily due to a decrease in the number of engine overhauls. Heavy Maintenance expense on 747-8F aircraft decreased \$7.4 million primarily due to a decrease in the number of D Checks. Line Maintenance expense decreased primarily due to the reduction in flying. Heavy airframe maintenance checks and engine overhauls impacting Maintenance, materials and repairs for 2022 and 2021 were:

| <b>Heavy Maintenance Events</b> | <b>2022</b> | <b>2021</b> | <b>Inc/(Dec)</b> |
|---------------------------------|-------------|-------------|------------------|
| 747-8F C Checks                 | 4           | 4           | -                |
| 747-400 C Checks                | 13          | 12          | 1                |
| 777-200 C Checks                | 1           | -           | 1                |
| 767 C Checks                    | 5           | 6           | (1)              |
| 747-8F D Checks                 | -           | 2           | (2)              |
| 747-400 D Checks                | 5           | 5           | -                |
| CF6-80 engine overhauls         | 8           | 7           | 1                |
| PW4000 engine overhauls         | 1           | 4           | (3)              |

*Depreciation and amortization* increased \$22.0 million, or 7.8%, primarily due to an increase in depreciation related to the acquisition of 747-400 freighter aircraft throughout 2022 and 2021 that were previously on lease to us, changes in 747-400 freighter aircraft leases in 2021 and the acquisition of new 747-8F and 777-200LRF aircraft.

*Travel* increased \$48.9 million, or 30.0%, primarily due to increased commercial passenger airfare rates and operational disruptions related to an increase in COVID-19 cases (which were significantly higher from late June through August) and severe weather events, partially offset by decreased flying.

*Navigation fees, landing fees and other rent* decreased \$24.8 million, or 13.5%, primarily due to decreased flying.

*Passenger and ground handling services* decreased \$16.6 million, or 10.6%, primarily due to decreased flying and lower rates.

*Aircraft rent* decreased \$15.5 million, or 22.8%, primarily due to the acquisition of 747-400 freighter aircraft throughout 2022 and 2021 that were previously on lease to us and changes in 747-400 freighter aircraft leases in 2021.

*Loss (gain) on disposal of flight equipment* in 2022 represented a loss on the sale of four nonoperational spare CF6-80 engines, partially offset by a gain from the sale of six nonoperational spare CF6-80 engines, which were previously classified as assets held for sale. Loss (gain) on disposal of flight equipment in 2021 represented a net gain from the sale of certain nonessential assets (see Note 7 to our Financial Statements).

*Special charge* in 2022 relates to six nonoperational spare CF6-80 engines held for sale to be traded in for newly overhauled engines and relates to two other CF6-80 engines Dry Leased to a customer (see Note 7 to our Financial Statements).

*Transaction-related expenses* in 2022 represents costs associated with the proposed Merger transaction (see Note 2 to our Financial Statements).

*Other* decreased \$10.5 million, or 4.3%, primarily due to a decrease in professional fees incurred in 2021 related to costs associated with negotiations and arbitration for a new CBA (see Note 15 to our Financial Statements), partially offset by higher commissions from an increase in flying for the AMC.

### Non-operating Expenses (Income)

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

|  | 2022       | 2021     | Inc/(Dec) | % Change |
|--|------------|----------|-----------|----------|
| <b>Non-operating (Income) Expenses</b>   |            |          |           |          |
| Interest income                          | \$ (8,755) | \$ (723) | \$ 8,032  | NM       |
| Interest expense                         | 81,692     | 107,492  | (25,800)  | (24.0)%  |
| Capitalized interest                     | (12,683)   | (8,316)  | 4,367     | 52.5%    |
| Loss on early extinguishment of debt     | 689        | 6,042    | (5,353)   | NM       |
| Unrealized loss on financial instruments | -          | 113      | (113)     | NM       |
| Other (income) expense, net              | (185)      | (40,705) | (40,520)  | (99.5)%  |

*Interest income* increased \$8.0 million primarily due to an increase in interest rates during 2022.

*Interest expense* decreased \$25.8 million, or 24.0%, primarily due to the adoption of the amended accounting guidance for convertible notes on January 1, 2022 (see Note 3 to our Financial Statements) and the scheduled repayment of debt.

*Capitalized interest* increased \$4.4 million primarily due to pre-delivery deposits related to our January 2021 agreement to purchase four 747-8F aircraft and our December 2021 agreement to purchase four 777-200LRF aircraft from Boeing (see Note 3 to our Financial Statements).

*Other (income) expense, net* decreased \$40.5 million primarily due to \$40.9 million in CARES Act grant income in 2021 (see Note 4 to our Financial Statements).

*Income taxes.* Our effective income tax rates were 22.9% and 23.8% for 2022 and 2021, respectively. The effective income tax rates for 2022 and 2021 differed from the U.S. statutory rate primarily due to state income taxes and certain expenses that are not deductible for tax purposes.

### Segments

The following table compares the Direct Contribution for our reportable segments (see Note 14 to our Financial Statements for the reconciliation to Operating income) (in thousands):

|  | 2022              | 2021                | Inc/(Dec)           | % Change       |
|--|-------------------|---------------------|---------------------|----------------|
| <b>Direct Contribution</b>             |                   |                     |                     |                |
| Airline Operations                     | \$ 815,647        | \$ 1,020,887        | \$ (205,240)        | (20.1)%        |
| Dry Leasing                            | 56,142            | 42,587              | 13,555              | 31.8%          |
| Total Direct Contribution              | <u>\$ 871,789</u> | <u>\$ 1,063,474</u> | <u>\$ (191,685)</u> | <u>(18.0)%</u> |
| Unallocated expenses and (income), net | <u>\$ 380,405</u> | <u>\$ 409,721</u>   | <u>\$ (29,316)</u>  | <u>(7.2)%</u>  |

### Airline Operations Segment

Airline Operations Direct Contribution decreased \$205.2 million, or 20.1%, primarily due to increased pilot costs related to our new CBA, higher overtime pay driven by operational disruptions, including an abnormal increase in COVID-19 cases (which were significantly higher from late June through August) and severe weather events, and higher premium pay for pilots operating in certain areas significantly impacted by COVID-19. In addition, Direct Contribution was negatively impacted by lower aircraft utilization and higher crew travel costs driven by the operational disruptions noted above, as well as higher commercial passenger airfare rates. The increase in COVID-19 cases and severe weather events also adversely impacted our crew availability and our ability to position them due to the widespread and well-publicized cancellations of commercial passenger flights. Partially offsetting the impact of these items were increased Yields, net of fuel, primarily driven by new and extended long-term contracts, increased cargo flying for the AMC, and lower Heavy Maintenance expense.

## Dry Leasing Segment

Dry Leasing Direct Contribution increased \$13.6 million, or 31.8%, primarily driven by lower interest expense related to the scheduled repayment of debt and \$5.0 million of revenue from maintenance payments related to the scheduled return of an aircraft.

## Unallocated expenses and (income), net

Unallocated expenses and (income), net decreased \$29.3 million, or 7.2%, primarily due to a \$29.2 million adjustment to paid time-off benefits that was expensed in 2021 related to our new CBA, lower interest expense due to the adoption of the amended accounting guidance for convertible notes on January 1, 2022 (see Note 3 to our Financial Statements) and a decrease in professional fees. Partially offsetting these items was \$40.9 million in CARES Act grant income recognized in 2021 (see Note 4 to our Financial Statements).

## Reconciliation of GAAP to non-GAAP Financial Measures

To supplement our Financial Statements presented in accordance with GAAP, we present certain non-GAAP financial measures to assist in the evaluation of our business performance. These non-GAAP financial measures include Adjusted income from continuing operations, net of taxes, Adjusted Diluted EPS from continuing operations, net of taxes and Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”), which exclude certain noncash income and expenses, and items impacting 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 Income from continuing operations, net of taxes and Diluted EPS from continuing operations, net of taxes which are the most directly comparable measures of performance prepared in accordance with GAAP.

We use these non-GAAP financial measures in assessing the performance of our ongoing operations and in planning and forecasting future periods. These adjusted measures provide a more comparable basis to analyze operating results and earnings and are measures commonly used by shareholders to measure our performance. In addition, management's incentive compensation is determined, in part, by using Adjusted income from continuing operations, net of taxes and Adjusted EBITDA. We believe that these adjusted measures, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to assist investors and analysts in understanding our business results and assessing our prospects for future performance.

The following is a reconciliation of Income (loss) from continuing operations, net of taxes and Diluted EPS from continuing operations, net of taxes to the corresponding non-GAAP financial measures (in thousands, except per share data):

|   | For the Years Ended December 31, |                   |                |
|---|----------------------------------|-------------------|----------------|
|   | 2022                             | 2021              | Percent Change |
| <b>Net Income</b>   | \$ 355,880                       | \$ 493,317        | (27.9)%        |
| Impact from:  |                                  |                   |                |
| CARES Act grant income (a)                                  | -                                | (40,944)          |                |
| Customer incentive asset amortization                       | 39,764                           | 44,162            |                |
| Adjustments to CBA paid time-off benefits (b)               | 2,154                            | 29,211            |                |
| Special charge (c)  | 16,215                           | -                 |                |
| Costs associated with transactions (d)                      | 12,192                           | 1,013             |                |
| Noncash expenses and income, net (e)                        | -                                | 19,136            |                |
| Unrealized loss on financial instruments                    | -                                | 113               |                |
| Other, net (f)  | 3,787                            | 6,739             |                |
| Income tax effect of reconciling items                      | (11,983)                         | (5,795)           |                |
| Special tax item (g)  | -                                | 4,041             |                |
| <b>Adjusted Net Income</b>                                  | <b>\$ 418,009</b>                | <b>\$ 550,993</b> | <b>(24.1)%</b> |
| Weighted average diluted shares outstanding                 |                                  |                   |                |
| Less: effect of convertible notes hedges (h)                | (4,806)                          | (782)             |                |
| <b>Adjusted weighted average diluted shares outstanding</b> | <b>29,384</b>                    | <b>29,761</b>     |                |
| <b>Adjusted Diluted EPS</b>                                 | <b>\$ 14.23</b>                  | <b>\$ 18.51</b>   | <b>(23.1)%</b> |

|  | For the Years Ended December 31, |                   |                |
|--|----------------------------------|-------------------|----------------|
|  | 2021                             | 2020              | Percent Change |
| <b>Net Income</b>                                    | \$ 493,317                       | \$ 360,286        | (36.9)%        |
| Impact from:   |                                  |                   |                |
| CARES Act grant income (a)                           | (40,944)                         | (151,590)         |                |
| Customer incentive asset amortization                | 44,162                           | 39,090            |                |
| Adjustments to CBA paid time-off benefits (b)        | 29,211                           | -                 |                |
| Special charge (c)                                   | -                                | 16,265            |                |
| Costs associated with transactions (d)               | 1,013                            | -                 |                |
| Noncash expenses and income, net (e)                 | 19,136                           | 17,971            |                |
| Unrealized loss on financial instruments             | 113                              | 71,053            |                |
| Other, net (f)                                       | 6,739                            | 2,382             |                |
| Income tax effect of reconciling items               | (5,795)                          | 23,580            |                |
| Special tax item (g)                                 | 4,041                            | -                 |                |
| <b>Adjusted Net Income</b>                           | <b>\$ 550,993</b>                | <b>\$ 379,037</b> | <b>45.4%</b>   |
| Weighted average diluted shares outstanding          | 30,543                           | 26,690            |                |
| Add: dilutive warrant (i)                            | -                                | 1,040             |                |
| Less: effect of convertible notes hedges (h)         | (782)                            | -                 |                |
| Adjusted weighted average diluted shares outstanding | <u>29,761</u>                    | <u>27,730</u>     |                |
| <b>Adjusted Diluted EPS</b>                          | <b>\$ 18.51</b>                  | <b>\$ 13.67</b>   | <b>35.4%</b>   |

The following is a reconciliation of Income (loss) from continuing operations, net of taxes to Adjusted EBITDA (in thousands):

|   | For the Years Ended December 31, |                     |                |
|---|----------------------------------|---------------------|----------------|
|   | 2022                             | 2021                | Percent Change |
| <b>Net Income</b>                             | \$ 355,880                       | \$ 493,317          | (27.9)%        |
| Interest expense, net                         | 60,254                           | 98,453              |                |
| Depreciation and amortization                 | 303,220                          | 281,209             |                |
| Income tax expense                            | 105,756                          | 154,074             |                |
| <b>EBITDA</b>                                 | <b>825,110</b>                   | <b>1,027,053</b>    |                |
| CARES Act grant income (a)                    | -                                | (40,944)            |                |
| Customer incentive asset amortization         | 39,764                           | 44,162              |                |
| Adjustments to CBA paid time-off benefits (b) | 2,154                            | 29,211              |                |
| Special charge (c)                            | 16,215                           | -                   |                |
| Costs associated with transactions (d)        | 12,192                           | 1,013               |                |
| Unrealized loss on financial instruments      | -                                | 113                 |                |
| Other, net (f)                                | 3,787                            | 6,739               |                |
| <b>Adjusted EBITDA</b>                        | <b>\$ 899,222</b>                | <b>\$ 1,067,347</b> | <b>(15.8)%</b> |

|   | For the Years Ended December 31, |                |                |
|---|----------------------------------|----------------|----------------|
|   | 2021                             | 2020           | Percent Change |
| <b>Net Income</b>                             | \$ 493,317                       | \$ 360,286     | 36.9%          |
| Interest expense, net                         | 98,453                           | 112,634        |                |
| Depreciation and amortization                 | 281,209                          | 257,672        |                |
| Income tax (benefit) expense                  | 154,074                          | 136,456        |                |
| <b>EBITDA</b>                                 | <b>1,027,053</b>                 | <b>867,048</b> |                |
| CARES Act grant income (a)                    | (40,944)                         | (151,590)      |                |
| Customer incentive asset amortization         | 44,162                           | 39,090         |                |
| Special charge (c)                            | -                                | 16,265         |                |
| Adjustments to CBA paid time-off benefits (b) | 29,211                           | -              |                |
| Costs associated with transactions (d)        | 1,013                            | -              |                |
| Unrealized loss on financial instruments      | 113                              | 71,053         |                |
| Other, net (f)                                | 6,739                            | 2,382          |                |

**Adjusted EBITDA**

\$ 1,067,347 \$ 844,248

26.4 %

- (a) CARES Act grant income in 2021 and 2020 related to income associated with the Payroll Support Program (see Note 4 to our Financial Statements).
- (b) Adjustments to CBA paid time-off benefits in 2022 and 2021 are related to our new CBA (see Note 15 to our Financial Statements).

- (c) Special charge in 2022 represented a charge related to six nonoperational spare CF6-80 engines held for sale and two CF6-80 engines Dry Leased to a customer. Special charge in 2020 represented a charge related to fair value adjustments for assets held for sale.
- (d) Costs associated with transactions in 2022 are related to our proposed Merger (see Note 2 to our Financial Statements). Costs associated with transactions in 2021 and 2020 are related to our previous acquisition of an airline.
- (e) Noncash expenses and income, net in 2021 and 2020 primarily related to amortization of debt discount on the convertible notes (see Note 10 to our Financial Statements).
- (f) Other, net in 2022 primarily related to a loss on the sale of four nonoperational spare CF6-80 engines, partially offset by a gain from the sale of six nonoperational spare CF6-80 engines, which were previously classified as assets held for sale (see Note 7 to our Financial Statements) and a loss on early extinguishment of debt. Other, net in 2021 primarily related to leadership transaction costs. Other, net in 2020 primarily related to a \$7.2 million net gain on the sale of aircraft, as well as costs associated with the Payroll Support Program (see Note 4 to our Financial Statements), costs associated with the refinancing of debt and accrual for legal matters and professional fees.
- (g) Special tax item in 2021 represented the income tax expense from the integration of a previously-acquired airline (see Note 15 to our Financial Statements). Special tax items are not related to ongoing operations.
- (h) Represents the economic benefit from our convertible notes hedges in offsetting dilution from our convertible notes as we concluded that generally there would be no economic dilution result from conversion of each of the convertible notes when our stock price is below the exercise price of the respective convertible note warrants (see Note 10 to our Financial Statements).
- (i) Dilutive warrants represent potentially dilutive common shares related to warrants issued to a customer (see Note 9 to our Financial Statements). These warrants are excluded from Diluted EPS prepared in accordance with GAAP when they would have been antidilutive.

## **Liquidity and Capital Resources**

In February 2022, we paid \$100.0 million and received an initial delivery of 1,061,257 shares pursuant to an accelerated share repurchase program ("ASR") under a stock repurchase program approved by our board of directors, which authorized the repurchase of up to \$200.0 million of our common stock. We subsequently settled the ASR in April 2022 and received an additional 172,887 shares of common stock. In the aggregate, we repurchased 1,234,144 shares (see Note 18 to our Financial Statements for a discussion of our ASR). In connection with the proposed Merger (see Note 2 to our Financial Statements), we have suspended the stock repurchase program.

In April 2022, we refinanced a term loan secured by a 747-8F aircraft and received proceeds of \$90.0 million from a financing with an 84-month term for this aircraft at a blended fixed rate of 3.86%.

In May 2022, we borrowed \$140.0 million related to the purchase of a 747-8F aircraft under a secured twelve-year term loan at a fixed interest rate of 4.17%.

In October 2022, we borrowed \$140.0 million related to the purchase of a 747-8F aircraft under a secured twelve-year term loan at a fixed interest rate of 5.73%.

In November 2022, we borrowed \$135.0 million related to the purchase of a 777-200LRF aircraft under a secured twelve-year term loan at a fixed interest rate of 5.21%.

In November 2022, we borrowed \$147.9 million related to the purchase of a 747-8F aircraft under a secured twelve-year term loan at a fixed interest rate of 4.28%.

*Operating Activities.* For 2022, Net cash provided by operating activities was \$837.7 million, which primarily reflected Net income of \$355.9 million, noncash adjustments of \$354.1 million for Depreciation and amortization and \$104.7 million for deferred taxes, and a \$49.9 million decrease in Accounts receivable. Partially offsetting these items was an \$18.2 million increase in Prepaid expenses, current assets, and other assets, and a \$42.0 million decrease in Accounts payable and accrued liabilities. For 2021, Net cash provided by operating activities was \$923.0 million, which primarily reflected Net income of \$493.3 million, noncash adjustments of \$357.3 million for Depreciation and amortization and \$152.4 million for deferred taxes. Partially offsetting these items was a \$49.8 million increase in Prepaid expenses, current assets, and other assets, a \$37.8 million increase in Accounts receivable and a \$11.5 million decrease in Accounts payable and accrued liabilities.

***Investing Activities.*** For 2022, Net cash used for investing activities was \$820.3 million, consisting primarily of \$743.1 million of payments for flight equipment and modifications, and \$103.2 million of core capital expenditures, excluding flight equipment, partially offset by \$36.6 million of proceeds from the disposal of aircraft. Payments for flight equipment and modifications during 2022 were primarily related to the delivery of three 747-8F aircraft and one 777-200LRF aircraft, pre-delivery payments for 777-200LRF aircraft and spare engines. All capital expenditures for 2022 were funded through working capital and the financings discussed above. For 2021, Net cash used for investing activities was \$493.4 million, consisting primarily of \$407.7 million of payments for flight equipment and modifications, and \$90.3 million of core capital expenditures, excluding flight equipment, partially offset by \$9.5 million of proceeds from the disposal of aircraft. Payments for flight equipment and modifications during 2021 were primarily related to pre-delivery payments, spare engines and GEnx engine performance upgrade kits.

***Financing Activities.*** For 2022, Net cash used for financing activities was \$164.6 million, which primarily reflected \$693.7 million of payments on debt and finance lease obligations and \$100.0 million related to the purchase of treasury stock and \$14.7 million in payments of debt issuance costs. Partially offsetting these items were proceeds from debt issuance of \$652.9 million, and \$16.7 million of customer maintenance reserves and deposits received. For 2021, Net cash used for financing activities was \$364.9 million, which primarily reflected \$542.6 million of payments on debt and finance lease obligations and \$35.6 million in payments of maintenance reserves, partially offset by proceeds from debt issuance of \$212.7 million, and \$17.7 million of customer maintenance reserves and deposits received.

