

ATLAS AIR WORLDWIDE HOLDINGS INC
Form 10-Q
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-16545

Atlas Air Worldwide Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	13-4146982 (IRS Employer Identification No.)
2000 Westchester Avenue, Purchase, New York (Address of principal executive offices)	10577 (Zip Code)

(914) 701-8000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

As of October 26, 2018, there were 25,590,293 shares of the registrant's Common Stock outstanding.

TABLE OF CONTENTS

	Page
<u>Part I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (unaudited)</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2018 and 2017 (unaudited)</u>	6
<u>Consolidated Statements of Stockholders' Equity as of and for the Nine Months ended September 30, 2018 and 2017 (unaudited)</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	35
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 6. <u>Exhibits</u>	37
<u>Exhibit Index</u>	38
<u>Signatures</u>	39

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Atlas Air Worldwide Holdings, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

(Unaudited)

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

Equity

Stockholders' Equity

Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized; 30,582,571 and 30,104,648 shares issued, 25,590,293 and 25,292,454 shares outstanding (net of treasury stock), as of September 30, 2018 and December 31, 2017, respectively	306	301
Additional paid-in-capital	731,106	715,735
Treasury stock, at cost; 4,992,278 and 4,812,194 shares, respectively	(204,501)	(193,732)
Accumulated other comprehensive loss	(4,108)	(3,993)
Retained earnings	1,328,982	1,271,545
Total equity	1,851,785	1,789,856
Total Liabilities and Equity	\$ 5,477,039	\$ 4,955,462

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Operating Revenue	\$656,607	\$ 535,748	\$ 1,912,766	\$ 1,528,508
Operating Expenses				
Salaries, wages and benefits	138,345	114,505	392,603	330,080
Aircraft fuel	119,604	74,048	345,613	239,966
Maintenance, materials and repairs	88,136	74,457	261,251	212,042
Depreciation and amortization	55,417	42,033	155,881	120,913
Travel	41,605	38,260	123,810	105,510
Aircraft rent	39,973	33,873	119,778	103,738
Navigation fees, landing fees and other rent	43,258	33,468	116,553	77,258
Passenger and ground handling services	28,716	28,491	86,980	77,187
Loss on disposal of aircraft	-	211	-	64
Special charge	-	-	9,374	-
Transaction-related expenses	765	1,092	1,275	3,403
Other	46,318	42,598	143,663	123,121
Total Operating Expenses	602,137	483,036	1,756,781	1,393,282
Operating Income	54,470	52,712	155,985	135,226
Non-operating Expenses (Income)				
Interest income	(1,592)	(1,688)	(4,704)	(4,286)
Interest expense	31,115	26,553	87,639	72,747
Capitalized interest	(1,120)	(1,922)	(4,335)	(5,633)
Loss on early extinguishment of debt	-	167	-	167
Unrealized loss (gain) on financial instruments	(46,080)	44,775	11,691	36,225
Other expense (income)	975	(1,165)	(10,777)	(357)
Total Non-operating Expenses (Income)	(16,702)	66,720	79,514	98,863
Income (loss) from continuing operations before income taxes	71,172	(14,008)	76,471	36,363
Income tax expense	34	10,187	16,828	21,479
Income (loss) from continuing operations, net of taxes	71,138	(24,195)	59,643	14,884

Edgar Filing: ATLAS AIR WORLDWIDE HOLDINGS INC - Form 10-Q

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

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(Unaudited)

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

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

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

Edgar Filing: ATLAS AIR WORLDWIDE HOLDINGS INC - Form 10-Q

Payments for convertible note hedges	-	(70,140)
Purchase of treasury stock	(10,769)	(10,307)
Net cash provided by financing activities	288,868	244,596
Net increase (decrease) in cash, cash equivalents and restricted cash	(65,709)	38,030
Cash, cash equivalents and restricted cash at the beginning of period	291,864	138,250
Cash, cash equivalents and restricted cash at the end of period	\$226,155	\$ 176,280

Noncash Investing and Financing Activities:

Acquisition of flight equipment included in Accounts payable and accrued liabilities	\$42,826	\$ 61,734
Acquisition of flight equipment under capital lease	\$-	\$ 32,380

See accompanying Notes to Unaudited Consolidated Financial Statements

Atlas Air Worldwide Holdings, Inc.