We consider Cash and cash equivalents, Net cash provided by operating activities and availability under our revolving credit facility to be sufficient to meet our debt and lease obligations, to fund capital expenditures for 2023, as follows:

- Principal payments related to our debt and finance lease obligations are expected to be approximately \$452.0 million.
- Payments related to our operating leases are expected to be approximately \$59.1 million.
- Core capital expenditures are expected to range from \$120.0 to \$130.0 million, which excludes flight equipment and capitalized interest.
- Committed capital expenditures for flight equipment are expected to be approximately \$486.2 million.

Committed capital expenditures include the remaining delivery payments for the purchase of one new 747-8F and three new 777-200LRF aircraft from Boeing, and other agreements to acquire spare engines. We expect to finance the aircraft delivery payments for the remaining three 777-200LRF aircraft through secured debt financing, which are expected to be delivered throughout 2023. The last 747-8F aircraft was delivered in January of 2023 and we borrowed \$156.5 million under a secured twelve-year term loan at a fixed interest rate of 3.89%.

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 April 2020 that enables us to sell debt and/or equity securities on a registered basis over the subsequent three years, depending on market conditions, our capital needs and 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 for at least several years. Our business operations are subject to income tax in several foreign jurisdictions and in many states. We do not expect to pay any significant cash income taxes for at least several years in these foreign jurisdictions and states. We may repatriate the unremitted earnings of our foreign subsidiaries to the extent taxes are insignificant. The U.S. and numerous other countries are currently considering tax reform, which could result in significant changes to U.S. and international tax laws. The potential enactment of these laws could have a material impact on our business, results of operations and financial condition. We continue to monitor developments and assess the impact to us.

### **Description of Our Debt Obligations**

See Note 10 to our Financial Statements for a description of our debt obligations.

## **Off-Balance Sheet Arrangements**

See Note 11 to our Financial Statements for a discussion of aircraft-leasing trusts that meet the criteria for variable interest entities. We have not consolidated any of the aircraft-leasing trusts in which we are not the primary beneficiary.

We hold equity interests in two joint venture arrangements to help develop a diversified freighter aircraft Dry Leasing portfolio and to purchase rotatable parts and repair services for those parts, primarily for our 747-8F aircraft. Neither of these joint ventures qualifies for consolidated accounting treatment. The assets and liabilities of these entities are not included in our Consolidated Balance Sheets and we record our net investment under the equity method of accounting. See Note 3 to our Financial Statements for further discussion.

## **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 and estimates 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 right-of-use assets for operating leases with terms greater than 12 months, including renewal options when appropriate, as the present value of fixed lease payments over the lease term. Since our leases do not typically provide a readily determinable discount rate, we use our incremental borrowing rate to discount lease payments to present value. Operating lease right-of-use assets are amortized over each lease term.

We record finite-lived intangible assets acquired at fair value and amortize them 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.

We record impairment charges for 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 and estimates, 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. In developing these estimates for flight equipment and operating lease right-of-use assets, we use external appraisals, adjusted for maintenance condition, as necessary; bids received from independent third parties; and industry data. To estimate the fair value of operating lease right-of-use assets, we determine the present value of current market fixed lease rates utilizing our incremental borrowing rate for the remaining term of each lease. 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, operating lease right-of-use assets and finite-lived intangible assets used in our Airline Operations segment, assets are grouped at the operating fleet level. For flight equipment and finite-lived intangible assets used in our Dry Leasing segment, assets are assessed at the individual aircraft or engine level. Our long-lived asset groups evaluated for impairment can include flight equipment such as the aircraft, engines, rotatable parts, leasehold improvements, operating lease right-of-use assets, as well as associated finite-lived intangible assets and deferred maintenance costs. If actual results differ from the assumptions or estimates used in our analysis or if there are downturns in economic or business conditions, it could have a material adverse impact on cash flows used to determine the fair value of our long-lived asset groups in relation to their carrying values and could result in an impairment loss.

For assets classified as held for sale, an impairment charge is recognized when the estimated fair value less the cost to sell the asset is less than its carrying amount. Fair value is determined using external appraisals or bids received from independent third parties. To the extent that these estimates are different than the actual selling prices of these assets, we could recognize subsequent impairment losses or gains on the disposition of these assets.

## ***Heavy Maintenance***

Except as described in the paragraph below, we account for heavy maintenance costs for airframes and engines 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. When estimating the expected cost for each Heavy Maintenance event, management considers multiple factors, including historical costs and experience, and information provided by third-party maintenance providers. These estimates may be subsequently adjusted for changes and the final determination of actual costs incurred. This method can result in expense volatility between quarterly and annual periods, depending on the number and type of Heavy Maintenance events performed. As of December 31, 2022 and 2021, Accrued heavy maintenance was \$31.6 million and \$79.6 million, respectively. If our estimates of Accrued heavy maintenance as of December 31, 2022 would have changed by a hypothetical 10%, we would have recognized a change in Maintenance, materials and repairs expense of \$3.2 million in 2022.

We account for Heavy Maintenance costs for airframes and engines used in our Dry Leasing segment and engines used on our 747-8F and 777-200 aircraft using the deferral method. Under this method, we defer the expense recognition of scheduled Heavy Maintenance events, which are amortized over the shorter of the estimated period until the next scheduled Heavy Maintenance event is required or remaining lease term.

## ***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.

We have recorded reserves for income taxes that may become payable in future years. Although management believes that its positions taken on income tax matters are reasonable, actual results could differ or taxing authorities could challenge certain of the positions taken by us, which could result in losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement in excess of any reserves established would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement less than any reserves established would result in a reduction in our effective income tax rate in the period of resolution.

## ***Goodwill***

Goodwill represents the excess of an acquisition's purchase price over the fair value of the identifiable net assets acquired and liabilities assumed. Goodwill is not amortized, but tested for impairment annually during the fourth quarter of each year, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. We may elect to perform a qualitative analysis on the reporting unit that has goodwill to determine whether it is more likely than not that fair value of the reporting unit is less than its carrying value. Under the qualitative approach, we consider various market factors to determine whether events and circumstances have affected the fair value of the reporting unit. If we determine that it is more likely than not that the reporting unit's fair value is less than its carrying amount, or if we elect not to perform a qualitative analysis, we perform a quantitative analysis to determine whether any goodwill impairment exists.

Fair value is determined using a discounted cash flow analysis based on key assumptions including, but not limited to, (i) a projection of revenues, expenses and other cash flows; (ii) terminal period earnings; and (iii) an assumed discount rate. If the fair value of the reporting unit is less than the carrying amount, the difference is written off as an impairment up to the carrying amount of goodwill.

During the fourth quarter of 2022, we performed a qualitative assessment and determined that it was not necessary to perform a quantitative analysis. If actual results differ from the assumptions used in our qualitative analysis or there are changes in these qualitative factors, such as downturns in economic or business conditions, it could have a material adverse impact on the fair value of the reporting unit in relation to the carrying value of goodwill and could result in an impairment loss.

## ***Legal and Regulatory Matters***

We are party to legal and regulatory proceedings with respect to a variety of matters in multiple jurisdictions. We evaluate the likelihood of an unfavorable outcome of these proceedings each quarter. The events that may impact our contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, we consider all relevant facts as part of our evaluation. We record a liability for a loss when the likelihood of the loss occurring is probable and the amount of the loss is

reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs from our previously estimated liability. 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.

#### **Recent Accounting Pronouncements**

See Note 3 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 foreign currency 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.

*Aircraft Fuel.* Our results of operations are affected by changes in the price and availability of aircraft fuel. Our exposure to fluctuations in fuel price is limited to the shorter-term commercial portion of our Charter services only, as fuel risk is largely mitigated by price adjustments, including those based on indexed fuel prices for longer-term commercial charter contracts. We do not incur fuel expense in providing ACMI and CMI services or in our Dry Leasing business as the cost of fuel is borne by the customer. Similarly, we generally have no fuel price risk for AMC charters because the price is set under our contract with the AMC, and we receive or make payments to adjust for price increases and decreases from the contractual rate.

*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.

## **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.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Atlas Air Worldwide Holdings, Inc. and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, 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 the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

## ***Definition and Limitations of Internal Control over Financial Reporting***

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.

## ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit and finance committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Heavy Maintenance Costs***

As described in Note 3 to the consolidated financial statements, the Company accounts for heavy maintenance costs for airframes and engines using the direct expense method, except for airframes and engines used in the Dry Leasing segment and engines used on 747-8F and 777-200 aircraft, which are accounted for using the deferral method. Under the direct expense method, heavy maintenance costs are charged to expense upon induction, based on management's best estimate of the costs. Under the deferral method, the Company defers the expense recognition of scheduled heavy maintenance events, which are amortized over the shorter of the estimated period until the next scheduled heavy maintenance event is required or remaining lease term. Heavy maintenance costs are included in operating expenses and are presented as a component of the maintenance, materials and repairs expense of \$426.0 million or as a component of Depreciation and amortization expense of \$303.2 million for the year ended December 31, 2022. Accrued heavy maintenance is \$31.6 million as of December 31, 2022. When estimating the expected cost for each heavy maintenance event, management considers multiple factors, including historical costs and experience and information provided by third-party maintenance providers. These estimates may be subsequently adjusted for changes and the final determination of actual costs incurred.

The principal considerations for our determination that performing procedures relating to heavy maintenance costs is a critical audit matter are (i) the significant judgment by management when developing the estimated costs for heavy maintenance events; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence relating to the estimated costs for uncompleted heavy maintenance events and management's significant assumptions related to historical costs and experience and information provided by third-party maintenance providers.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the accounting for heavy maintenance costs, including controls over management's process to estimate and monitor the costs of uncompleted heavy maintenance events. These procedures also included, among others, testing management's process for developing the estimated costs for uncompleted heavy maintenance events. This included evaluating the appropriateness of the methods and reasonableness of the significant assumptions used by management in developing the estimated costs for uncompleted heavy maintenance events, testing the completeness and accuracy of historical costs and experience data used in the estimate, and assessing management's process for monitoring the estimated costs of ongoing heavy maintenance events. Evaluating management's assumptions related to historical costs and experience and information provided by third-party maintenance providers involved evaluating whether the assumptions used by management were reasonable considering (i) past performance of comparable heavy maintenance events, (ii) testing information from third-party maintenance providers on a sample basis, and (iii) whether the assumptions were consistent with evidence obtained in other areas of the audit, such as testing for unrecorded liabilities and subsequent event procedures.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 23, 2023

We have served as the Company's auditor since 2007.

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

|  | <b>December 31, 2022</b> | <b>December 31, 2021</b> |
|--|--------------------------|--------------------------|
| <b>Assets</b>  |                          |                          |
| <b>Current Assets</b>  |                          |                          |
| Cash and cash equivalents  | \$ 763,314               | \$ 910,965               |
| Restricted cash  | 10,597                   | 10,052                   |
| Accounts receivable, net of allowance of \$2,661 and \$4,003, respectively   | 253,738                  | 305,905                  |
| Prepaid expenses, assets held for sale and other current assets  | 97,269                   | 99,100                   |
| Total current assets   | 1,124,918                | 1,326,022                |
| <b>Property and Equipment</b>  |                          |                          |
| Flight equipment   | 6,286,103                | 5,449,100                |
| Ground equipment   | 106,246                  | 101,824                  |
| Less: accumulated depreciation   | (1,510,402)              | (1,319,636)              |
| Flight equipment purchase deposits and modifications in progress   | 235,586                  | 352,422                  |
| Property and equipment, net  | 5,117,533                | 4,583,710                |
| <b>Other Assets</b>  |                          |                          |
| Operating lease right-of-use assets  | 107,707                  | 138,744                  |
| Deferred costs and other assets  | 287,392                  | 329,971                  |
| Intangible assets, net and goodwill  | 58,766                   | 64,796                   |
| <b>Total Assets</b>  | \$ 6,696,316             | \$ 6,443,243             |
| <b>Liabilities and Equity</b>  |                          |                          |
| <b>Current Liabilities</b>   |                          |                          |
| Accounts payable   | \$ 115,304               | \$ 82,885                |
| Accrued liabilities  | 565,108                  | 641,978                  |
| Current portion of long-term debt and finance leases   | 437,046                  | 639,811                  |
| Current portion of long-term operating leases  | 53,825                   | 55,383                   |
| Total current liabilities  | 1,171,283                | 1,420,057                |
| <b>Other Liabilities</b>   |                          |                          |
| Long-term debt and finance leases  | 1,861,122                | 1,655,075                |
| Long-term operating leases   | 111,591                  | 166,022                  |
| Deferred taxes   | 452,495                  | 354,798                  |
| Financial instruments and other liabilities  | 35,049                   | 37,954                   |
| Total other liabilities  | 2,460,257                | 2,213,849                |
| Commitments and contingencies  |                          |                          |
| <b>Equity</b>  |                          |                          |
| <b>Stockholders' Equity</b>  |                          |                          |
| Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued   | -                        | -                        |
| Common stock, \$0.01 par value; 100,000,000 shares authorized;<br>35,465,249 and 34,707,860 shares issued, 28,542,203 and 29,215,702<br>shares outstanding (net of treasury stock), as of December 31, 2022<br>and December 31, 2021, respectively | 353                      | 347                      |
| Additional paid-in capital   | 878,727                  | 934,516                  |
| Treasury stock, at cost; 6,923,046 and 5,492,158 shares, respectively  | (339,219)                | (225,461)                |
| Accumulated other comprehensive income (loss)  | 44                       | (511)                    |
| Retained earnings  | 2,524,871                | 2,100,446                |
| Total stockholders' equity   | 3,064,776                | 2,809,337                |
| <b>Total Liabilities and Equity</b>  | \$ 6,696,316             | \$ 6,443,243             |

*See accompanying Notes to Consolidated Financial Statements*

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

|  | For the Years Ended December 31, |                          |                          |
|--|----------------------------------|--------------------------|--------------------------|
|  | 2022                             | 2021                     | 2020                     |
| <b>Operating Revenue</b>                     | \$ 4,549,104                     | \$ 4,030,829             | \$ 3,211,116             |
| <b>Operating Expenses</b>                    |                                  |                          |                          |
| Aircraft fuel                                | 1,335,622                        | 824,928                  | 440,649                  |
| Salaries, wages and benefits                 | 1,135,153                        | 924,440                  | 737,963                  |
| Maintenance, materials and repairs           | 425,959                          | 472,537                  | 506,297                  |
| Depreciation and amortization                | 303,220                          | 281,209                  | 257,672                  |
| Travel                                       | 211,902                          | 162,986                  | 154,792                  |
| Navigation fees, landing fees and other rent | 159,212                          | 184,060                  | 155,107                  |
| Passenger and ground handling services       | 140,381                          | 156,962                  | 138,822                  |
| Aircraft rent                                | 52,268                           | 67,745                   | 96,865                   |
| Loss (gain) on disposal of flight equipment  | 3,098                            | (794)                    | (7,248)                  |
| Special charge                               | 16,215                           | -                        | 16,265                   |
| Transaction-related expenses                 | 9,746                            | 1,001                    | 2,780                    |
| Other  | 233,934                          | 244,461                  | 216,384                  |
| Total Operating Expenses                     | <u>4,026,710</u>                 | <u>3,319,535</u>         | <u>2,716,348</u>         |
| Operating Income                             | <u>522,394</u>                   | <u>711,294</u>           | <u>494,768</u>           |
| <b>Non-operating Expenses (Income)</b>       |                                  |                          |                          |
| Interest income                              | (8,755 )                         | (723 )                   | (1,076 )                 |
| Interest expense                             | 81,692                           | 107,492                  | 114,635                  |
| Capitalized interest                         | (12,683 )                        | (8,316 )                 | (925 )                   |
| Loss on early extinguishment of debt         | 689                              | 6,042                    | 81                       |
| Unrealized loss on financial instruments     | -                                | 113                      | 71,053                   |
| Other (income) expense, net                  | (185 )                           | (40,705 )                | (185,742 )               |
| Total Non-operating Expenses (Income)        | <u>60,758</u>                    | <u>63,903</u>            | <u>(1,974)</u>           |
| Income before income taxes                   | <u>461,636</u>                   | <u>647,391</u>           | <u>496,742</u>           |
| Income tax expense                           | <u>105,756</u>                   | <u>154,074</u>           | <u>136,456</u>           |
| <b>Net Income</b>                            | <b><u>\$ 355,880</u></b>         | <b><u>\$ 493,317</u></b> | <b><u>\$ 360,286</u></b> |
| <b>Earnings per share:</b>                   |                                  |                          |                          |
| Basic  | <u>\$ 12.50</u>                  | <u>\$ 17.06</u>          | <u>\$ 13.64</u>          |
| Diluted                                      | <u>\$ 10.53</u>                  | <u>\$ 16.16</u>          | <u>\$ 13.50</u>          |
| <b>Weighted average shares:</b>              |                                  |                          |                          |
| Basic  | <u>28,463</u>                    | <u>28,910</u>            | <u>26,408</u>            |
| Diluted                                      | <u>34,190</u>                    | <u>30,543</u>            | <u>26,690</u>            |

*See accompanying Notes to Consolidated Financial Statements*

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

|  | For the Years Ended |                   |                   |
|--|---------------------|-------------------|-------------------|
|  | 2022                | 2021              | 2020              |
| <b>Net Income</b>  | \$ 355,880          | \$ 493,317        | \$ 360,286        |
| <b>Other comprehensive income:</b>                       |                     |                   |                   |
| Interest rate derivatives:                               |                     |                   |                   |
| Reclassification to loss on early extinguishment of debt | 639                 | 890               | -                 |
| Reclassification to interest expense                     | 91                  | 920               | 1,178             |
| Income tax benefit                                       | (175)               | (417)             | (264)             |
| <b>Other comprehensive income</b>                        | <b>555</b>          | <b>1,393</b>      | <b>914</b>        |
| <b>Comprehensive Income</b>                              | <b>\$ 356,435</b>   | <b>\$ 494,710</b> | <b>\$ 361,200</b> |