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2017	\$ 301	\$(193,732)	\$715,735	\$ (3,993)	\$1,271,545	\$ 1,789,856
Net Income	-	-	-	-	59,593	59,593
Other comprehensive income	-	-	-	855	-	855
Cumulative effect of change in accounting principle	-	-	-	-	(3,126)	(3,126)
Stock-based compensation	-	-	15,376	-	-	15,376
Purchase of 180,084 shares of treasury stock	-	(10,769)	-	-	-	(10,769)
Issuance of 477,923 shares of restricted stock	5	-	(5)	-	-	-
Reclassification of tax effect on other comprehensive loss	-	-	-	(970)	970	-
Balance at September 30, 2018	\$ 306	\$(204,501)	\$731,106	\$ (4,108)	\$1,328,982	\$ 1,851,785

	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2016	\$ 296	\$(183,119)	\$657,082	\$ (4,993)	\$1,048,072	\$ 1,517,338
Net Income	-	-	-	-	14,025	14,025
Other comprehensive income	-	-	-	744	-	744
Stock-based compensation	-	-	17,030	-	-	17,030
Purchase of 191,047 shares of treasury stock	-	(10,307)	-	-	-	(10,307)
Issuance of 456,905 shares of restricted stock	5	-	(5)	-	-	-
Equity component of convertible notes, net of tax	-	-	43,256	-	-	43,256
Purchase of convertible note hedges, net of tax	-	-	(45,065)	-	-	(45,065)
Issuance of convertible note warrants	-	-	38,148	-	-	38,148
Balance at September 30, 2017	\$ 301	\$(193,426)	\$710,446	\$ (4,249)	\$1,062,097	\$ 1,575,169

See accompanying Notes to Unaudited Consolidated Financial Statements

7

Atlas Air Worldwide Holdings, Inc.

Notes to Unaudited Consolidated Financial Statements

September 30, 2018

1. Basis of Presentation

Our consolidated financial statements include the accounts of the holding company, Atlas Air Worldwide Holdings, Inc. (“AAWW”), and its consolidated subsidiaries. AAWW is the parent company of Atlas Air, Inc. (“Atlas”) and Southern Air Holdings, Inc. (“Southern Air”). AAWW is also the parent company of several subsidiaries related to our dry leasing services (collectively referred to as “Titan”). AAWW has a 51% equity interest and 75% voting interest in Polar Air Cargo Worldwide, Inc. (“Polar”). We record our share of Polar’s results under the equity method of accounting.

The terms “we,” “us,” “our,” and the “Company” mean AAWW and all entities included in its consolidated financial statements.

We provide outsourced aircraft and aviation operating services throughout the world, serving Africa, Asia, Australia, Europe, the Middle East, North America and South America through: (i) contractual service arrangements, including those through which we provide aircraft to customers and value-added services, including crew, maintenance and insurance (“ACMI”), as well as those through which we provide crew, maintenance and insurance, but not the aircraft (“CMI”); (ii) cargo and passenger charter services (“Charter”); and (iii) dry leasing aircraft and engines (“Dry Leasing” or “Dry Lease”).

The accompanying unaudited consolidated financial statements and related notes (the “Financial Statements”) have been prepared in accordance with the U.S. Securities and Exchange Commission (the “SEC”) requirements for quarterly reports on Form 10-Q, and consequently exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Intercompany accounts and transactions have been eliminated. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes included in the AAWW Annual Report on Form 10-K for the year ended December 31, 2017, which includes additional disclosures and a summary of our significant accounting policies. The December 31, 2017 balance sheet data was derived from that Annual Report. In our opinion, the Financial Statements contain all adjustments, consisting of normal recurring items, necessary to fairly state the financial position of AAWW and its consolidated subsidiaries as of September 30, 2018, the results of operations for the three and nine months ended September 30, 2018 and 2017, comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, cash flows for the nine months ended September 30, 2018 and 2017, and shareholders’ equity as of and for the nine months ended September 30, 2018 and 2017.

Our quarterly results are subject to seasonal and other fluctuations, and the operating results for any quarter are therefore not necessarily indicative of results that may be otherwise expected for the entire year.

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

2. Summary of Significant Accounting Policies

Warrant Liability

Common stock warrants classified as a liability are marked-to-market at the end of each reporting period with changes in fair value recorded in Unrealized loss (gain) on financial instruments. We utilize a Monte Carlo simulation approach to estimate the fair value of the warrant liability, which requires inputs such as our common stock price, the warrant strike price, estimated common stock price volatility and risk-free interest rate, among others. Our earnings are affected by changes in our common stock price due to the impact those changes have on the fair value of our warrant liability (see Note 6 to our Financial Statements).

Heavy Maintenance

Except for engines used on our 747-8F aircraft, we account for heavy maintenance costs for airframes and engines used in our ACMI and Charter segments using the direct expense method. Under this method, heavy maintenance costs are charged to expense upon induction, based on our best estimate of the costs.

We account for heavy maintenance costs for airframes and engines used in our Dry Leasing segment and engines used on our 747-8F aircraft using the deferral method. Under this method, we defer the expense recognition of scheduled heavy maintenance events, which are amortized over the estimated period until the next scheduled heavy maintenance event is required. Amortization of deferred maintenance expense included in Depreciation and amortization was \$3.3 million and \$1.8 million for the three months ended September 30, 2018 and 2017, respectively and was \$8.6 million and \$3.7 million for the nine months ended September 30, 2018 and 2017.

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

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

Supplemental Cash Flow Information

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

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 214,961	\$ 280,809
Restricted cash	11,194	11,055
Total Cash, cash equivalents and restricted cash shown in Consolidated Statements of Cash Flows	\$ 226,155	\$ 291,864

Recent Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (“FASB”) amended its accounting guidance for the reporting of comprehensive income. The guidance permits entities to reclassify to retained earnings the excess tax effects remaining in accumulated other comprehensive income/(loss) after the reduction in the federal corporate income tax rate from 35% to 21% as a result of the U.S. Tax Cuts and Jobs Act of 2017. The amended guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We have early adopted the new guidance effective as of January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB amended its accounting guidance for revenue recognition. Subsequently, the FASB issued several clarifications and updates. The fundamental principles of the new standard are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and consideration that a company expects to receive for the services provided. It also requires additional disclosures necessary for the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We adopted the new guidance on January 1, 2018 using the modified retrospective approach, under which the guidance is applied beginning on the date of adoption. Comparative information has not been restated and continues to be reported under the accounting guidance in effect for those periods. The adoption did not have a material effect on our financial statements (see Note 4 to our Financial Statements). As a result of adoption, revenue recognized under previous guidance based on flight departure is now recognized over time as the services are performed. In addition, revenue under certain ACMI and CMI contracts, such as revenue related to contracted minimum block hour guarantees, is now recognized in later periods, and some revenue adjustments related to meeting or exceeding on-time performance targets are now recognized in earlier periods. Revenue under our Dry Leasing contracts is explicitly excluded from the scope of the new guidance as it is covered by accounting guidance