*See accompanying Notes to Consolidated Financial Statements*

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

|  | For the Years Ended December 31, |                   |                   |
|--|----------------------------------|-------------------|-------------------|
|  | 2022                             | 2021              | 2020              |
| <b>Operating Activities:</b>   |                                  |                   |                   |
| Net Income   | \$ 355,880                       | \$ 493,317        | \$ 360,286        |
| Adjustments to reconcile Net Income to net cash provided by operating activities:          |                                  |                   |                   |
| Depreciation and amortization  | 354,139                          | 357,330           | 328,101           |
| Accretion of debt securities discount  | -                                | -                 | (2)               |
| Provision for (reversal of) expected credit losses   | (595 )                           | (378 )            | 463               |
| Loss on early extinguishment of debt   | 689                              | 6,042             | 81                |
| Special charge   | 16,215                           | -                 | 16,265            |
| Unrealized loss on financial instruments   | -                                | 113               | 71,053            |
| Loss (gain) on disposal of flight equipment  | 3,098                            | (794 )            | (7,248 )          |
| Deferred taxes   | 104,747                          | 152,399           | 133,598           |
| Stock-based compensation   | 13,838                           | 14,014            | 21,997            |
| <b>Changes in:</b>   |                                  |                   |                   |
| Accounts receivable  | 49,885                           | (37,800 )         | 26,132            |
| Prepaid expenses, current assets and other assets  | (18,200 )                        | (49,763 )         | (56,716 )         |
| Accounts payable, accrued liabilities and other liabilities                                | (41,957 )                        | (11,496 )         | 115,532           |
| Net cash provided by operating activities  | 837,739                          | 922,984           | 1,009,542         |
| <b>Investing Activities:</b>   |                                  |                   |                   |
| Capital expenditures   | (103,198 )                       | (90,288 )         | (78,933 )         |
| Purchase deposits and payments for flight equipment and modifications                      | (743,079 )                       | (407,684 )        | (184,273 )        |
| Investment in joint ventures   | (10,614 )                        | (4,893 )          | (9,298 )          |
| Proceeds from investments  | -                                | -                 | 881               |
| Proceeds from disposal of flight equipment   | 36,626                           | 9,470             | 126,335           |
| Net cash used for investing activities   | (820,265 )                       | (493,395 )        | (145,288 )        |
| <b>Financing Activities:</b>   |                                  |                   |                   |
| Proceeds from debt issuance  | 652,929                          | 212,717           | 417,733           |
| Payment of debt issuance costs   | (14,701 )                        | (9,541 )          | (6,100 )          |
| Payments of debt and finance lease obligations   | (693,723 )                       | (542,594 )        | (429,749 )        |
| Proceeds from revolving credit facility  | -                                | -                 | 75,000            |
| Payment of revolving credit facility   | -                                | -                 | (175,000 )        |
| Purchase of treasury stock   | (100,000 )                       | -                 | -                 |
| Customer maintenance reserves and deposits received  | 16,742                           | 17,745            | 15,168            |
| Customer maintenance reserves paid   | (12,178 )                        | (35,608 )         | (14,437 )         |
| Treasury shares withheld for payment of taxes  | (13,649 )                        | (7,572 )          | (4,018 )          |
| Net cash used for financing activities   | (164,580 )                       | (364,853 )        | (121,403 )        |
| Net increase (decrease) in cash, cash equivalents and restricted cash                      | (147,106 )                       | 64,736            | 742,851           |
| Cash, cash equivalents and restricted cash at the beginning of period                      | 921,017                          | 856,281           | 113,430           |
| Cash, cash equivalents and restricted cash at the end of period                            | <u>\$ 773,911</u>                | <u>\$ 921,017</u> | <u>\$ 856,281</u> |
| <b>Noncash Investing and Financing Activities:</b>   |                                  |                   |                   |
| Acquisition of property and equipment included in Accounts payable and accrued liabilities | <u>\$ 6,515</u>                  | <u>\$ 38,985</u>  | <u>\$ 36,619</u>  |
| Acquisition of property and equipment acquired under operating leases                      | <u>\$ 5,343</u>                  | <u>\$ 16,117</u>  | <u>\$ 91,538</u>  |
| Acquisition of flight equipment under finance leases                                       | <u>\$ 24,808</u>                 | <u>\$ 191,994</u> | <u>\$ 18,476</u>  |
| Issuance of shares related to settlement of warrant liability                              | <u>\$ -</u>                      | <u>\$ 31,583</u>  | <u>\$ 49,545</u>  |
| Issuance of shares related to settlement of convertible notes                              | <u>\$ 7,902</u>                  | <u>\$ -</u>       | <u>\$ -</u>       |
| Customer maintenance reserves settled with sale of aircraft                                | <u>\$ -</u>                      | <u>\$ -</u>       | <u>\$ 6,497</u>   |

*See accompanying Notes to Consolidated Financial Statements*

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

|  | Common<br>Stock | Treasury<br>Stock   | Paid-In<br>Capital | Additional<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Equity     |
|--|-----------------|---------------------|--------------------|---|----------------------|---------------------|
| <b>Balance at December 31, 2019</b>  | \$ 310          | \$ (213,871)        | \$ 761,715         | \$ (2,818)                                      | \$ 1,246,843         | \$ 1,792,179        |
| Net Income   | -               | -                   | -                  | -   | 360,286              | 360,286             |
| Other comprehensive income   | -               | -                   | -                  | 914   | -                    | 914                 |
| Stock-based compensation   | -               | -                   | 21,997             | -   | -                    | 21,997              |
| Issuance of warrants   | -               | -                   | 40,636             | -   | -                    | 40,636              |
| Treasury shares of 182,270 withheld for payment of taxes                             | -               | (4,018)             | -                  | -   | -                    | (4,018)             |
| Issuance of 1,375,421 shares related to settlement of warrant                        | 14              | -                   | 49,531             | -   | -                    | 49,545              |
| Issuance of 453,270 shares of restricted stock                                       | 5               | -                   | (5)                | -   | -                    | -                   |
| <b>Balance at December 31, 2020</b>  | \$ 329          | \$ (217,889)        | \$ 873,874         | \$ (1,904)                                      | \$ 1,607,129         | \$ 2,261,539        |
| Net Income   | -               | -                   | -                  | -   | 493,317              | 493,317             |
| Other comprehensive income   | -               | -                   | -                  | 1,393   | -                    | 1,393               |
| Stock-based compensation   | -               | -                   | 14,014             | -   | -                    | 14,014              |
| Issuance of warrants   | -               | -                   | 15,063             | -   | -                    | 15,063              |
| Treasury shares of 131,922 withheld for payment of taxes                             | -               | (7,572)             | -                  | -   | -                    | (7,572)             |
| Issuance of 1,467,861 shares related to settlement of warrant                        | 15              | -                   | 31,568             | -   | -                    | 31,583              |
| Issuance of 342,466 shares of restricted stock                                       | 3               | -                   | (3)                | -   | -                    | -                   |
| <b>Balance at December 31, 2021</b>  | \$ 347          | \$ (225,461)        | \$ 934,516         | \$ (511)  | \$ 2,100,446         | \$ 2,809,337        |
| Net Income   | -               | -                   | -                  | -   | 355,880              | 355,880             |
| Other comprehensive income   | -               | -                   | -                  | 555   | -                    | 555                 |
| Cumulative effect of change in accounting principle (see Note 3)                     | -               | -                   | (92,586)           | -   | 68,545               | (24,041)            |
| Stock-based compensation   | -               | -                   | 13,838             | -   | -                    | 13,838              |
| Issuance of 333,716 shares related to settlement of convertible notes and warrants   | 2               | -                   | 7,900              | -   | -                    | 7,902               |
| Receipt of 26,162 shares related to settlement of convertible note hedge transaction | -               | -                   | -                  | -   | -                    | -                   |
| Issuance of warrants   | -               | -                   | 15,063             | -   | -                    | 15,063              |
| Purchase of 1,234,144 shares of treasury stock                                       | -               | (100,109)           | -                  | -   | -                    | (100,109)           |
| Treasury shares of 170,582 withheld for payment of taxes                             | -               | (13,649)            | -                  | -   | -                    | (13,649)            |
| Issuance of 423,673 shares of restricted stock                                       | 4               | -                   | (4)                | -   | -                    | -                   |
| <b>Balance at December 31, 2022</b>  | <u>\$ 353</u>   | <u>\$ (339,219)</u> | <u>\$ 878,727</u>  | <u>\$ 44</u>                                    | <u>\$ 2,524,871</u>  | <u>\$ 3,064,776</u> |

*See accompanying Notes to Consolidated Financial Statements*

**Atlas Air Worldwide Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022**

## **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 our principal operating subsidiary, Atlas Air, Inc. (“Atlas”), and several subsidiaries related to our dry leasing services (collectively referred to as “Titan”). AAWW also 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. Polar is a variable interest entity that we do not consolidate because we are not the primary beneficiary and we generally do not have any financial exposure to fund debt obligations or operating losses of Polar (see Note 5 for further discussion).

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”), crew, maintenance and insurance, but not the aircraft (“CMI”) and cargo and passenger charter services (“Charter”); and (ii) dry leasing aircraft and engines (“Dry Leasing” or “Dry Lease”).

Certain reclassifications have been made to prior periods in the notes to the consolidated financial statements to conform to the current year’s presentation of segments (see Note 14 for further discussion). Except for per share data, all dollar amounts are in thousands unless otherwise noted.

## **2. Merger Agreement**

On August 4, 2022, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Rand Parent, LLC (“Parent”), a company affiliated with certain funds managed by affiliates of Apollo Global Management, Inc., J.F. Lehman & Company, Inc. and Hill City Capital L.P. (collectively, the “Buyers”) and Rand Merger Sub, Inc, a wholly owned subsidiary of Parent (“MergerCo”), pursuant to which, subject to the terms and conditions thereof, MergerCo will be merged with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly owned subsidiary of Parent. Upon completion of the Merger, AAWW will become a privately held company and shares of AAWW common stock will no longer be listed or publicly traded on The NASDAQ Global Select Market.

Subject to the terms and conditions set forth in the Merger Agreement, which has been unanimously approved by the board of directors, at the effective time of the Merger (the “Effective Time”), each share of the Company’s common stock issued and outstanding (subject to certain exceptions set forth in the Merger Agreement) shall be converted into the right to receive \$102.50 in cash, without interest (the “Merger Consideration”).

At the Effective Time, each outstanding warrant with an exercise price of \$37.34 per share, as adjusted, issued to Amazon.com, Inc. and its subsidiary, Amazon Fulfillment Services, Inc., (collectively “Amazon”) (see Note 9 for further discussion), shall automatically vest and be exercised in accordance with its terms for the Merger Consideration and each outstanding warrant issued to the U.S. Treasury shall become exercisable for the Merger Consideration. No other warrants issued to Amazon will vest or become exercisable in connection with the Merger. In addition, at the Effective Time, each restricted share unit (including those subject to performance-based vesting conditions) will vest and be canceled and the holder will be entitled to receive an amount in cash equal to the number of shares of common stock underlying such award (assuming all performance goals are achieved at the maximum level of performance) multiplied by the Merger Consideration.

On November 29, 2022, the shareholders of AAWW common stock adopted the Merger Agreement. We are working to complete the transaction in the first quarter of 2023, and continue to make progress toward obtaining necessary approvals. At this time, we are awaiting final approval from the U.S. Department of Transportation and have received all other required shareholder approvals and regulatory approvals. The consummation of the Merger is subject to certain closing conditions, including, among other things: the absence of legal restraints prohibiting the Merger and other customary conditions specified in the Merger Agreement.

The Merger Agreement contains certain termination rights for the Company and Parent, including, among others, the right of (1) either party to terminate the Merger Agreement if the Merger is not consummated by March 4, 2023 (subject to certain exceptions set forth in the Merger Agreement), (2) the Company to terminate the Merger Agreement in order to enter into a definitive acquisition agreement providing for a Superior Proposal (as defined in the Merger Agreement) and (3) Parent to terminate the Merger Agreement if the Board changes its recommendation with respect to the Merger Agreement.

Upon termination of the Merger Agreement under specified circumstances, the Company would be required to pay Parent a termination fee. Generally, if the termination fee becomes payable as a result of the Company terminating the Merger Agreement in order to enter into a definitive acquisition agreement, or by Parent as a result of the Board changing its recommendation with respect to the Merger or under certain other circumstances, the amount of the termination fee will be \$97.5 million. If the Company terminates the Merger Agreement as a result of Parent's breach of the Merger Agreement or because Parent fails to consummate the Merger when required by the Merger Agreement, the Company will be entitled to receive a termination fee of \$227.4 million.

On February 17, 2023, Parent closed its private offering of \$850.0 million of senior secured notes for a term of seven years due in February 2030 at a fixed interest rate of 8.5%. The proceeds are currently held in escrow and will be used to partially finance the Merger Consideration, repay certain existing Company debt, settle existing Company warrants and convertible notes and pay related transaction fees and expenses.

The Company has incurred and will incur certain costs relating to the proposed Merger, such as financial advisory, legal, accounting and other professional services fees. During the year ended December 31, 2022, we recognized \$9.7 million in Transaction-related expenses.

### **3. 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 these 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 and fair values for impairments, operating lease right-of-use assets, heavy maintenance costs, income tax accounting, business combinations, intangible assets, warrants, contingent liabilities (including, but not limited to litigation accruals), valuation allowances (including, but not limited to, those related to receivables, expendable parts inventory and deferred taxes), revenue, long-term incentive compensation and employee benefit accruals.

#### ***Revenue Recognition***

##### **Airline Operations**

Our performance obligations under ACMI contracts involve outsourced cargo and passenger aircraft operating services, including the provision of an aircraft, crew, maintenance and insurance. Our performance obligations under CMI contracts also involve outsourced aircraft operating services, generally including the provision of crew, line maintenance and insurance, but not the aircraft. ACMI and CMI contracts generally provide for the transfer of the benefits from these performance obligations on a combined basis through the operation of the aircraft over time. 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." Customers assume fuel, demand and price risk. Generally, customers are also responsible for landing, navigation and most other operational fees and costs and, in the case of CMI customers, the provision of the aircraft and heavy and non-heavy maintenance. When we act as an agent for costs reimbursed by customers, such reimbursed amounts are recorded as Operating Revenue, net of the related costs, when the costs are incurred. When we are responsible for any of these costs, such reimbursed amounts are recorded as Operating Revenue and the costs are recorded as Operating Expenses as incurred.

Our performance obligations under Charter contracts involve the provision of cargo and passenger aircraft charter services to customers, including the U.S. Military Air Mobility Command ("AMC"), brokers, freight forwarders, direct shippers, airlines, e-commerce retailers, manufacturers, sports teams and fans, and private charter customers. Our obligations are for one or more flights based on a specific origin and destination. We also provide limited airport-to-airport cargo services to select markets, including several cities in Asia and South America. The customer pays a fixed charter fee or a variable fee generally based on the weight of cargo flown and our obligations involve all direct operating costs for both cargo and passenger charters, which typically include fuel, insurance, landing and navigation fees, and most other operational fees and costs. When we purchase cargo capacity from our customers for Charter flights, we are responsible for selling the capacity we purchase. We record revenue related to such purchased capacity as part of Airline Operations revenue and record the related rent expenses in Navigation fees, landing fees and other rent.

Revenue is typically recognized as the services are performed based on Block Hours operated on behalf of a customer during a given month. Revenue for contracts with scheduled rate changes, excluding inflationary adjustments, is recognized over the term of the contract using an estimated average rate per Block Hour, which requires significant judgment to estimate the total number of Block Hours expected. Any revenue adjustments, including those related to minimum contracted Block Hour guarantees and on-time performance targets, are recognized over the applicable measurement period for the adjustment. Payment terms and conditions vary by contract. Since any advance payments are typically made shortly before the services are performed, such payments are not considered significant financing components. We generally expense sales commissions when incurred because the amortization period is less than one year.

### **Dry Leasing**

Our performance obligations under Dry Lease contracts involve the provision of aircraft and engines to customers for compensation that is typically based on a fixed monthly amount and all are accounted for as operating leases. We record Dry Lease rental income from fixed payments on a straight-line basis over the term of the operating lease. Dry Lease rental income subject to adjustment based on an index is recognized on a straight-line basis over each adjustment period. Our Dry Leases typically do not contain purchase options, renewal options or residual guarantees. In addition, our Dry Leases typically do not contain early termination options. If they do, there are typically substantial termination penalties. Rentals received but unearned under the lease agreements are recorded as deferred revenue and included in Accrued liabilities until earned.

To manage our residual value risk, we require lessees to perform maintenance on the Dry Leased assets and they may also be required to make maintenance payments to us during or at the end of the lease term. When an aircraft is returned at the end of lease, if we choose not to re-lease or sell the returned aircraft, we typically have the ability to operate the aircraft in our Airline Operations segment.

Customer maintenance reserves are amounts received during the lease term that are subject to reimbursement to the lessee upon the completion of qualifying maintenance work on the specific Dry Leased asset and are included in Accrued liabilities. We defer revenue recognition for customer maintenance reserves until we are able to finalize the amount, if any, to be reimbursed to the lessee, which is typically at the end of the lease.

End of lease maintenance payments are amounts received upon return of the Dry Leased asset based on the utilization of the asset during the lease term. Such payments made to us are recognized as revenue at the end of the lease.

### **Other Services**

Other services primarily include administrative and management support services and flight simulator training. Revenue for these services is recognized 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.

### **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 expected credit losses based on our best estimate, using a broad range of information including historical information, current conditions and forecasts. Account balances are written off against the allowance when we determine that the receivable will not be recovered (see Note 6).

### **Expendable Parts**

Expendable parts, materials and supplies for flight equipment are carried at average acquisition costs and are included in Prepaid expenses, held for sale 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 airframes 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 \$65.9 million as of December 31, 2022 and \$57.0 million at December 31, 2021, net of allowances for obsolescence of \$47.6 million at December 31, 2022 and \$42.4 million at December 31, 2021.

## **Property and Equipment**

We record property and equipment at cost and depreciate these assets to their estimated residual values on a straight-line basis over their estimated useful lives or average remaining fleet lives. 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, the modified assets' remaining life or remaining lease term. Most of our flight equipment is specifically pledged as collateral for our indebtedness.

The estimated useful lives of our property and equipment are as follows:

|                                     | <b>Range</b>   |
|-------------------------------------|----------------|
| Flight equipment                    | 30 to 40 years |
| Computer software and equipment     | 3 to 5 years   |
| Ground handling equipment and other | 3 to 10 years  |

Depreciation expense related to property and equipment was \$241.8 million in 2022, \$216.8 million in 2021 and \$205.1 million in 2020.

The net book value of flight equipment used in Airline Operations was \$2,808.3 million and \$2,812.0 million as of December 31, 2022 and December 31, 2021, respectively. The accumulated depreciation for flight equipment used in Airline Operations was \$943.3 million and \$836.1 million as of December 31, 2022 and December 31, 2021, respectively. The net book value of flight equipment used in Dry Leasing was \$2,045.0 million and \$1,388.6 million as of December 31, 2022 and December 31, 2021, respectively. The accumulated depreciation for flight equipment used in Dry Leasing was \$489.6 million and \$412.4 million as of December 31, 2022 and December 31, 2021, respectively.

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 rotatable parts inventory was \$351.9 million as of December 31, 2022 and \$314.8 million as of December 31, 2021.

Committed capital expenditures are expected to be \$486.2 million in 2023. These expenditures include delivery payments for our December 2021 agreement to purchase four new 777-200LRF aircraft from The Boeing Company ("Boeing") the first of which was delivered in November of 2022 and the remaining three are expected to be delivered throughout 2023. In addition, these amounts include our January 2021 agreement to purchase four 747-8F aircraft from Boeing. The first three of these aircraft were delivered in May, October and November of 2022 and the last aircraft was delivered in January of 2023.

## **Capitalized Interest**

Any 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. Included in capitalized interest is any interest paid on the purchase deposit borrowings directly associated with the acquisition of flight equipment. The remainder of any 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 for flight equipment modifications and purchase deposits.

## **Goodwill**

Goodwill represents the excess of an acquisition's purchase price over the fair value of the identifiable net assets acquired and liabilities assumed. Goodwill is not amortized, but tested for impairment annually during the fourth quarter of each year, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. Our goodwill is not deductible for tax purposes.

We may elect to perform a qualitative analysis on the reporting unit that has goodwill to determine whether it is more likely than not that fair value of the reporting unit is less than its carrying value. If the qualitative analysis indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if we elect not to perform a qualitative analysis, we perform a quantitative analysis to determine whether a goodwill impairment exists. If the fair value of the reporting unit is less than the carrying amount, the difference is written off as an impairment up to the carrying amount of goodwill.

Fair value is determined using a discounted cash flow analysis based on key assumptions including, but not limited to, (i) a projection of revenues, expenses and other cash flows; (ii) terminal period earnings; and (iii) an assumed discount rate.

The total amount of goodwill was \$40.4 million, which is included in Intangible assets, net and goodwill in the consolidated balance sheets as of December 31, 2022 and 2021 (see Note 8). During the fourth quarter of 2022, we performed a qualitative analysis and determined that goodwill was not impaired.

### **Impairment of Long-Lived Assets**

We record impairment charges for 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 the associated carrying amount and the net book value of the assets exceeds the associated estimated fair value.

For flight equipment, operating lease right-of-use assets and finite-lived intangibles used in our Airline Operations segment, assets are grouped at the operating fleet level for impairment testing. For flight equipment and finite-lived intangibles used in our Dry Leasing segment, assets are assessed at the individual aircraft or engine level for impairment testing.

For assets classified as held for sale, an impairment charge is recognized when the estimated fair value less the cost to sell the asset is less than its carrying amount.

In developing estimates for flight equipment, operating lease right-of-use assets, cash flows and our incremental borrowing rate, we use external appraisals, adjusted for maintenance condition, as necessary; bids received from independent third parties; industry data; anticipated utilization of the assets; revenue generated; associated costs; length of service and estimated residual values. See Note 7 for a discussion of impairment charges.

### **Variable Interest Entities and Off-Balance Sheet Arrangements**

#### **Dry Leasing Joint Venture**

We hold a 10% interest in a joint venture with an unrelated third party, which we entered into in December 2019, to develop a diversified freighter aircraft dry leasing portfolio. Through Titan, we provide aircraft- and lease-management services to the joint venture for fees based upon aircraft assets under management, among other things. Our investment in the joint venture is accounted for under the equity method of accounting. Under the joint venture agreement, we have a commitment to provide up to \$40.0 million of capital contributions before December 2023, as amended, of which \$16.8 million has been contributed as of December 31, 2022. Our maximum exposure to losses from the entity is limited to our investment.

The following table summarizes our transactions and balances with our dry leasing joint venture:

|   | <b>For the Years Ended December 31,</b> |                          |
|---|---|--------------------------|
|   | <b>2022</b>                             | <b>2021</b>              |
| <b>Revenue and Expenses:</b>                            |   |                          |
| Revenue from dry leasing joint venture                  | \$ 854                                  | \$ 1,210                 |
| Aircraft rent to dry leasing joint venture              | 9,000                                   | 9,000                    |
| <b>Aggregate Carrying Value of Joint Venture as of:</b> |   |                          |
|   | <b>December 31, 2022</b>                | <b>December 31, 2021</b> |
| Aggregate Carrying Value of Dry Leasing Joint Venture   | \$ 15,255                               | \$ 8,448                 |

#### **Parts Joint Venture**

We hold a 50% interest in a joint venture with an unrelated third party to purchase rotatable parts and provide repair services for those parts, primarily for 747-8F aircraft. The joint venture is a variable interest entity and we have not consolidated the joint venture because we are not the primary beneficiary as we do not exercise financial control. Our investment in the joint venture is accounted for under the equity method of accounting and was \$20.3 million as of December 31, 2022 and \$19.2 million as of December 31, 2021. Our maximum exposure to losses from the entity is limited to our investment, which is composed primarily of rotatable inventory parts. The joint venture does not have any third-party debt obligations. We had Accounts receivable from the joint venture of zero as of December 31, 2022 and \$0.3 million as of December 31, 2021. We had Accounts payable to the joint venture of \$0.7 million as of December 31, 2022 and \$1.2 million as of December 31, 2021.

## **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.

We have recorded reserves for income taxes that may become payable in future years. Although management believes that its positions taken on income tax matters are reasonable, we have nevertheless established tax reserves in recognition that various taxing authorities may challenge certain of the positions taken by us, potentially resulting in additional liabilities for taxes.

## **Heavy Maintenance**

Except as described in the paragraph below, we account for heavy maintenance costs for airframes and engines using the direct expense method. Under this method, heavy maintenance costs are charged to Maintenance, materials and repairs expense upon induction, based on our best estimate of the costs after considering multiple factors, including historical costs, experience and information provided by third-party maintenance providers. These estimates may be subsequently adjusted for changes and the final determination of actual costs incurred. As of December 31, 2022 and 2021, Accrued heavy maintenance was \$31.6 million and \$79.6 million, respectively.

We account for heavy maintenance costs for airframes and engines used in our Dry Leasing segment and engines used on our 747-8F and 777-200 aircraft using the deferral method. Under this method, we defer the expense recognition of scheduled heavy maintenance events, which are amortized over the shorter of the estimated period until the next scheduled heavy maintenance event is required or remaining lease term. Amortization of deferred maintenance expense is included in Depreciation and amortization. The following table provides a summary of Deferred maintenance included within Deferred costs and other assets as of December 31:

|                                      | <b>2022</b>       | <b>2021</b>       |
|--------------------------------------|-------------------|-------------------|
| Beginning balance, net               | \$ 180,675        | \$ 191,303        |
| Deferred maintenance costs           | 27,609            | 38,438            |
| Disposals                            | (7,136)           | -                 |
| Special charge                       | (1,628)           | -                 |
| Amortization of deferred maintenance | (46,886)          | (49,066)          |
| Ending balance, net                  | <u>\$ 152,634</u> | <u>\$ 180,675</u> |

## **Long-term Incentive Compensation**

We have various long-term incentive compensation plans, including stock-based plans for certain employees and outside directors, which are described more fully in Note 16. 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 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.

## **Recent Accounting Pronouncements Adopted in 2022**

In August 2020, the Financial Accounting Standards Board amended its accounting guidance for certain financial instruments with characteristics of liabilities and equity, including convertible debt instruments. For convertible debt with a cash conversion feature, the amended guidance removes the accounting model to separately account for the liability and equity components, which resulted in the amortization of a debt discount to interest expense. Under this amended guidance, such convertible debt is accounted for as a single debt instrument with no amortization of a debt discount, unless certain other conditions are met. The amended guidance also requires the use of the if-converted method when calculating the dilutive impact of convertible debt on earnings per share. Effective January 1, 2022, we adopted the amended guidance using the modified retrospective approach, under which the guidance was applied only to the most current period presented. On January 1, 2022, we recorded an increase of \$31.0 million to the carrying value of our convertible notes, a reduction of \$6.9 million to deferred tax liabilities, a reduction of \$92.6 million to Additional paid-in capital and an increase of \$68.5 million to Retained earnings for the cumulative effect of adoption.

#### **4. Payroll Support Program under the CARES Act**

In May 2020, we entered into a Payroll Support Program Agreement with the U.S. Treasury (the "PSP Agreement") with respect to payroll support funding available to cargo carriers under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). AAWW also entered into a Warrant Agreement (the "Warrant Agreement") with the U.S. Treasury, and AAWW issued a senior unsecured promissory note to the U.S. Treasury (the "Promissory Note"), with us as guarantor.

In connection with the Payroll Support Program, we are required to comply with the relevant provisions of the CARES Act, including the requirement that funds provided pursuant to the PSP Agreement be used exclusively for the payment of certain employee wages, salaries and benefits. Under the PSP Agreement, we must also maintain certain internal controls and records relating to the payroll support funding and we are subject to additional reporting obligations.

Pursuant to the PSP Agreement, the U.S. Treasury provided us with payroll support funding totaling \$406.8 million in 2020. As compensation for payroll support funding under the PSP Agreement, we issued the Promissory Note to the U.S. Treasury, which provides for our unconditional promise to pay to the U.S. Treasury \$199.8 million.

The Promissory Note bears interest on the outstanding principal amount at a rate of 1.00% per annum until the fifth anniversary of the PSP Closing Date and the applicable Secured Overnight Financing Rate ("SOFR") plus 2.00% per annum thereafter, and interest accrued thereon is payable in arrears on the last business day of March and September of each year. The aggregate principal amount outstanding under the Promissory Note, together with all accrued and unpaid interest thereon and all other amounts payable under the Promissory Note, will be due and payable in May 2030. The Promissory Note contains customary representations and warranties, covenants and events of default provisions. Interest expense is recognized using the effective interest method over the term of the Promissory Note.

We may, at any time and from time to time, voluntarily prepay amounts outstanding under the Promissory Note, in whole or in part, without penalty or premium. If certain change of control triggering events occur, we would be required to prepay the aggregate outstanding principal amount of the Promissory Note within 30 days, together with any accrued interest or other amounts owing under the Promissory Note.

In connection with and as compensation for payroll support funding under the PSP Agreement, we also entered into a Warrant Agreement pursuant to which we granted the U.S. Treasury warrants to acquire up to 625,452 shares of our common stock.

The Warrant Agreement provides the U.S. Treasury certain registration rights with respect to each warrant and the underlying common stock. Each warrant is exercisable at an exercise price of \$31.95 per share of common stock (which was the closing price of our common stock on the Nasdaq Global Select Market on May 1, 2020) and will expire on the fifth anniversary of the issue date of such warrant. Each warrant may be settled through net share settlement or net cash settlement, at our option. Each warrant includes customary antidilution provisions and is freely transferable with registration rights. The U.S. Treasury is not permitted to vote any shares it acquires upon exercise of each warrant. The grant date fair value, as determined using the Black-Scholes model, of each warrant was recognized as Additional paid-in capital and totaled \$14.4 million. Each warrant will not be remeasured as long as it continues to meet the conditions for equity classification. As of December 31, 2022, no portion of the warrants have been exercised.

We initially recognized deferred grant income within Accrued liabilities for the difference between the payroll support funding received in 2020 under the PSP Agreement and the amounts recorded for the Promissory Note and the Warrant Agreement. Grant income of \$40.9 million in 2021 and \$151.6 million in 2020 was recognized within Other (income) expense, net in the consolidated statement of operations on a pro-rata basis over the periods that the qualifying employee wages, salaries and benefits were paid.

#### **5. 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, which began in 2008 (the "BSA"), Polar provides air cargo capacity to DHL. Atlas and Polar also 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 with the opportunity for performance premiums that escalate annually. Under the flight services agreement, Atlas provides Polar with crew, maintenance and insurance for the aircraft. Under other separate agreements, we provide aircraft to Polar, and 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 minimum guaranteed revenue stream from aircraft that have been dedicated to Polar for DHL and other customers’ freight over the life of the agreements. DHL provides financial support and also assumes the risks and rewards of the operations of Polar.

In accordance with the DHL Agreements, Polar flies for DHL’s transpacific express network and DHL provides financial support and assumes the risks and rewards of the operations of Polar. In addition to transpacific routes, Polar also flies between the Asia Pacific region, the Middle East and Europe on behalf of DHL and other customers.

The BSA established DHL’s capacity purchase commitments on Polar flights. 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. 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.

Combined with Polar, we provide ACMI, CMI, Charter and Dry Leasing services to support DHL’s transpacific express, North American, intra-Asian, and global networks. In addition, we fly between the Asia Pacific region, the Middle East and Europe on behalf of DHL and other customers. Atlas also provides incremental charter capacity to Polar and DHL from time to time.

The following table summarizes the aircraft types, services and number of aircraft provided to Polar and DHL as of December 31, 2022:

| Aircraft   | Service             | Total |
|------------|---------------------|-------|
| 747-8F     | ACMI                | 6     |
| 777-200LRF | CMI                 | 6     |
| 777-200LRF | CMI and Dry Leasing | 2     |
| 777-200LRF | Dry Leasing         | 2     |
| 767-300    | CMI and Dry Leasing | 2     |
| 767-300    | CMI                 | 2     |
| Total      |                     | 20    |

The following table summarizes our transactions and balances with Polar:

|  | For the Years Ended December 31, |            |            |
|--|----------------------------------|------------|------------|
| Revenue and Expenses:                                      | 2022                             | 2021       | 2020       |
| Revenue from Polar   | \$ 296,139                       | \$ 320,901 | \$ 323,907 |
| Ground handling and airport fees to Polar                  | 3,816                            | 4,119      | 3,302      |
| <b>Accounts receivable/payable as of:</b>                  |                                  |            |            |
| Receivables from Polar                                     | \$ 10,114                        | \$ 22,311  |            |
| Payables to Polar  | 2,101                            | 3,082      |            |
| <b>Aggregate Carrying Value of Polar Investment as of:</b> |                                  |            |            |
| Aggregate Carrying Value of Polar Investment               | \$ 4,870                         | \$ 4,870   |            |

In addition to the amounts in the table above, Atlas recognized revenue of \$105.6 million in 2022, \$194.9 million in 2021, and \$226.8 million in 2020 from flying on behalf of Polar.

## 6. Supplemental Balance Sheet and Cash Flow Information

### Accounts Receivable

Accounts receivable, net of allowances related to customer contracts, excluding Dry Leasing contracts, was \$198.6 million as of December 31, 2022 and \$248.4 million as of December 31, 2021.

Allowance for expected credit losses, included within Accounts receivable, is as follows:

|  | 2022                   | 2021                   | 2020                   |
|--|------------------------|------------------------|------------------------|
| Beginning balance                                  | \$ 4,003               | \$ 1,233               | \$ 1,822               |
| Provision for (reversal of) expected credit losses | (595)                  | (378)                  | 463                    |
| Amounts written off and other items                | (747)                  | 3,148                  | (1,052)                |
| Ending balance                                     | <u><u>\$ 2,661</u></u> | <u><u>\$ 4,003</u></u> | <u><u>\$ 1,233</u></u> |

### **Accrued Liabilities**

Accrued liabilities consisted of the following as of December 31:

|                               | 2022                     | 2021                     |
|-------------------------------|--------------------------|--------------------------|
| Salaries, wages and benefits  | \$ 195,121               | \$ 211,801               |
| Customer maintenance reserves | 92,132                   | 87,565                   |
| Maintenance                   | 79,668                   | 135,133                  |
| Deferred revenue              | 52,735                   | 58,616                   |
| Aircraft fuel                 | 34,681                   | 40,855                   |
| Other                         | 110,771                  | 108,008                  |
| Accrued liabilities           | <u><u>\$ 565,108</u></u> | <u><u>\$ 641,978</u></u> |

### **Revenue Contract Liability**

Deferred revenue for customer contracts, excluding Dry Leasing contracts, represents amounts collected from, or invoiced to, customers in advance of revenue recognition. The balance of Deferred revenue will increase or decrease based on the timing of invoices and recognition of revenue.

Significant changes in our Deferred Revenue liability balances during the year ended December 31, 2022 were as follows:

|                                 |                         |
|---------------------------------|-------------------------|
| Balance as of December 31, 2021 | \$ 52,647               |
| Revenue recognized              | (489,489)               |
| Amounts collected or invoiced   | 480,081                 |
| Balance as of December 31, 2022 | <u><u>\$ 43,239</u></u> |

### **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 following table summarizes interest and income taxes paid:

|                                   | 2022      | 2021      | 2020      |
|-----------------------------------|-----------|-----------|-----------|
| Interest paid                     | \$ 60,206 | \$ 66,623 | \$ 76,310 |
| Income taxes paid, net of refunds | \$ 1,928  | \$ 2,230  | \$ 1,170  |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total shown in the consolidated statements of cash flows:

|   | December 31, 2022        | December 31, 2021        |
|---|--------------------------|--------------------------|
| Cash and cash equivalents   | \$ 763,314               | \$ 910,965               |
| Restricted cash   | 10,597                   | 10,052                   |
| Total Cash, cash equivalents and restricted cash shown in Consolidated Statements of Cash Flows | <u><u>\$ 773,911</u></u> | <u><u>\$ 921,017</u></u> |

## **7. Special Charge, Assets Held for Sale and Other Income**

### **Special Charge**

During 2022, we recognized a Special Charge of \$13.5 million related to six nonoperational spare CF6-80 engines held for sale to be traded in for newly overhauled engines and \$2.7 million related to two other CF6-80 engines Dry Leased to a customer, within Special charge in the consolidated statements of operations. During 2020, we recognized a Special Charge of



\$16.3 million related to fair value adjustments for assets held for sale, within Special charge in the consolidated statements of operations.

### **Assets Held for Sale**

The carrying value of the remaining assets held for sale was \$4.4 million and \$5.5 million as of December 31, 2022 and 2021, respectively, which was included within Prepaid expense, held for sale and other current assets in the consolidated balance sheets. We estimated the fair value of these assets, less costs to sell, based on bids received from independent third parties or recently completed sales. These assets are classified as Level 3 under the fair value hierarchy (see Note 13). During 2022, 2021 and 2020, we received net proceeds of \$36.6 million, \$9.5 million and \$126.3 million, and recognized a net loss of \$3.1 million, a net gain of \$0.8 million and a net gain of \$7.2 million, respectively. The sales are for nonoperational spare CF6-80 engines, certain aircraft in our Dry Leasing Portfolio and 737-400 passenger aircraft previously used for training purposes. Sales of the remaining assets as of December 31, 2022 are expected to be completed by the end of the first quarter of 2023.

### **Other Income**

During 2021 and 2020, we recognized refunds of \$4.6 million and \$39.5 million, respectively, related to aircraft rent paid in previous years within Other (income) expense, net in the consolidated statements of operations.

## **8. Intangible Assets, Net and Goodwill**

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

|                                | <b>2022</b>      | <b>2021</b>      |
|--------------------------------|------------------|------------------|
| Lease intangible               | \$ 54,891        | \$ 54,891        |
| Goodwill                       | 40,361           | 40,361           |
| Customer relationship          | 26,280           | 26,280           |
| Less: accumulated amortization | (62,766)         | (56,736)         |
|                                | <u>\$ 58,766</u> | <u>\$ 64,796</u> |

Lease intangibles resulted from the acquisition of various aircraft with in-place Dry Leases to customers on a long-term basis and are amortized on a straight-line basis over the life of the leases. Goodwill is primarily attributable to our acquisition of an airline in 2016 and is related to our Airline Operations segment. Customer relationship represents our underlying relationship and agreements with DHL.

Amortization expense related to intangible assets was \$6.0 million in 2022, \$6.0 million in 2021 and \$6.0 million in 2020.

The estimated future amortization expense of intangible assets as of December 31, 2022 is as follows:

|              |                         |
|--------------|-------------------------|
| 2023         | \$ 4,853                |
| 2024         | 1,643                   |
| 2025         | 1,643                   |
| 2026         | 1,643                   |
| 2027         | 1,643                   |
| Thereafter   | 6,980                   |
| <b>Total</b> | <b><u>\$ 18,405</u></b> |

## **9. Amazon**

In May 2016, we entered into certain agreements with Amazon, which involve, among other things, CMI operation of up to 20 Boeing 767-300 freighter aircraft for Amazon by Atlas, as well as Dry Leasing by Titan. The Dry Leases have a term of ten years from the commencement of each agreement, while the CMI operations are for seven years from the commencement of each agreement (with an option for Amazon to extend the term to ten years). As of December 31, 2022, 19 767-300 freighters were in Dry Lease service, of which 17 were operating in CMI service.

In conjunction with the agreements entered into in May 2016, we granted Amazon a warrant providing the right to acquire up to 20% of our outstanding common shares, as of the date of the agreements, after giving effect to the issuance of shares pursuant to the warrants, at an exercise price of \$37.34 per share, as adjusted ("Warrant A"). All 7.5 million shares, as adjusted, vested in full and were exercised.

The agreements entered into in May 2016 also provided incentives for future growth of the relationship as Amazon may increase its business with us. In that regard, we granted Amazon a warrant to acquire

up to an additional 10% of our outstanding common shares, as of the date of the agreements, after giving effect to the issuance of shares pursuant to the warrants, for an exercise price of \$37.34 per share, as adjusted (“Warrant B”). This warrant to purchase 3.77 million shares, as adjusted, will vest in increments of 37,660 shares, as adjusted, each time Amazon has paid \$4.2 million of revenue to us, up to a total of \$420.0 million, for incremental business beyond the original 20 767-300 freighters. As of December 31, 2022, 1,544,060 shares, as adjusted, of Warrant B have vested, of which 979,160 shares remain unexercised. Warrant B will expire if not exercised in accordance with its terms by May 4, 2023.

In March 2019, we amended the agreements entered into in 2016 with Amazon, pursuant to which we began providing CMI services using Boeing 737-800 freighter aircraft provided by Amazon. The 737-800 CMI operations are for a term of seven years from the commencement of each agreement (with an option for Amazon to extend the term to ten years). As of December 31, 2022, eight 737-800 freighter aircraft were operating in CMI service.

In connection with the amended agreements, we granted Amazon a warrant to acquire up to an additional 9.9% of our outstanding common shares, as of the date of the agreements, after giving effect to the issuance of shares pursuant to the warrant, for an exercise price of \$52.67 per share, as adjusted (“Warrant C”). Only if Warrant B vests in full, this warrant to purchase 6.66 million shares, as adjusted, would vest in increments of 45,623 shares, as adjusted, each time Amazon has paid \$6.9 million of revenue to us, up to a total of \$1.0 billion, for incremental business beyond Warrant A and Warrant B. As of December 31, 2022, no portion of Warrant C has vested. Warrant C will expire if not exercised in accordance with its terms by March 27, 2026. Further, in the event that Warrant B does not vest in full on or prior to its May 4, 2023 expiration, then Warrant C will no longer be exercisable by Amazon as of that date.

While Amazon would be entitled to vote the shares it owns up to 14.9% of our outstanding common shares, in its discretion, it would be required to vote any shares it owns in excess of 14.9% of our outstanding common shares in accordance with the recommendation of our board of directors.

Upon the vesting of Warrant A in previous years, the fair value of the warrant was recognized as a customer incentive asset within Deferred costs and other assets, net and is amortized as a reduction of Operating Revenue in proportion to the amount of revenue recognized over the terms of the Dry Leases and CMI agreements. When it becomes probable that an increment of either Warrant B or C will vest and the related revenue begins to be recognized, the grant date fair value of such portion is recognized as a customer incentive asset within Deferred costs and other assets, net and is amortized as a reduction of Operating Revenue in proportion to the amount of related revenue recognized. The grant date fair value of such increment is also recorded as Additional paid-in capital. At the time of vesting, any amounts recorded in Additional paid-in capital related to Dry Lease contracts would be reclassified as a warrant liability within Financial instruments and other liabilities with changes in fair value recorded in Unrealized loss (gain) on financial instruments. There has been no vesting of Warrant B or C related to Dry Leases.

We amortized \$39.8 million, \$44.2 million and \$39.1 million of the customer incentive asset as a reduction of Operating Revenue for 2022, 2021 and 2020, respectively.

Customer incentive asset included within Deferred costs and other assets is as follows:

|   | 2022             | 2021             |
|---|------------------|------------------|
| Beginning balance                           | \$ 96,177        | \$ 125,276       |
| Initial value for vested portion of warrant | 15,063           | 15,063           |
| Amortization of customer incentive asset    | (39,764)         | (44,162)         |
| Ending balance                              | <u>\$ 71,476</u> | <u>\$ 96,177</u> |

## 10. Debt

Our debt obligations, as of December 31:

|  | Range of Maturity Dates | 2022               |              | 2021               |              |
|--|-------------------------|--------------------|--------------|--------------------|--------------|
|  |                         | Interest Rates (1) | Balance      | Interest Rates (1) | Balance      |
| Ex-Im Guaranteed Notes                             | 2024 to 2025            | 1.91%              | \$ 155,127   | 1.91%              | \$ 231,921   |
| Term loans   | 2023 to 2034            | 4.27%              | 1,303,314    | 3.80%              | 967,481      |
| Private Placement Facility                         | 2025 to 2026            | 3.60%              | 64,842       | 3.44%              | 81,689       |
| Convertible Notes                                  | 2024                    | 1.88%              | 288,906      | 2.04%              | 513,500      |
| Promissory Note                                    | 2030                    | 1.00%              | 199,832      | 1.00%              | 199,832      |
| Other debt   | 2028 to 2029            | 3.26%              | 247,304      | 2.94%              | 177,635      |
| Total principal amount of debt                     |                         |                    | 2,259,325    |                    | 2,172,058    |
| Less: unamortized debt discount and issuance costs |                         |                    | (28,415)     |                    | (54,174)     |
| Total debt   |                         |                    | 2,230,910    |                    | 2,117,884    |
| Less current portion of debt                       |                         |                    | (411,678)    |                    | (508,285)    |
| Long-term debt                                     |                         |                    | \$ 1,819,232 |                    | \$ 1,609,599 |

(1) Interest rates reflect weighted-average rates as of year-end.

Many of our financing instruments have cross-default provisions and contain limitations on our ability to, among other things, 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 Guaranteed Notes*

We have issued various notes guaranteed by the Export-Import Bank of the United States (“Ex-Im Bank”), each secured by a mortgage on a 747-8F or 777-200LRF aircraft (the “Ex-Im Guaranteed Notes”). In 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.

#### *Term Loans*

We have entered into various term loans to finance the purchase of aircraft, passenger-to-freighter conversion of aircraft, and for GEnx engine performance upgrade kits and overhauls. Each unsecured term loan requires payment of principal and interest quarterly in arrears, and certain term loans require lump-sum principal payments at maturity. Funds drawn under each term loan are subject to usual and customary fees, and funds drawn typically bear interest at a fixed rate. Each facility is guaranteed by us and subject to customary covenants and events of default.

The following table summarizes the terms for each term loan entered into during 2022 (in millions):

|                       | Issue Date    | Face Value | Original Term | Fixed Interest Rate |
|-----------------------|---------------|------------|---------------|---------------------|
| First 2022 Term Loan  | May 2022      | \$ 140.0   | 144 months    | 4.17 %              |
| Second 2022 Term Loan | October 2022  | 140.0      | 144 months    | 5.73 %              |
| Third 2022 Term Loan  | November 2022 | 135.0      | 144 months    | 5.21 %              |
| Fourth 2022 Term Loan | November 2022 | 147.9      | 144 months    | 4.28 %              |
| Total                 |               | \$ 562.9   |               |                     |

In January 2023, we borrowed \$156.5 million for the delivery of one 747-8F aircraft under a 144-month term loan due in January 2035. The term loan is secured by a mortgage against one 747-8F aircraft and has a fixed interest rate of 3.89% with principal and interest payable quarterly. The term loan is subject to customary fees, covenants and events of default.

#### *Promissory Note*

See Note 4 for a discussion of the Promissory Note we issued to the U.S. Treasury during 2020.

## **Private Placement Facility**

In September 2017, we entered into a debt facility for a total of \$145.8 million through private placement to finance the purchase and passenger-to-freighter conversion of six 767-300 freighter aircraft dry leased to a customer (the “Private Placement Facility”). The Private Placement Facility consists of six separate loans (the “Private Placement Loans”). Each Private Placement Loan is comprised of an equipment note and an equipment term loan, both secured by the cash flows from a 767-300 freighter aircraft dry lease and the underlying aircraft. The equipment notes require payment of principal and interest at a fixed interest rate. The equipment term loans accrue interest, at a fixed rate, which is added to the principal balance outstanding until each equipment note is paid in full. Subsequently, the equipment term loans require payment of principal and interest over the remaining term of the loans. The Private Placement Loans are cross-collateralized, but not cross-defaulted, with each other and, except for certain specified events, are not cross-defaulted with other debt facilities of the Company. The Private Placement Facility is guaranteed by us and subject to customary covenants and events of default.

## **Convertible Notes**

In June 2015, we issued \$224.5 million aggregate principal amount of convertible senior notes with 2.25% coupon (the “2015 Convertible Notes”) in an underwritten public offering. We used the majority of the net proceeds to refinance debt related to 747-400 freighter aircraft with an average coupon of 8.1%. In connection with the offering of the 2015 Convertible Notes, we purchased convertible note hedges whereby we had the right to receive a certain number of shares of our common stock at a fixed price per share. In addition, we sold warrants to the option counterparties whereby the holders of the warrants have the option to purchase a certain number of shares of our common stock at a fixed price per share.

On June 1, 2022, the 2015 Convertible Notes reached maturity and were settled in full. In the aggregate, we paid \$210.4 million and issued 138,509 shares of common stock to those holders that elected to convert their outstanding notes and we paid \$6.2 million to holders that did not elect to convert their outstanding notes. In connection with the settlement of the 2015 Convertible Notes, we exercised our rights under the convertible note hedge transactions with the counterparties on June 1, 2022 and received 25,957 shares of our common stock.

In connection with the settlement of the 2015 Convertible Notes warrants, as of December 31, 2022, we have issued 194,996 shares related to the cashless exercise of 1,775,621 warrants, of which 1,255,937 warrants remain unexercised.

In May 2017, we issued \$289.0 million aggregate principal amount of convertible senior notes that mature on June 1, 2024 (the “2017 Convertible Notes”) in an underwritten public offering. The 2017 Convertible Notes is a senior unsecured obligation and accrues interest payable semiannually on June 1 and December 1 of each year. The 2017 Convertible Notes are due on its maturity date, unless earlier converted or repurchased pursuant to their respective terms.

The following table lists certain key terms for the 2017 Convertible Notes:

| 2017<br>Convertible Notes                              |                   |
|--|-------------------|
| Fixed interest rate                                    | 1.88 %            |
| Earliest conversion date                               | September 1, 2023 |
| Initial conversion price per share                     | \$ 61.08          |
| Conversion rate (shares for each \$1,000 of principal) | 16.3713           |

During 2017, we used the majority of the net proceeds from the 2017 Convertible Notes to repay \$150.0 million then outstanding under our revolving credit facility and to fund the cost of the convertible note hedges described below.

The 2017 Convertible Notes will initially be convertible into shares of our common stock based on the respective conversion rates, which are equal to the respective initial conversion prices per share. The conversion rates will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest, except in certain limited circumstances. Upon the occurrence of a “make-whole fundamental change,” we will, in certain circumstances, increase the conversion rates by a number of additional shares of our common stock for the 2017 Convertible Notes converted in connection with such “make-whole fundamental change”. Additionally, if we undergo a “fundamental change,” holders will have the option to require us to repurchase all or a portion of their 2017 Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest through, but excluding, the fundamental change repurchase date.

In connection with the offerings of the 2017 Convertible Notes, we entered into convertible note hedge transactions whereby we have the right to receive a certain number of shares of our common stock at a fixed price per share. In addition, we sold

warrants to the option counterparties whereby the holders of the warrants have the option to purchase a certain number of shares of our common stock at a fixed price per share.

The following table summarizes the convertible note hedges and related warrants as of December 31, 2022:

|   | 2017<br>Convertible Notes |
|---|---------------------------|
| <b>Convertible Note Hedge:</b>            |                           |
| Number of shares <sup>(1)</sup>           | 4,731,306                 |
| Initial price per share                   | \$ 61.08                  |
| Cost of hedges                            | \$ 70,140                 |
|   | 2015<br>Convertible Notes |
| <b>Convertible Note Warrants:</b>         | 2017<br>Convertible Notes |
| Remaining number of shares <sup>(1)</sup> | 1,593,740                 |
| Price per share <sup>(2)</sup>            | \$ 88.86      \$ 92.20    |

<sup>(1)</sup> Subject to adjustment for certain specified events

<sup>(2)</sup> 2015 Convertible Notes were adjusted for the announcement of the Merger Agreement

Taken together, the purchases of the convertible note hedges and the sales of the warrants are intended to offset any economic dilution from the conversion of each of the 2017 Convertible Notes when the stock price is below the exercise price of the respective warrants and to effectively increase the overall conversion prices from \$61.08 to \$92.20 per share for the 2017 Convertible Notes. Subsequent to December 31, 2022, the price per share for the warrants related to the 2017 Convertible Notes was adjusted for the announcement of the Merger Agreement from \$92.20 to \$75.32. However, for purposes of the computation of diluted EPS in accordance with GAAP through December 31, 2022, dilution typically occurs when the average share price of our common stock for a given period exceeds the conversion price. See Note 3 for a discussion of the computation of diluted EPS under amended guidance for convertible notes effective on January 1, 2022. The amended guidance requires the use of the if-converted method when calculating the dilutive impact of convertible debt on earnings per share. The net cost incurred in connection with the convertible note hedges and warrants was recorded as a reduction to additional paid-in capital, net of tax, in the consolidated balance sheets.

On or after the earliest conversion date until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its 2017 Convertible Notes. Upon conversion, the 2017 Convertible Notes will be settled, at our election, in cash, shares of our common stock, or a combination of cash and shares of our common stock. Our current intent and policy is to settle conversions with a combination of cash and shares of common stock.

Generally, holders may only convert their 2017 Convertible Notes at their option at any time prior to the earliest conversion date, under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) if, for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on, and including, the last trading day of the immediately preceding calendar quarter, the last reported sale price of our common stock for such trading day is equal to or greater than 130% of the conversion price on such trading day;
- during the five consecutive business day period immediately following any five consecutive trading day period (the “measurement period”) in which, for each trading day of the measurement period, the trading price per \$1,000 principal amount of the convertible notes for such trading day was less than 98% of the product of the last reported sale price of our common stock for such trading day and the conversion rate on such trading day; or
- upon the occurrence of specified corporate events.

The price of our common stock was greater than or equal to 130% of the conversion price of the 2017 Convertible Notes for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the quarters ended March 31, 2022, September 30, 2022 and December 31, 2022. Therefore, our 2017 Convertible Notes continue to be convertible at the holders’ option through March 31, 2023. We received conversion notices on our 2017 Convertible Notes for an immaterial amount during 2022.

Through December 31, 2021, we separately accounted for the liability and equity components of convertible notes based on their relative values. Debt issuance costs related to the issuance of convertible notes were also previously allocated to the liability and equity components based on their relative values. With the adoption of the amended accounting guidance for convertible

notes on January 1, 2022 (see Note 3 for further discussion), amounts, including debt issuance costs, that were previously classified within equity were reclassified to the liability component, net of any remaining unamortized amounts. Debt issuance costs are amortized to interest expense using the effective interest method over the term of each convertible notes.

Debt issuance costs for the 2017 Convertible Notes were \$7.5 million and debt issuance costs for the 2015 Convertible Notes were \$6.8 million. The debt issuance costs are amortized to interest expense using the effective interest method over the term of each of the Convertible Notes.

The 2015 and 2017 Convertible Notes consisted of the following as of December 31:

|   | 2022                   | 2021                   |                        |
|---|------------------------|------------------------|------------------------|
|   | 2017 Convertible Notes | 2015 Convertible Notes | 2017 Convertible Notes |
| Remaining life in months                      | 17                     | 5                      | 29                     |
| Gross proceeds                                | \$ 288,906             | \$ 224,500             | \$ 289,000             |
| Less: debt discount, net of amortization      | —                      | (3,861)                | (27,605)               |
| Less: debt issuance cost, net of amortization | (1,503)                | (352)                  | (2,109)                |
| <b>Net carrying amount</b>                    | <b>\$ 287,403</b>      | <b>\$ 220,287</b>      | <b>\$ 259,286</b>      |

- (1) Included in Additional paid-in capital on the consolidated balance sheets.

The following table presents the amount of interest expense recognized related to the 2015 and 2017 Convertible Notes:

|  | 2022            | 2021             | 2020             |
|--|-----------------|------------------|------------------|
| Contractual interest coupon              | \$ 7,523        | \$ 10,470        | \$ 10,470        |
| Amortization of debt discount            | -               | 19,132           | 17,971           |
| Amortization of debt issuance costs      | 1,467           | 1,634            | 1,569            |
| <b>Total interest expense recognized</b> | <b>\$ 8,990</b> | <b>\$ 31,236</b> | <b>\$ 30,010</b> |

### **Revolving Credit Facility**

In December 2021, we amended and extended our previous three-year \$200.0 million secured revolving credit facility into a new four-year \$250.0 million secured revolving credit facility (the “Revolver”). The Revolver is for general corporate purposes and is currently secured by mortgages against several 747-400 and 767-300 aircraft, and related engines. Amounts outstanding under the Revolver are subject to borrowing base calculations, collateral coverage and fixed charge ratios. The Revolver accrues interest monthly at SOFR plus a margin of 1.63% per annum for the first \$125.0 million and 1.88% per annum when utilization exceeds \$125.0 million. The Revolver includes a facility fee of 0.35% on the undrawn portion. In connection with entry into the Revolver, we paid usual and customary fees. As of December 31, 2022, there were no amounts outstanding and we had \$250.0 million of unused availability under the Revolver, based on the collateral borrowing base.

### **Other Debt**

In April 2022, we refinanced a term loan secured by a 747-8F aircraft and received proceeds of \$90.0 million from a financing with an 84-month term for this aircraft at a blended fixed rate of 3.86%, with principal and interest payable quarterly. We used \$45.7 million of the proceeds to repay a higher-rate term loan in full and recognized a \$0.7 million loss on early extinguishment of debt. In connection with entry into this financing, we paid usual and customary commitment and other fees. While the financing involved a sale and leaseback of the aircraft, it did not qualify as a sale for accounting purposes.

In November 2021, we refinanced a term loan secured by a 747-8F aircraft and received proceeds of \$90.0 million from a financing with an 84-month term for this aircraft at a blended fixed rate of 2.98%, with principal and interest payable quarterly. We used \$50.0 million of the proceeds to repay a higher-rate term loan in full and recognized a \$3.3 million loss on early extinguishment of debt. In connection with entry into this financing, we paid usual and customary commitment and other fees. While the financing involved a sale and leaseback of the aircraft, it did not qualify as a sale for accounting purposes.

In October 2021, we refinanced a term loan secured by a 747-8F aircraft and received proceeds of \$90.0 million from a financing with an 83-month term for this aircraft at a blended fixed rate of 2.90%, with principal and interest payable quarterly. We used \$50.4 million of the proceeds to repay a higher-rate term loan in full and recognized a \$2.7 million loss on early

extinguishment of debt. In connection with entry into this financing, we paid usual and customary commitment and other fees. While the financing involved a sale and leaseback of the aircraft, it did not qualify as a sale for accounting purposes.

#### **Future Cash Payments for Debt**

The following table summarizes the cash required to be paid by year and the carrying value of our debt reflecting the terms that were in effect as of December 31, 2022:

|                                       |                     |
|---------------------------------------|---------------------|
| 2023                                  | \$ 421,255          |
| 2024                                  | 574,626             |
| 2025                                  | 174,323             |
| 2026                                  | 149,903             |
| 2027                                  | 161,087             |
| Thereafter                            | 778,131             |
| Total debt cash payments              | 2,259,325           |
| Less: unamortized debt issuance costs | (28,415)            |
| <b>Debt</b>                           | <b>\$ 2,230,910</b> |

## **11. Leases and Guarantees**

#### **Lessee**

The following table summarizes rental expenses in:

|  | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|-------------|
| Aircraft and engines                           | \$ 52,268   | \$ 67,745   | \$ 96,865   |
| Purchased capacity, office, vehicles and other | \$ 18,051   | \$ 23,308   | \$ 18,708   |

As of December 31, 2022, we lease 9 aircraft, of which 6 are operating leases. Lease expirations for our leased aircraft range from April 2023 to June 2032. In addition, we lease a variety of office space, airport station locations, warehouse space, vehicles and equipment, with lease expirations ranging from January 2023 to March 2036. We also incur variable rental costs for aircraft, engines, ground equipment and storage space based on usage of the underlying equipment or property. For leases with terms greater than 12 months, including renewal options when appropriate, we record the related right-of-use asset and lease liability as the present value of fixed lease payments over the lease term. Since our leases do not typically provide a readily determinable discount rate, we use our incremental borrowing rate to discount lease payments to present value.

The following table presents the lease-related assets and liabilities recorded on the consolidated balance sheets as of December 31:

|   | <b>Classification on the Consolidated<br/>Balance Sheets</b> | <b>2022</b>       | <b>2021</b> |
|---|--|-------------------|-------------|
| <b>Assets</b>   |  |                   |             |
| Operating lease right-of-use assets                       | Operating lease right-of-use assets                          | \$ 107,707        | \$ 138,744  |
| Finance lease assets                                      | Property and equipment, net                                  | 69,873            | 149,459     |
| Less: Accumulated amortization on<br>finance lease assets | Property and equipment, net                                  | (16,239)          | (15,295)    |
| <b>Total lease assets</b>                                 | <b>\$ 161,341</b>  | <b>\$ 272,908</b> |             |
| <b>Liabilities</b>  |  |                   |             |
| <b>Current</b>  |  |                   |             |
| Operating lease liabilities                               | Current portion of long-term operating<br>leases             | \$ 53,825         | \$ 55,383   |
| Finance lease liabilities                                 | Current portion of long-term debt and<br>finance leases      | 25,368            | 131,525     |
| <b>Noncurrent</b>   |  |                   |             |
| Operating lease liabilities                               | Long-term operating leases                                   | 111,591           | 166,022     |
| Finance lease liabilities                                 | Long-term debt and finance leases                            | 41,890            | 45,477      |
| <b>Total lease liabilities</b>                            | <b>\$ 232,674</b>  | <b>\$ 398,407</b> |             |

| <b>Weighted Average Remaining Lease Term in years</b> |         |        |
|---|---------|--------|
| Operating Leases                                      | 4.51    | 5.02   |
| Finance Leases  | 5.61    | 3.19   |
| <b>Weighted Average Discount Rate</b>                 |         |        |
| Operating Leases                                      | 3.94 %  | 3.95 % |
| Finance Leases  | 11.80 % | 6.66 % |

The following table presents information related to lease costs for finance and operating leases:

|   | <b>2022</b> | <b>2021</b> |
|---|-------------|-------------|
| Fixed operating lease costs <sup>(1)</sup>    | \$ 39,260   | \$ 62,616   |
| Variable operating lease costs <sup>(1)</sup> | 30,856      | 26,731      |
| Finance lease costs:                          |             |             |
| Amortization of leased assets <sup>(2)</sup>  | 8,728       | 9,289       |
| Interest on lease liabilities <sup>(3)</sup>  | 6,992       | 8,052       |
| Total lease cost                              | \$ 85,836   | \$ 106,688  |

(1) Expenses are classified within Aircraft rent and Navigation fees, landing fees and other rent on the consolidated statement of operations. Short-term lease contracts are not material.

(2) Expense is classified within Depreciation and amortization on the consolidated statement of operations.

(3) Expense is classified within Interest expense on the consolidated statement of operations.

The table below presents supplemental cash flow information related to leases as follows:

|  | <b>2022</b> | <b>2021</b> |
|--|-------------|-------------|
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |             |             |
| Operating cash flows for operating leases                                      | \$ 63,876   | \$ 126,785  |
| Operating cash flows for finance leases  | 6,967       | 7,804       |
| Financing cash flows for finance leases  | 134,882     | 152,541     |

As of December 31, 2022, maturities of lease liabilities for the periods indicated were as follows:

|                                | <b>Operating<br/>Leases</b> | <b>Finance<br/>Leases</b> | <b>Total</b>      |
|--------------------------------|-----------------------------|---------------------------|-------------------|
| 2023                           | \$ 59,103                   | \$ 30,763                 | \$ 89,866         |
| 2024                           | 56,248                      | 9,253                     | 65,501            |
| 2025                           | 18,360                      | 9,252                     | 27,612            |
| 2026                           | 11,783                      | 9,236                     | 21,019            |
| 2027                           | 10,822                      | 9,216                     | 20,038            |
| Thereafter                     | 23,300                      | 30,252                    | 53,552            |
| Total minimum rental payments  | 179,616                     | 97,972                    | 277,588           |
| Less: imputed interest         | 14,200                      | 30,714                    | 44,914            |
| <b>Total lease liabilities</b> | <b>\$ 165,416</b>           | <b>\$ 67,258</b>          | <b>\$ 232,674</b> |

#### **Lessor**

As of December 31, 2022, our contractual amount of minimum receipts, excluding taxes, for the periods indicated under Dry Leases reflecting the terms that were in effect were as follows:

|                                     |                   |
|-------------------------------------|-------------------|
| 2023                                | \$ 146,935        |
| 2024                                | 83,171            |
| 2025                                | 81,119            |
| 2026                                | 80,588            |
| 2027                                | 65,487            |
| Thereafter                          | 68,803            |
| <b>Total minimum lease receipts</b> | <b>\$ 526,103</b> |

## **Guarantees and Indemnifications**

In the ordinary course of business, we enter into numerous leasing and financing arrangements for real estate, equipment, aircraft and engines that have various guarantees included in the contracts. These guarantees are primarily in the form of indemnities. In both leasing and financing transactions, we typically indemnify the lessors and any financing parties against tort liabilities that arise out of the use, occupancy, manufacture, design, operation or maintenance of the leased premises or financed aircraft, regardless of whether these liabilities relate to the negligence of the indemnified parties. Currently, we believe that any future payments required under many of these guarantees or indemnities would be immaterial, as most tort liabilities and related indemnities are covered by insurance (subject to deductibles). However, payments under certain tax indemnities related to certain of our financing arrangements, if applicable, could be material, and would not be covered by insurance, although we believe that these payments are not probable. Certain leased premises, such as maintenance and storage facilities, typically include indemnities of such parties for any environmental liability that may arise out of or relate to the use of the leased premises. We also provide standard indemnification agreements to officers and directors in the ordinary course of business.

## **Financings and Guarantees**

Our financing arrangements typically contain a withholding tax provision that requires us to pay additional amounts to the applicable lender or other financing party, if withholding taxes are imposed on such lender or other financing party as a result of a change in the applicable tax law. These increased costs and withholding tax provisions continue for the entire term of the applicable transaction and there is no limitation on the maximum additional amount we could be required to pay under such provisions. Any failure to pay amounts due under such provisions generally would trigger an event of default and, in a secured financing transaction, would entitle the lender to foreclose upon the collateral to realize the amount due.

## **12. Income Taxes**

The significant components of the provision for (benefit from) income taxes are as follows:

|                          | <b>2022</b>              | <b>2021</b>              | <b>2020</b>              |
|--------------------------|--------------------------|--------------------------|--------------------------|
| <i>Current:</i>          |                          |                          |                          |
| Federal                  | \$ -                     | \$ -                     | \$ (71)                  |
| State and local          | 374                      | 1,111                    | 680                      |
| Foreign                  | 635                      | 564                      | 2,249                    |
| Total current expense    | <u>1,009</u>             | <u>1,675</u>             | <u>2,858</u>             |
| <i>Deferred:</i>         |                          |                          |                          |
| Federal                  | 96,662                   | 136,327                  | 116,263                  |
| State and local          | 615                      | 5,317                    | 8,346                    |
| Foreign                  | 7,470                    | 10,755                   | 8,989                    |
| Total deferred expense   | <u>104,747</u>           | <u>152,399</u>           | <u>133,598</u>           |
| Total income tax expense | <u><u>\$ 105,756</u></u> | <u><u>\$ 154,074</u></u> | <u><u>\$ 136,456</u></u> |

The domestic and foreign earnings (loss) before income taxes are as follows:

|                            | <b>2022</b>              | <b>2021</b>              | <b>2020</b>              |
|----------------------------|--------------------------|--------------------------|--------------------------|
| Domestic                   | \$ 416,359               | \$ 611,008               | \$ 443,087               |
| Foreign                    | 45,277                   | 36,383                   | 53,655                   |
| Income before income taxes | <u><u>\$ 461,636</u></u> | <u><u>\$ 647,391</u></u> | <u><u>\$ 496,742</u></u> |

A reconciliation of the provision (benefit) for income taxes applying the statutory federal income tax rate of 21.0% for the years ended December 31, 2022, 2021 and 2020, respectively, is as follows:

|   | <b>2022</b>          | <b>2021</b>          | <b>2020</b>          |
|---|----------------------|----------------------|----------------------|
| U.S. federal statutory income tax rate                        | 21.0 %               | 21.0 %               | 21.0 %               |
| State and local taxes based on income, net of federal benefit | 1.2 %                | 1.0 %                | 0.8 %                |
| Change in deferred foreign and state tax rates                | (0.5 %)              | 0.5 %                | 0.6 %                |
| Customer incentive  | —                    | —                    | 3.0 %                |
| Nondeductible compensation                                    | 1.0 %                | 0.8 %                | 1.2 %                |
| Other nondeductible expenses                                  | 0.6 %                | 0.3 %                | 0.8 %                |
| Tax effect of foreign operations                              | (0.8 %)              | (0.5 %)              | (1.2 %)              |
| Other   | 0.4 %                | 0.7 %                | 1.3 %                |
| Effective income tax expense rate                             | <u><u>22.9 %</u></u> | <u><u>23.8 %</u></u> | <u><u>27.5 %</u></u> |



The effective income tax rate for the years ended December 31, 2022 and 2021 differed from the U.S. statutory rate primarily due to state income taxes and certain expenses that are not deductible for tax purposes.

The effective income tax rate for the year ended December 31, 2020 differed from the U.S. statutory rate primarily due to nondeductible changes in the fair value of a customer warrant liability (see Note 9 for further discussion).

Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The net noncurrent deferred tax asset (liability) was comprised of the following as of December 31:

|   | <b>Assets (Liabilities)</b> |                     |
|---|-----------------------------|---------------------|
|   | <b>2022</b>                 | <b>2021</b>         |
| <b>Deferred tax assets:</b>   |                             |                     |
| Net operating loss carryforwards and credits                              | \$ 466,793                  | \$ 411,071          |
| Accrued compensation  | 31,231                      | 38,085              |
| Aircraft and other leases   | 46,346                      | 60,850              |
| Interest expense limitation carryforward                                  | 6,491                       | -                   |
| Long-term debt  | 3,916                       | 599                 |
| Obsolescence reserve  | 10,205                      | 9,086               |
| Stock-based compensation  | 1,845                       | 1,947               |
| Other   | -                           | 577                 |
| Total deferred tax assets   | 566,827                     | 522,215             |
| Valuation allowance   | (18,239)                    | (23,185)            |
| Net deferred tax assets   | <u>\$ 548,588</u>           | <u>\$ 499,030</u>   |
|   |                             |                     |
| <b>Deferred tax liabilities:</b>  |                             |                     |
| Fixed assets  | \$ (927,774)                | \$ (767,273)        |
| Customer incentive  | (2,512)                     | (5,094)             |
| Deferred maintenance  | (33,416)                    | (39,712)            |
| Goodwill and other intangibles  | (13,209)                    | (10,626)            |
| Operating lease right-of-use assets                                       | (23,565)                    | (30,459)            |
| Other   | (252)                       | -                   |
| Total deferred tax liabilities  | <u>\$ (1,000,728)</u>       | <u>\$ (853,164)</u> |
|   |                             |                     |
| <b>Deferred taxes included within following balance sheet line items:</b> |                             |                     |
| Deferred taxes  | \$ (452,495)                | \$ (354,798)        |
| Deferred costs and other assets   | 355                         | 664                 |
| Net deferred tax assets (liabilities)                                     | <u>\$ (452,140)</u>         | <u>\$ (354,134)</u> |

As of December 31, 2022 and 2021, we had U.S. net operating losses (“NOLs”), net of unrecognized tax benefits and valuation allowances, of approximately \$1.9 billion and \$1.6 billion, respectively, approximately half of which will expire through 2037, if not utilized. Additionally, we had foreign NOLs for Hong Kong, Ireland and Singapore, net of unrecognized tax benefits and valuation allowances, of approximately \$494.5 million and \$564.6 million as of December 31, 2022 and 2021, respectively, with no expiration date.

Certain of our subsidiaries participate in an aircraft leasing incentive program in Singapore, which entitles us to a reduced income tax rate on our Singapore Dry Leasing income. Our participation is set to expire on July 31, 2023. We expect to renew our participation through July 31, 2028. If any of our subsidiaries are unable to remain in the aircraft leasing incentive program or the concessionary rate increases in the future, we could be subject to additional income taxes in Singapore, which could have a material effect on the results of our operations.

Section 382 of the Internal Revenue Code (“Section 382”) imposes an annual limitation on the amount of a corporation’s U.S. federal taxable income that can be offset by NOLs if it experiences an “ownership change”, as defined. We experienced an ownership change in the past that limits the use of prior NOLs to offset taxable income. If certain changes in our ownership occur prospectively, there could be an additional limitation on the amount of utilizable NOLs.

On each reporting date, management assesses whether we are more likely than not to realize some or all of our deferred tax assets. After our assessment, we maintained a valuation allowance of \$18.2 million and \$23.2 million against our deferred tax assets as of December 31, 2022 and 2021, respectively. The valuation allowance is primarily attributable to a limitation on NOL



utilization resulting from an ownership change under Section 382. We expect a portion of our NOLs generated in 2004 and prior years to eventually expire unused. The valuation allowance decreased by \$5.0 million during the year ended December 31, 2022 primarily as a result of NOLs generated in 2002 that expired unutilized this year. The valuation allowance decreased by \$0.9 and \$0.4 million during the years ended December 31, 2021 and 2020, respectively.

A reconciliation of the beginning and ending unrecognized income tax benefits is as follows:

|   | 2022             | 2021             | 2020             |
|---|------------------|------------------|------------------|
| Beginning balance                                       | \$ 29,524        | \$ 27,440        | \$ 22,383        |
| Additions for tax positions related to the current year | -                | 1,650            | 4,971            |
| Additions for tax positions related to prior years      | 99               | 566              | 127              |
| Reductions for tax positions related to prior years     | (637)            | (132)            | (41)             |
| Ending balance  | <u>\$ 28,986</u> | <u>\$ 29,524</u> | <u>\$ 27,440</u> |

If recognized, all of the unrecognized income tax benefits would favorably impact the effective income tax rate. We will maintain a liability for unrecognized income tax benefits until these uncertain positions are resolved or until the expiration of the applicable statute of limitations, if earlier.

Our policy is to record tax-related interest expense and penalties, if applicable, as a component of income tax expense. For the period ended December 31, 2020, we recorded a \$0.1 million interest benefit when we released an income tax reserve. There was no cumulative liability for tax-related interest as of December 31, 2022 and 2021. We have not recorded any liability for income tax-related penalties, and the tax authorities historically have not assessed any.

For U.S. federal income tax purposes, the 2016 through 2022 income tax years remain subject to examination. There are no U.S. federal income tax examinations in progress. The Company files income tax returns in multiple states and foreign jurisdictions, primarily in Hong Kong, Ireland and Singapore. The Company is currently undergoing income tax examinations in Hong Kong and Singapore. The 2016 through 2022 Hong Kong and Singapore income tax years are subject to examination.

### 13. Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Inputs used to measure fair value are classified in the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Other inputs that are observable directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, or inactive quoted prices for identical assets or liabilities in inactive markets;

Level 3 Unobservable inputs reflecting assumptions about the inputs used in pricing the asset or liability.

We endeavor to utilize the best available information to measure fair value.

The carrying value of Cash and cash equivalents, and Restricted cash is based on cost, which approximates fair value.

Term loans and notes consist of term loans, the Ex-Im Guaranteed Notes, the Private Placement Facility, the Promissory Note and other debt financings. The fair values of these debt instruments are based on a discounted cash flow analysis using current borrowing rates for instruments with similar terms.

The fair value of our Convertible Notes is based on unadjusted quoted market prices for these securities.

The following table summarizes the carrying value, estimated fair value and classification of our financial instruments as of:

|                           | December 31, 2022   |                     |                   |             |                     |
|---------------------------|---------------------|---------------------|-------------------|-------------|---------------------|
|                           | Carrying Value      | Fair Value          | Level 1           | Level 2     | Level 3             |
| <b>Assets</b>             |                     |                     |                   |             |                     |
| Cash and cash equivalents | \$ 763,314          | \$ 763,314          | \$ 763,314        | \$ -        | \$ -                |
| Restricted cash           | 10,597              | 10,597              | 10,597            | -           | -                   |
|                           | <u>\$ 773,911</u>   | <u>\$ 773,911</u>   | <u>\$ 773,911</u> | <u>\$ -</u> | <u>\$ -</u>         |
| <b>Liabilities</b>        |                     |                     |                   |             |                     |
| Term loans and notes      | \$ 1,943,507        | \$ 1,885,317        | \$ -              | \$ -        | \$ 1,885,317        |
| Convertible notes (1)     | 287,403             | 479,584             | 479,584           | -           | -                   |
|                           | <u>\$ 2,230,910</u> | <u>\$ 2,364,901</u> | <u>\$ 479,584</u> | <u>\$ -</u> | <u>\$ 1,885,317</u> |



**December 31, 2021**

|                           | <b>Carrying Value</b> | <b>Fair Value</b>   | <b>Level 1</b>    | <b>Level 2</b> | <b>Level 3</b>      |
|---------------------------|-----------------------|---------------------|-------------------|----------------|---------------------|
| <b>Assets</b>             |                       |                     |                   |                |                     |
| Cash and cash equivalents | \$ 910,965            | \$ 910,965          | \$ 910,965        | \$ -           | \$ -                |
| Restricted cash           | 10,052                | 10,052              | 10,052            | -              | -                   |
|                           | <b>\$ 921,017</b>     | <b>\$ 921,017</b>   | <b>\$ 921,017</b> | <b>\$ -</b>    | <b>\$ -</b>         |
| <b>Liabilities</b>        |                       |                     |                   |                |                     |
| Term loans and notes      | \$ 1,638,311          | \$ 1,690,675        | \$ -              | \$ -           | \$ 1,690,675        |
| Convertible notes (2)     | 479,573               | 758,424             | 758,424           | -              | -                   |
|                           | <b>\$ 2,117,884</b>   | <b>\$ 2,449,099</b> | <b>\$ 758,424</b> | <b>\$ -</b>    | <b>\$ 1,690,675</b> |

(1) Carrying value is net of debt issuance costs (see Note 10).

(2) Carrying value is net of debt discounts and debt issuance costs (see Note 10).

#### 14. Segment Reporting

During the first quarter of 2021, we changed our operating and reportable segments, reflecting changes in our business. We currently have the following two operating and reportable segments: Airline Operations and Dry Leasing. Previously, our operating and reportable segments were ACMI, Charter and Dry Leasing. As ACMI and Charter services have become more similar, our chief operating decision maker began assessing operating results and making resource allocation decisions for Airline Operations. All segments are directly or indirectly engaged in the business of air transportation services but have different commercial and economic characteristics. We do not aggregate our operating segments and, therefore, our operating segments are our reportable segments.

Each operating segment is separately reviewed by our chief operating decision maker to assess operating results and make resource allocation decisions. We do not aggregate our operating segments and, therefore, our operating segments are our reportable segments.

We use an economic performance metric called Direct Contribution, which shows the profitability of each segment. Direct Contribution includes Income (loss) before income taxes and excludes the following: Special charges, Transaction-related expenses, nonrecurring items, Loss (gain) on the disposal of aircraft, Loss on early extinguishment of debt, Unrealized loss (gain) on financial instruments and Unallocated income and expenses, net. Direct operating and ownership costs include crew costs, maintenance, fuel, ground operations, sales costs, aircraft rent, interest expense on the portion of debt used for financing aircraft, interest income on debt securities and aircraft depreciation. Unallocated income and expenses, net include corporate overhead, nonaircraft depreciation, noncash expenses and income, interest expense on the portion of debt used for general corporate purposes, interest income on nondebt securities, capitalized interest, foreign exchange gains and losses, other revenue, other non-operating costs and CARES Act grant income

Our Airline Operations segment provides outsourced aircraft operating services to customers, including express delivery providers, e-commerce retailers, the U.S. military, charter brokers, freight forwarders, airlines, manufacturers, sports teams and fans, and private charter customers. We generally provide these services on an ACMI, CMI and Charter basis. Most agreements provide us with guaranteed minimum revenues at predetermined rates, levels of operation and defined periods of time. We also provide certain services on a short-term basis.

Our Dry Leasing segment provides for the leasing of cargo and passenger aircraft and engines to customers, and aircraft- and lease-management services. In our Dry Leasing segment, the customer operates, and is responsible for, insuring and maintaining the flight equipment.

Other represents revenue for services that are not allocated to any segment, including administrative and management support services and flight simulator training.

The following table sets forth Operating Revenue and Direct Contribution for our reportable segments reconciled to Operating Income (loss) and Income (loss) before income taxes:

|  | 2022                | 2021                | 2020                |
|--|---------------------|---------------------|---------------------|
| <b>Operating Revenue:</b>                                |                     |                     |                     |
| Airline Operations                                       | \$ 4,395,905        | \$ 3,888,601        | \$ 3,066,399        |
| Dry Leasing  | 170,908             | 163,365             | 165,181             |
| Customer incentive asset amortization                    | (39,764)            | (44,162)            | (39,090)            |
| Other  | 22,055              | 23,025              | 18,626              |
| <b>Total Operating Revenue</b>                           | <b>\$ 4,549,104</b> | <b>\$ 4,030,829</b> | <b>\$ 3,211,116</b> |
| <b>Direct Contribution:</b>                              |                     |                     |                     |
| Airline Operations                                       | \$ 815,647          | \$ 1,020,887        | \$ 739,619          |
| Dry Leasing  | 56,142              | 42,587              | 41,070              |
| <b>Total Direct Contribution for Reportable Segments</b> | <b>871,789</b>      | <b>1,063,474</b>    | <b>780,689</b>      |
| Unallocated income and (expenses), net                   | (380,405)           | (409,721)           | (201,016)           |
| Loss on early extinguishment of debt                     | (689)               | (6,042)             | (81)                |
| Unrealized loss on financial instruments                 | -                   | (113)               | (71,053)            |
| Special charge   | (16,215)            | -                   | (16,265)            |
| Transaction-related expenses                             | (9,746)             | (1,001)             | (2,780)             |
| Gain (loss) on disposal of flight equipment              | (3,098)             | 794                 | 7,248               |
| <b>Income before income taxes</b>                        | <b>461,636</b>      | <b>647,391</b>      | <b>496,742</b>      |
| Add back (subtract):                                     |                     |                     |                     |
| Interest income  | (8,755)             | (723)               | (1,076)             |
| Interest expense   | 81,692              | 107,492             | 114,635             |
| Capitalized interest                                     | (12,683)            | (8,316)             | (925)               |
| Loss on early extinguishment of debt                     | 689                 | 6,042               | 81                  |
| Unrealized loss on financial instruments                 | -                   | 113                 | 71,053              |
| Other (income) expense, net                              | (185)               | (40,705)            | (185,742)           |
| <b>Operating Income</b>                                  | <b>\$ 522,394</b>   | <b>\$ 711,294</b>   | <b>\$ 494,768</b>   |

The following table disaggregates our Airline Operations segment revenue by customer and service type:

|                                   | For the Years Ended December 31, |                   |                     |                     |                   |                     |                     |                   |                     |
|-----------------------------------|----------------------------------|-------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|---------------------|
|                                   | 2022                             |                   |                     | 2021                |                   |                     | 2020                |                   |                     |
|                                   | Cargo                            | Passenger         | Total               | Cargo               | Passenger         | Total               | Cargo               | Passenger         | Total               |
| Commercial customers              | \$ 3,786,345                     | \$ 25,636         | \$ 3,811,981        | \$ 3,441,881        | \$ 23,163         | \$ 3,465,044        | \$ 2,538,230        | \$ 17,802         | \$ 2,556,032        |
| AMC                               | 338,290                          | 245,634           | 583,924             | 139,909             | 283,648           | 423,557             | 217,522             | 292,845           | 510,367             |
| <b>Airline Operations Revenue</b> | <b>\$ 4,124,635</b>              | <b>\$ 271,270</b> | <b>\$ 4,395,905</b> | <b>\$ 3,581,790</b> | <b>\$ 306,811</b> | <b>\$ 3,888,601</b> | <b>\$ 2,755,752</b> | <b>\$ 310,647</b> | <b>\$ 3,066,399</b> |

Given the nature of our business and international flying, geographic information for revenue, long-lived assets and total assets is not presented because it is impracticable to do so.

We are exposed to a concentration of revenue from the AMC, Polar and DHL (see Note 5 for further discussion regarding Polar). No other customer accounted for more than 10.0% of our Total Operating Revenue. Revenue from DHL was \$532.9 million for 2022, \$672.3 million for 2021 and \$563.6 million for 2020. We have not experienced any credit issues with these customers.

|   | 2022              | 2021              | 2020              |
|---|-------------------|-------------------|-------------------|
| <b>Depreciation and amortization expense:</b> |                   |                   |                   |
| Airline Operations                            | 212,178           | 188,251           | 165,769           |
| Dry Leasing                                   | 78,625            | 79,597            | 78,241            |
| Unallocated                                   | 12,417            | 13,361            | 13,662            |
| <b>Total Depreciation and Amortization</b>    | <b>\$ 303,220</b> | <b>\$ 281,209</b> | <b>\$ 257,672</b> |

## **15. Labor and Legal Proceedings**

### ***Collective Bargaining Agreements***

Pilots of Atlas and flight dispatchers of Atlas and Polar are represented by the International Brotherhood of Teamsters (the “IBT”). In March 2022, we signed a five-year collective bargaining agreement (“CBA”) with our pilots, effective as of September 2021. This long-term CBA was concluded through a binding interest arbitration process, with the arbitrator issuing a decision on September 10, 2021. The parties reached agreement on certain enhancements to the CBA in February 2022, which were incorporated into the CBA. The new pay rates became effective as of September 1, 2021, and we have continued to work closely together with the union’s new leadership on the final implementation of certain remaining provisions of the CBA. Under this

industry competitive agreement, all of our pilots are receiving significantly higher pay, quality of life improvements and enhanced benefits.

We also had a CBA with our Atlas and Polar dispatchers, which became amendable in November 2021. Shortly thereafter, the Company and the IBT commenced collective bargaining for a successor CBA pursuant to Section 6 of the Railway Labor Act. The parties reached agreement on a new five-year CBA, which was ratified by the dispatchers in August 2022. The new CBA became effective as of September 1, 2022.

We are subject to risks of work interruption or stoppage as permitted by the Railway Labor Act and may incur additional administrative expenses associated with union representation of our employees.

#### **Matters Related to Proposed Merger**

Between October 7, 2022, and November 2, 2022, a total of seven complaints were filed in the United States District Courts for the Southern District of New York and the District of Delaware and the Supreme Court of the State of New York, County of Westchester in connection with the proposed Merger. On October 7, 2022, a complaint, captioned *Stein v. Atlas Air Worldwide Holdings, Inc., et al.*, Case No. 1:22-cv-08555, was filed in the United States District Court for the Southern District of New York by plaintiff Shiva Stein, a purported Company stockholder; on October 14, 2022, a complaint, captioned *Okin v. Atlas Air Worldwide Holdings, Inc., et al.*, Case No. 1:22-cv-08778, was filed in the United States District Court for the Southern District of New York by plaintiff Alexander Okin, a purported Company stockholder; on October 24, 2022, a complaint, captioned *Halberstam v. Atlas Air Worldwide Holdings, Inc., et al.*, Case No. 1:22-cv-09108, was filed in the United States District Court for the Southern District of New York by plaintiff Meyer Halberstam, a purported Company stockholder; on November 1, 2022, a complaint, captioned *Garfield v. Dietrich, et al.*, Index No. 67742/2022 (the “Garfield Complaint”), was filed in the Supreme Court of the State of New York, County of Westchester, by plaintiff Robert Garfield, a purported Company stockholder; and on November 2, 2022, two complaints, captioned *Sabatini v. Atlas Air Worldwide Holdings, Inc., et al.*, Case No. 7-22-cv-09389 and *Halberstam v. Atlas Air Worldwide Holdings, Inc., et al.*, Case No. 7-22-cv-09408, were filed in the United States District Court for the Southern District of New York by plaintiffs Eric Sabatini and Benjamin Halberstam, respectively, each a purported Company stockholder, and on November 3, 2022, a complaint, captioned *Plumley v. Atlas Air Worldwide Holdings, Inc.*, Case No. 1:22-cv-01448 was filed in the United States District Court for the District of Delaware by plaintiff Patrick Plumley, a purported Company stockholder, in each case naming as defendants the Company and members of the board of directors of the Company and, in the case of the Garfield complaint, also naming as defendants the Buyers.

The complaints, other than the Garfield complaint, alleged, among other things, that the defendants caused to be filed a materially incomplete and misleading preliminary proxy statement and/or definitive proxy statement on Schedule 14A with the SEC relating to the proposed Merger in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Garfield complaint, amongst other things, asserted claims that the defendants engaged in fraudulent and negligent misrepresentation and concealment in violation of New York common law.

Among other remedies, the complaints sought an order enjoining the defendants from proceeding with the proposed Merger unless and until the defendants disclosed certain allegedly material information that was allegedly omitted from the preliminary proxy statement and/or definitive proxy statement, rescinding the Merger Agreement or any of the terms thereof to the extent already implemented or granting rescissory damages, awarding the plaintiff the costs and disbursements of the action, including reasonable attorneys’ and expert fees and expenses, and granting such other and further relief as the court may deem just and proper.

Between October 18, 2022 and November 10, 2022, the Company also received six demand letters from purported Company stockholders alleging disclosure deficiencies in the preliminary proxy statement and/or definitive proxy statement and demanding that the Company and its board of directors promptly issue corrective disclosures to cure the proxy statement prior to the anticipated stockholder vote on the proposed Merger.

The Company believes that the allegations contained in the complaints and demand letters were without merit and that no further disclosure was required to supplement the proxy statement under applicable laws. However, in order to avoid the risk of the complaints and demand letters delaying or adversely affecting the Merger and to minimize the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, on November 17, 2022, we voluntarily provided supplemental disclosures to the definitive proxy statement on a Current Report on Form 8-K with respect to the Merger. On November 29, 2022, the special meeting of the shareholders convened and voted to adopt the Merger Agreement. Each of the seven complaints has been voluntarily dismissed and there is no active shareholder litigation relating to the Merger transaction at this time. Additional lawsuits arising out of the Merger transaction may be filed in the future.

## **Matters Related to Alleged Pricing Practices**

In the Netherlands, Stichting Cartel Compensation, successor in interest to claims of various shippers, has filed suit in the district court in Amsterdam against British Airways, KLM, Martinair, Air France, Lufthansa and Singapore Airlines seeking recovery for damages purportedly arising from allegedly unlawful pricing practices of such defendants. In response, British Airways, KLM, Martinair, Air France and Lufthansa filed third-party indemnification lawsuits against Polar Air Cargo, LLC (“Old Polar”), a consolidated subsidiary of the Company, and Polar, seeking indemnification in the event the defendants are found to be liable in the main proceedings. Another defendant, Thai Airways, filed a similar indemnification claim. Activities in the case have focused on various procedural issues and rulings, some of which are awaiting court decisions on appeal. The ultimate outcome of the lawsuit is likely to be affected by a decision readopted by the European Commission in March 2017, finding EU competition law violations by British Airways, KLM, Martinair, Air France and Lufthansa, among others, but not Old Polar or Polar. If the Company, Old Polar or Polar were to incur an unfavorable outcome, such outcome may have a material adverse impact on our business, financial condition, results of operations or cash flows. We are unable to reasonably estimate a range of possible loss for this matter at this time.

## **Brazilian Customs Claim**

Old Polar was cited for two alleged customs violations in Sao Paulo, Brazil, relating to shipments of goods dating back to 1999 and 2000. Each claim asserts that goods listed on the flight manifest of two separate Old Polar scheduled service flights were not properly presented to customs upon arrival and therefore were improperly brought into Brazil. The two claims, which also seek unpaid customs duties, taxes and penalties from the date of the alleged infraction, are approximately \$1.9 million in aggregate based on December 31, 2022 exchange rates.

Old Polar has presented evidence that certain of the alleged missing goods were in fact never onboard the aircraft (due to a change in plans by the relevant shipper) and thus no customs duties should be due. Further, in both cases, we believe that the amounts claimed are substantially overstated due to a calculation error when considering the type and amount of goods allegedly missing, among other things. In the pending claim for one of the cases, we have received an administrative decision dismissing the claim in its entirety, which remains subject to a mandatory appeal by the Brazil customs authorities. In the other case, there was an administrative decision in favor of the Brazil customs authorities and we are in the process of appealing this decision to the Brazil courts. As required to defend such claims, we have made deposits pending resolution of these matters. The balance was \$3.7 million as of December 31, 2022 and \$3.2 million as of December 31, 2021, and is included in Deferred costs and other assets.

We are currently defending these and other Brazilian customs claims and the ultimate disposition of these claims, either individually or in the aggregate, is not expected to materially affect our financial condition, results of operations or cash flows.

## **Other**

On October 22, 2022 a lawsuit, captioned Estate of Lane Caviness, Akerlund, et al., v. Atlas Air, Inc., et al., was filed in the United States District Court for the Southern District of Florida, Case No. 1:22-cv-23519-KMM (the “Akerlund Complaint”), by over 100 plaintiffs related to the defendants’ vaccination and other COVID-19 policies. The majority of plaintiffs are Atlas pilots. In addition to Atlas Air, Inc., the plaintiffs named Flight Services International, LLC and EncompassAir, LLC as defendants and Company executives John Dietrich, Patricia Goodwin-Peters and Jeff Carlson as individual defendants. The Akerlund Complaint includes eight causes of actions asserted by certain groups of plaintiffs against some or all of the defendants and alleges violations of federal employment laws, the U.S. Constitution, state tort law and a claim for breach of the CBA with Atlas pilots. Among other remedies, the Akerlund Complaint seeks compensatory damages totaling at least \$159,000,000 and punitive damages of at least \$30,000,000 per plaintiff, plus injunctive relief. The Company and the other defendants collectively submitted a motion to dismiss the Akerlund Complaint on February 6, 2023. The Company believes that the allegations contained in the complaints and demand letters are without merit. We do not at this time consider there to be any reasonably possible material loss arising from the complaint. However, litigation is inherently uncertain and there can be no assurance regarding the likelihood that the Company’s defense of the actions will be successful.

In addition to the matters described in this note, we have certain other litigation contingencies incident to the ordinary course of business. Unless disclosed otherwise, management does not expect that the ultimate disposition of such other contingencies or matters will materially affect our financial condition, results of operations or cash flows.

## **16. Long-term Incentive Compensation Plans**

In May 2019, our stockholders approved an amendment to our 2018 Incentive Plan (the “2018 Amended Plan”). An aggregate of 1.4 million shares of common stock were reserved for issuance to participants under the 2018 Amended Plan. The 2018 Amended Plan provides for the grant of long-term incentive awards to employees in various forms, including equity-based awards, time-vested cash awards and performance cash awards. Examples of stock-based awards that may be granted under the 2018 Amended Plan include nonqualified options, incentive stock options, share appreciation rights, restricted shares, restricted

share units, performance shares and performance units, dividend equivalents and other share-based awards. No new awards have been made under predecessor plans since the adoption of the 2018 Amended Plan.

In June 2020, our stockholders approved an additional amendment to the 2018 Amended Plan, which provided that an aggregate of 2.4 million shares of common stock were reserved for issuance to participants under the 2018 Amended Plan. The 2018 Amended Plan is administered by the compensation committee of our board of directors and as the administrator, the compensation committee, among other things, establishes the terms and conditions of awards granted under the 2018 Amended Plan. Awards outstanding under the 2018 Amended Plan will continue to be governed by the terms of such plan and agreements under which they were granted. The term of awards granted under the 2018 Amended Plan is limited to ten years, and no awards may be granted under the 2018 Amended Plan more than ten years after the effective date of such plan.

As of December 31, 2022, the 2018 Amended Plan had a total of 1.0 million shares of common stock available for future award grants to management and members of the board of directors. Our compensation expense for all plans was \$13.5 million in 2022, \$13.8 million in 2021 and \$21.4 million in 2020. Income tax expense for share-based compensation was \$3.3 million in 2022, \$0.8 million in 2021 and \$7.4 million in 2020.

#### ***Restricted Share Units and Time-based Cash Awards***

Restricted stock units, which have been granted in units, and time-based cash awards generally vest and are expensed over one- or three- year periods. As of December 31, 2022, a total of 4.8 million restricted stock units have been granted under the 2018 Amended Plan and predecessor plans. All shares were valued at their fair market value, which is the closing price of the Company's stock on the date of grant. Unrecognized stock compensation cost as of December 31, 2022 is \$13.7 million and will be recognized over the remaining weighted average life of 1.9 years.

In 2022, 2021 and 2020, we granted time-based cash awards to employees and recognized compensation expense totaling \$4.4 million in 2022, \$5.8 million in 2021 and \$3.9 million in 2020. For the time-based cash awards, we had accruals of \$3.3 million as of December 31, 2022 and \$4.9 million as of December 31, 2021 in Accrued liabilities.

A summary of our restricted stock units as of December 31, 2022 and changes during the year then ended are presented below:

| Restricted Share Unit Awards     | Number of Shares | Weighted-Average |            |
|----------------------------------|------------------|------------------|------------|
|                                  |                  | Grant-Date       | Fair Value |
| Unvested as of December 31, 2021 | 363,249          | \$               | 43.79      |
| Granted                          | 223,075          |                  | 72.65      |
| Vested                           | (188,227)        |                  | 44.07      |
| Forfeited                        | (7,365)          |                  | 48.18      |
| Unvested as of December 31, 2022 | 390,732          | \$               | 60.00      |

The total fair value of shares vested on various vesting dates was \$8.3 million in 2022, \$10.3 million in 2021 and \$15.7 million in 2020. Weighted average grant date fair value per share was \$72.65 in 2022, \$61.89 in 2021 and \$27.74 in 2020.

#### ***Performance Share Units and Performance-based Cash Awards***

Performance share unit awards and performance-based cash awards are expensed over three years, which generally is the requisite performance period. Awards generally vest if (1) we achieve certain specified performance levels as compared to predetermined performance thresholds during a three-year period starting on January 1 of the grant year and ending on December 31 three years later, and (2) except in the event of death, disability, or an involuntary termination without cause, the employee remains employed by us through the determination date, which can be no later than four months following the end of the Performance Period. Payment with respect to a performance share unit award or performance-based cash award may be prorated in connection with certain employee terminations. Performance share unit and performance-based cash awards include a relative total shareholder return ("TSR") modifier which may impact the number of shares or cash earned at the end of the performance period. For these awards, the number of shares or cash earned based on the achievement of the predefined performance criteria will be reduced or increased if the Company's TSR over the performance period relative to a predefined comparator group of companies falls within defined ranges. The fair value of performance share units that include the TSR modifier is determined using a Monte Carlo valuation model on the date of grant, which requires inputs such as our common stock price, estimated common stock price volatility, and risk-free interest rate, among others.

The estimated compensation expense recognized for performance share unit and performance-based cash awards is net of estimated forfeitures. We assess the performance levels quarterly and record any change to compensation cost. We assess the TSR component for performance-based cash awards each quarter and record any change to compensation cost.

As of December 31, 2022, a total of 2.5 million performance share units have been granted. Unrecognized compensation cost as of December 31, 2022 is \$4.2 million and will be recognized over the remaining weighted average life of 2.1 years. For the performance-based cash awards, we had accruals of \$36.7 million as of December 31, 2022 and \$39.7 million as of December 31, 2021. We recognized compensation expense associated with the performance-based cash awards totaling \$19.5 million in 2022, \$21.5 million in 2021 and \$18.9 million in 2020.

A summary of our performance share units as of December 31, 2022 and changes during the year then ended are presented below:

| Performance Share Unit Awards    | Number of Shares | Weighted-Average |            |
|----------------------------------|------------------|------------------|------------|
|                                  |                  | Grant-Date       | Fair Value |
| Unvested as of December 31, 2021 | 229,538          | \$               | 53.31      |
| Granted                          | 72,091           |                  | 78.46      |
| Adjustments                      | 135,405          |                  | -          |
| Vested                           | (234,895)        |                  | 47.95      |
| Forfeited                        | (769)            |                  | 56.92      |
| Unvested as of December 31, 2022 | 201,370          | \$               | 64.93      |

The total fair value of shares vested on various vesting dates was \$11.3 million in 2022, \$9.0 million in 2021 and \$7.8 million in 2020. Weighted average grant date fair value per share was \$78.46 in 2022, zero in 2021 and \$53.85 in 2020.

## 17. Profit Sharing, Incentive and Retirement Plans

### *Profit Sharing and Incentive Plans*

We have an annual incentive compensation program for management employees. The program provides for payments to eligible employees based upon our financial performance, service performance and attainment of individual performance goals, among other things. In addition, our profit sharing plan allows IBT-represented Atlas pilots to receive payments from the plan based upon Atlas' financial performance. The profit sharing plan is subject to a minimum financial performance threshold. For both plans, we had accruals of \$65.2 million as of December 31, 2022 and \$87.0 million as of December 31, 2021. We recognized compensation expense associated with both plans totaling \$66.6 million in 2022, \$85.2 million in 2021 and \$54.9 million in 2020.

### *401(k) and 401(m) Plans*

Participants in our retirement plan may contribute a portion of their annual compensation to a 401(k) plan on a pretax basis, subject to aggregate limits under the Code. In addition to 401(k) contributions, participants may contribute a portion of their eligible compensation to a 401(m) plan on an after-tax basis. On behalf of participants in the plan who make elective compensation deferrals, we provide a matching contribution subject to certain limitations. Employee contributions in the plan are vested at all times and our matching contributions are subject to a three-year cliff vesting provision, except for employees who are represented by a collective bargaining agreement and are subject to a three-year graded vesting provision. We recognized compensation expense associated with the plan matching contributions totaling \$64.6 million in 2022, \$23.5 million in 2021 and \$18.9 million in 2020.

## 18. Stock Repurchases

We record the repurchase of our shares of common stock at cost based on the settlement date of the transaction. These shares are classified as treasury stock, which is a reduction to stockholders' equity. Treasury shares are included in authorized and issued shares but excluded from outstanding shares.

In February 2022, our board of directors approved the establishment of a new stock repurchase program authorizing the repurchase of up to a total of \$200.0 million of our common stock. Purchases could have been made at management's discretion in the form of accelerated share repurchase programs, open market repurchase programs, privately negotiated transactions or a combination of these methods. In connection with the proposed Merger (see Note 2 for further discussion), we have suspended the stock repurchase program.

In February 2022, we paid \$100.0 million and received an initial delivery of 1,061,257 shares pursuant to an accelerated share repurchase program agreement with a financial institution for the repurchase of our common stock (the "ASR"). We

accounted for this ASR as a repurchase of common stock and as a forward contract indexed to our own common stock. We determined that the forward contract met all of the applicable criteria for equity classification and, therefore, this ASR was not accounted for as a derivative instrument.

In April 2022, the ASR was settled and we received an additional 172,887 shares of common stock. In the aggregate, we repurchased 1,234,144 shares for \$100.0 million at an average cost of \$81.03 per share under this ASR. The total number of shares of common stock repurchased by us was based on the volume-weighted average price of the common stock during the term of the ASR Agreement, less a pre-determined discount.

## 19. Earnings Per Share

Basic earnings per share (“EPS”) represents income (loss) divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represents income (loss) divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period using the treasury stock method.

The calculations of basic and diluted EPS were as follows:

|   | For the Years Ended December 31, |                   |                   |
|---|----------------------------------|-------------------|-------------------|
|   | 2022                             | 2021              | 2020              |
| <b>Numerator:</b>                                       |                                  |                   |                   |
| Net Income  | \$ 355,880                       | \$ 493,317        | \$ 360,286        |
| Plus: Interest expense on convertible notes, net of tax | 4,177                            | -                 | -                 |
| Unrealized loss on financial instruments, net of tax    | -                                | 112               | -                 |
| Diluted net income                                      | <u>\$ 360,057</u>                | <u>\$ 493,429</u> | <u>\$ 360,286</u> |
| <b>Denominator:</b>                                     |                                  |                   |                   |
| Basic EPS weighted average shares outstanding           | 28,463                           | 28,910            | 26,408            |
| Effect of dilutive:                                     |                                  |                   |                   |
| Convertible notes                                       | 4,806                            | 782               | -                 |
| Warrants  | 734                              | 621               | 133               |
| Restricted stock  | 187                              | 230               | 149               |
| Diluted EPS weighted average shares outstanding         | <u>34,190</u>                    | <u>30,543</u>     | <u>26,690</u>     |
| <b>Earnings per share:</b>                              |                                  |                   |                   |
| Basic   | \$ 12.50                         | \$ 17.06          | \$ 13.64          |
| Diluted   | <u>\$ 10.53</u>                  | <u>\$ 16.16</u>   | <u>\$ 13.50</u>   |

Antidilutive shares related to warrants issued in connection with our Convertible Notes or to customers that were out of the money and excluded were zero in 2022, zero in 2021 and \$12.1 million in 2020. Diluted shares reflect the potential dilution that could occur from warrants and restricted shares using the treasury stock method. The calculation of EPS does not include restricted share units and warrants issued to a customer in which performance or market conditions were not satisfied of 9.1 million in 2022, 9.7 million in 2021 and 10.3 million in 2020.

## 20. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of Accumulated other comprehensive income (loss):

|  | Interest Rate Derivatives | Foreign Currency Translation | Total           |
|--|---------------------------|------------------------------|-----------------|
| Balance as of December 31, 2020                          | \$ (1,913)                | \$ 9                         | \$ (1,904)      |
| Reclassification to interest expense                     | 920                       | -                            | 920             |
| Reclassification to loss on early extinguishment of debt | 890                       | -                            | 890             |
| Tax effect   | (417)                     | -                            | (417)           |
| Balance as of December 31, 2021                          | <u>\$ (520)</u>           | <u>\$ 9</u>                  | <u>\$ (511)</u> |
| Balance as of December 31, 2021                          | \$ (520)                  | \$ 9                         | \$ (511)        |
| Reclassification to interest expense                     | 91                        | -                            | 91              |
| Reclassification to loss on early extinguishment of debt | 639                       | -                            | 639             |
| Tax effect   | (175)                     | -                            | (175)           |
| Balance as of December 31, 2022                          | <u>\$ 35</u>              | <u>\$ 9</u>                  | <u>\$ 44</u>    |

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer (“Principal Executive Officer”) and our Executive Vice President and Chief Financial Officer (“Principal Financial Officer”), of the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Report. Based on this evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2022.

#### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). Management conducted an assessment of our internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on the assessment, management concluded that, as of December 31, 2022, our internal control over financial reporting is effective. Our internal control over financial reporting as of December 31, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### **Changes in Internal Control over Financial Reporting.**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.

### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be provided in an amendment to this Form 10-K in accordance with General Instruction G(3) to Form 10-K. Information regarding the identification of our executive officers is included in Part I of this annual report. We have adopted a code of conduct that applies to all of our employees, along with a Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer, Corporate Controller, Treasurer and members of the board of directors (the “Code of Ethics”). The Code of Ethics is monitored by our Audit Committee, and includes certain provisions regarding disclosure of violations and waivers of, and amendments to, the Code of Ethics by covered parties. A copy of the Code of Ethics is available on our website at [www.atlasairworldwide.com](http://www.atlasairworldwide.com).

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be provided in an amendment to this Form 10-K in accordance with General Instruction G(3) to Form 10-K.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be provided in an amendment to this Form 10-K in accordance with General Instruction G(3) to Form 10-K.

The following table summarizes the securities authorized for issuance under our equity compensation plans at December 31, 2022:

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 592,102  | \$ - (1)   | 1,258,222  |
| Total  | <u>592,102</u>   | <u>-</u>   | <u>1,258,222</u>   |

(1) Includes 592,102 of restricted and performance shares and units, which have no exercise price.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be provided in an amendment to this Form 10-K in accordance with General Instruction G(3) to Form 10-K.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be provided in an amendment to this Form 10-K in accordance with General Instruction G(3) to Form 10-K.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2022 and 2021

Consolidated Statements of Operations for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022, 2021 and 2020

Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

All schedules have been omitted because they are not applicable, not required or the information is included elsewhere in the Financial Statements or Notes thereto.

3. Exhibits: (see accompanying Exhibit Index of this Report for a list of exhibits filed or furnished with or incorporated by reference in this Report).

## 2022 EXHIBIT INDEX

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 2.1 (29)                  | Agreement and Plan of Merger, dated as of August 4, 2022, by and among Atlas Air Worldwide Holdings, Inc., Rand Parent, LLC and Rand Merger Sub, Inc.**  |
| 3.1.1(1)                  | <u>Certificate of Incorporation of the Company.</u>  |
| 3.1.2(19)                 | <u>Atlas Air Worldwide Holdings, Inc. Certificate of Amendment of Certificate of Incorporation.</u>  |
| 3.2.1(4)                  | <u>Atlas Air Worldwide Holdings, Inc. By-Laws, Amended and Restated as of September 19, 2014 and as Further Amended as of December 12, 2016.</u>   |
| 3.2.2(31)                 | Amendment to the Atlas Air Worldwide Holdings, Inc. By-Laws.   |
| 4.1(5)                    | <u>Participation Agreement, dated as of January 30, 2012, among Helios Leasing I LLC, as Lessor, Helios Leasing Trust, as Lessor Parent, Wilmington Trust Company, as Trustee, Atlas Air, Inc., as Lessee, Wilmington Trust Company, as Indenture Trustee, Apple Bank for Savings, as Initial Guaranteed Lender, Wells Fargo Bank Northwest, National Association, as Security Trustee, and Export-Import Bank of the United States. (Portions of this document have been redacted and filed separately with the Securities and Exchange Commission.).</u> |
| 4.2(6)                    | <u>Indenture, dated as of May 1, 2012, by and among Helios Leasing I LLC, Apple Bank for Savings, Wilmington Trust Company, not in its individual capacity but solely as Indenture Trustee, Wells Fargo Bank Northwest, National Association, and Export-Import Bank of the United States.</u>   |
| 4.3(6)                    | <u>Secured Fixed Rate Global Note, dated June 19, 2012.</u>  |
| 4.4(6)                    | <u>Secured Fixed Rate Global Note, dated July 31, 2012.</u>  |
| 4.5(7)                    | <u>Secured Fixed Rate Global Note, dated October 10, 2012.</u>   |
| 4.6(7)                    | <u>Secured Fixed Rate Global Note dated, December 12, 2012.</u>  |
| 4.7(8)                    | <u>Secured Fixed Rate Global Note, dated May 28, 2013.</u>   |
| 4.8(9)                    | <u>Secured Fixed Rate Global Note, dated January 30, 2014.</u>   |
| 4.9.1(10)                 | <u>Indenture, dated June 3, 2015, between the Company and Wilmington Trust, National Association, as Trustee.</u>  |
| 4.9.2(13)                 | <u>Second Supplemental Indenture, dated May 23, 2017, between the Company and Wilmington Trust, National Association, as Trustee.</u>  |
| 4.9.3(13)                 | <u>1.875% Convertible Senior Note due 2024.</u>  |
| 4.10(23)                  | <u>Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934.</u>   |
| 10.1.1(18)                | <u>Employment Agreement, dated as of July 1, 2019, by and between Atlas Air, Inc. and John W. Dietrich.</u>  |
| 10.1.2(30)                | Amendment to Employment Agreement, dated as of September 16, 2022, by and between Atlas Air, Inc. and John W. Dietrich.  |
| 10.2.1(24)                | <u>Letter Agreement, dated as of January 1, 2020, between James A. Forbes and Atlas Air, Inc.</u>  |
| 10.2.2                    | <u>Letter Agreement, dated as of December 21, 2022, between James A. Forbes and Atlas Air Worldwide Holdings, Inc.</u>   |
| 10.3.1(12)                | <u>Atlas Air Worldwide Holdings, Inc. 2018 Incentive Plan.</u>   |
| 10.3.2(27)                | First Amendment to 2018 Incentive Plan.  |
| 10.3.3(30)                | Amendment to 2018 Incentive Plan, effective September 16, 2022.  |
| 10.4(20)                  | <u>Atlas Air Worldwide Holdings, Inc. 2020 Long Term Cash Incentive Program.</u>   |



- 10.5(25) [Atlas Air Worldwide Holdings, Inc. 2021 Long Term Cash Incentive Program.](#)
- 10.6(27) [Atlas Air Worldwide Holdings, Inc. 2022 Long Term Cash Incentive Program.](#)
- 10.7(25) [Atlas Air Worldwide Holdings, Inc. Long Term Cash Incentive Plan \(OTP\).](#)
- 10.8(28) [Atlas Air Worldwide Holdings, Inc. Annual Incentive Program for Senior Executives \(EVP and above\).](#)
- 10.9(27) Form of Performance Share Unit Agreement.
- 10.10.1(20) [Form of Restricted Stock Unit Agreement.](#)
- 10.10.2(15) [Form of Restricted Stock Unit Agreement between Atlas Air Worldwide Holdings, Inc. and Non-Employee Members of the Board.](#)
- 10.11.1(18) [Atlas Air Worldwide Holdings, Inc. Benefits Program for Senior Executives \(As Amended and Restated, Effective as of July 1, 2019\).](#)
- 10.11.2(30) Amendment to Atlas Air Worldwide Holdings, Inc. Benefits Programs for Senior Executives, Senior Vice Presidents, Vice Presidents and Staff Vice Presidents, effective September 16, 2022.
- 10.12(22) [Board of Directors Compensation Program, as described under the caption “Compensation of Nonemployee Directors.”](#)
- 10.13(28) [Atlas Air, Inc. Amended & Restated Profit Sharing Plan.](#)
- 10.14(2) [Form of Directors and Officers Indemnification Agreement.](#)
- 10.15(26) [Atlas Air, Inc. 401\(k\) Restoration and Voluntary Deferral Plan \(as amended and restated effective as of June 23, 2021\).](#)
- 10.16(3) [Agreement, dated October 1, 2018, among USTRANSCOM and the Company, among others.](#)
- 10.17.1(10) [Base warrant transaction confirmation, dated as of May 28, 2015, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.17.2(10) [Additional warrant transaction confirmation, dated as of June 1, 2015, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.17.3(10) [Base warrant transaction confirmation, dated as of May 28, 2015, between BNP Paribas and the Company.](#)
- 10.17.4(10) [Additional warrant transaction confirmation, dated as of June 1, 2015, between BNP Paribas and the Company.](#)
- 10.18.1(5) [Underwriting Agreement, dated May 17, 2017, between the Company and Morgan Stanley & Co. LLC, BNP Paribas Securities Corp. and Citigroup Global Markets Inc., as Managers of the several Underwriters.](#)
- 10.18.2(13) [Base convertible note hedge transaction confirmation, dated as of May 17, 2017, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.18.3(14) [Base warrant transaction confirmation, dated as of May 17, 2017, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.18.4(14) [Additional convertible note hedge transaction confirmation, dated as of May 18, 2017, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.18.5(14) [Additional warrant transaction confirmation, dated as of May 18, 2017, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.18.6(14) [Base convertible note hedge transaction confirmation, dated as of May 17, 2017, between Citibank, N.A. and the Company.](#)
- 10.18.7(14) [Base warrant transaction confirmation, dated as of May 17, 2017, between Citibank, N.A. and the Company.](#)
- 10.18.8(14) [Additional convertible note hedge transaction confirmation, dated as of May 18, 2017, between Morgan Stanley & Co. International plc and the Company.](#)
- 10.18.9(14) [Additional warrant transaction confirmation, dated as of May 18, 2017, between Citibank N.A. and the Company.](#)



- 10.18.10(14) [Base convertible note hedge transaction confirmation, dated as of May 17, 2017, between BNP Paribas and the Company.](#)
- 10.18.11(14) [Base warrant transaction confirmation, dated as of May 17, 2017, between BNP Paribas and the Company.](#)
- 10.18.12(14) [Additional convertible note hedge transaction confirmation, dated as of May 18, 2017, between BNP Paribas and the Company.](#)
- 10.18.13(14) [Additional warrant transaction confirmation, dated as of May 18, 2017, between BNP Paribas and the Company.](#)
- 10.19.1(11) [Investment Agreement, dated as of May 4, 2016, by and between Atlas Air Worldwide Holdings, Inc. and Amazon.com, Inc.](#)
- 10.19.2(17) [Investment Agreement, dated as of March 27, 2019, between Atlas Air Worldwide Holdings, Inc. and Amazon.com, Inc.](#)
- 10.19.3(17) [Amended and Restated Stockholders Agreement, dated as of March 27, 2019, by and between Atlas Air Worldwide Holdings, Inc. and Amazon.com, Inc.](#)
- 10.19.4(11) [Warrant to Purchase 7,500,000 shares of Common Stock of Atlas Air Worldwide Holdings, Inc., issued May 4, 2016.](#)
- 10.19.5(11) [Warrant to Purchase 3,750,000 shares of Common Stock of Atlas Air Worldwide Holdings, Inc., issued May 4, 2016.](#)
- 10.19.6(17) [Warrant to Purchase 6,632,576 shares of Common Stock of Atlas Air Worldwide Holdings, Inc. issued March 27, 2019.](#)
- 10.20.1(21) [Warrant Agreement, dated as of May 20, 2020, between Atlas Air Worldwide Holdings, Inc. and the United States Department of the Treasury.](#)
- 10.20.2(21) [Form of Warrant Agreement \(incorporated by reference to Annex B to Exhibit 10.25.1\).](#)
- 10.20.3(21) [Payroll Support Program Agreement, dated as of May 29, 2020, between Atlas Air, Inc. and the United States Department of the Treasury.](#)
- 10.20.4(21) [Promissory Note, dated as of May 29, 2020, issued by Atlas Air Worldwide Holdings, Inc. in the name of the United States Department of Treasury.](#)
- 10.21(25) [Purchase Agreement Number AH5-PA-05094, dated as of January 7, 2021, between The Boeing Company and Atlas Air Worldwide Holdings, Inc. \(Portions of this exhibit \(indicated by asterisks\) have been omitted pursuant to a request for confidential treatment, and the omitted portions have been filed with the Securities and Exchange Commission\).](#)
- 10.22(27) Purchase Agreement Number AH5-PA-05168, dated as of December 27, 2021, between The Boeing Company and Atlas Air Worldwide Holdings, Inc. (Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment, and the omitted portions have been filed with the Securities and Exchange Commission).
- 10.23(28) Confirmation between Morgan Stanley & Co. LLC and Atlas Air Worldwide Holdings, Inc., dated February 18, 2022.
- 14.1(16) [Atlas Air Worldwide Holdings, Inc. Code of Ethics applicable to the Chief Executive Officer, Senior Financial Officers and members of the Board of Directors.](#)
- 21.1 [Subsidiaries' List](#)
- 23.1 [Consent of PricewaterhouseCoopers LLP](#)
- 24.1 [Power of Attorney](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Executive Officer](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Financial Officer](#)
- 32.1 [Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002](#)
- 32.2 [Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002](#)



|         |  |
|---------|--|
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. *  |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. *  |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. *   |
| 101.LAB | Inline XBRL Taxonomy Extension Labels Linkbase Document. *   |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. *   |
| 104     | Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101). |

\* Attached as Exhibit 101 to this report are the following, formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2022 and December 31, 2021, (ii) Consolidated Statements of Operations for the years ended December 31, 2022, 2021 and 2020, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2022, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020, (v) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022, 2021 and 2020 and (vi) Notes to Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

\*\* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant agrees to furnish supplementally to the SEC a copy of any omitted schedule upon request by the SEC.

- (1) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K dated February 16, 2001.
- (2) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K dated November 14, 2005.
- (3) Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
- (4) Incorporated by reference to Exhibit 3 to the Company's Current Report on Form 8-K dated December 12, 2016.
- (5) Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
- (6) Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
- (7) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.
- (8) Incorporated by reference to the exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
- (9) Incorporated by reference to the exhibits in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
- (10) Incorporated by reference to exhibits in the Company's Current Report on Form 8-K dated June 3, 2015.
- (11) Incorporated by reference to exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
- (12) Incorporated by reference to exhibit B in the Company's definitive Proxy Statement dated April 18, 2018.
- (13) Incorporated by reference to exhibits in the Company's Current Report on Form 8-K dated May 23, 2017.
- (14) Incorporated by reference to Exhibit B to the Company's definitive Proxy Statement dated April 18, 2017.
- (15) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.
- (16) Incorporated by reference to the exhibits in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
- (17) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.
- (18) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.

- (19) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.
- (20) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.
- (21) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.
- (22) Incorporated by reference to the Company's Proxy Statement dated April 16, 2021.
- (23) Incorporated by reference to the exhibits in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.
- (24) Incorporated by reference to the exhibits in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.
- (25) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.
- (26) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021.
- (27) Incorporated by reference to the exhibits in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.
- (28) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022.
- (29) Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 4, 2022.
- (30) Incorporated by reference to the exhibits in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022.
- (31) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 7, 2022.

#### **ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on February 23, 2023.

ATLAS AIR WORLDWIDE HOLDINGS, INC.

(*Registrant*)

By: /s/ John W. Dietrich

John W. Dietrich

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on February 23, 2023 on behalf of the Registrant and in the capacities indicated.

| Signature  | Capacity  |
|--|---|
| <u>*/s/ Duncan J. McNabb</u><br>Duncan J. McNabb   | Chairman of the Board   |
| <u>/s/ John W. Dietrich</u><br>John W. Dietrich  | President, Chief Executive Officer and Director<br>(Principal Executive Officer)                              |
| <u>/s/ Spencer Schwartz</u><br>Spencer Schwartz  | Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer)                         |
| <u>/s/ Keith H. Mayer</u><br>Keith H. Mayer  | Senior Vice President, Chief Accounting Officer<br>and Corporate Controller<br>(Principal Accounting Officer) |
| <u>* Charles F. Bolden, Jr.</u><br>Charles F. Bolden, Jr.  | Director  |
| <u>* Walter G. Borst</u><br>Walter G. Borst  | Director  |
| <u>* Raymond L. Conner</u><br>Raymond L. Conner  | Director  |
| <u>* Beverly K. Goulet</u><br>Beverly K. Goulet  | Director  |
| <u>* Bobby J. Griffin</u><br>Bobby J. Griffin  | Director  |
| <u>* Sheila A. Stamps</u><br>Sheila A. Stamps  | Director  |
| <u>* George A. Willis</u><br>George A. Willis  | Director  |
| <u>* Carol J. Zierhoffer</u><br>Carol J. Zierhoffer  | Director  |
| <u>*By: /s/ John W. Dietrich</u><br>John W. Dietrich, as Attorney-in-fact<br>for each of the persons indicated |   |