for leases.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB amended its accounting guidance for leases. Subsequently, the FASB issued several clarifications and updates. The guidance requires a lessee to recognize assets and liabilities on the balance sheet arising from leases with terms greater than 12 months. While lessor accounting guidance is relatively unchanged, certain amendments were made to conform with changes made to lessee accounting and the amended revenue recognition guidance. The new guidance will continue to classify leases as either finance or operating, with classification affecting the presentation and pattern of expense and income recognition, in the statement of operations. It also requires additional quantitative and qualitative disclosures about leasing arrangements. The guidance is effective as of the beginning of 2019 and upon adoption must be applied using a modified retrospective approach which allows entities to either apply the new guidance to all periods presented or only to the most current period presented. We are still assessing the impact the guidance will have on our financial statements. While we expect that recognizing the right-of-use asset and related lease liability will impact our consolidated balance sheets materially, we do not expect the guidance to have a material impact to any of our other consolidated financial statements. We will adopt the new guidance on its required effective date of January 1, 2019 and apply the new guidance to the most current period presented. Our implementation is progressing as expected.

3. Related Parties

Polar

AAWW has a 51% equity interest and 75% voting interest in Polar. DHL Network Operations (USA), Inc. (“DHL”), a subsidiary of Deutsche Post AG (“DP”), holds a 49% equity interest and a 25% voting interest in Polar. Polar is a variable interest entity that we do not consolidate because we are not the primary beneficiary as the risks associated with the direct costs of operation are with DHL. Under a 20-year blocked space agreement, which began in 2008 (the “BSA”), Polar provides air cargo capacity to DHL. Atlas has several agreements with Polar to provide ACMI, CMI, Dry Leasing, administrative, sales and ground support services to one another. We do not have any financial exposure to fund debt obligations or operating losses of Polar, except for any liquidated damages that we could incur under these agreements.

The following table summarizes our transactions with Polar:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue and Expenses:				
Revenue from Polar	\$99,671	\$ 105,985	\$305,401	\$ 317,144
Ground handling and airport fees to Polar	841	800	2,219	1,926
Accounts receivable/payable as of:	September 30, 2018	December 31, 2017		
Receivables from Polar	\$15,954	\$ 9,558		
Payables to Polar	5,391	2,751		
Aggregate Carrying Value of Polar Investment as of:	September 30, 2018	December 31, 2017		
Aggregate Carrying Value of Polar Investment	\$4,870	\$ 4,870		

GATS

We hold a 50% interest in GATS GP (BVI) Ltd. (“GATS”), a joint venture with an unrelated third party. As of September 30, 2018 and December 31, 2017, our investment in GATS was \$22.4 million and \$22.1 million, respectively. We had Accounts payable to GATS of \$0.9 million as of September 30, 2018 and \$0.4 million as of December 31, 2017.

4. Revenue Recognition

Adoption

We adopted the new revenue recognition guidance using the modified retrospective method and applied it to all customer contracts, excluding Dry Leasing contracts, based on the contract terms in effect as of January 1, 2018. Revenue under our Dry Leasing contracts is explicitly excluded from the scope of the new guidance as it is covered by accounting guidance for leases. We recognized the cumulative effect of initially applying the new revenue recognition guidance as an adjustment to the opening balance of retained earnings as of January 1, 2018 as follows:

	Balance December 31, 2017	Adjustments	Balance January 1, 2018
Accounts receivable	\$ 194,478	\$ (407)	\$ 194,071
Accrued liabilities	454,843	3,614	458,457
Deferred taxes	214,694	(895)	213,799
Retained earnings	1,271,545	(3,126)	1,268,419

The following tables provide disclosure of the impact of adoption of the new revenue recognition guidance on our consolidated statement of operations and balance sheet:

	For the Three Months Ended September 30, 2018		
	As Reported	Amounts without Adoption of New Revenue Recognition Guidance	Effect of Change Inc/(Dec)
Consolidated Statement of Operations			
Operating Revenue	\$656,607	\$ 658,655	\$ (2,048)
Operating Expenses			
Other	46,318	47,041	(723)
Income (loss) from continuing operations before income taxes	71,172	72,497	(1,325)
Income tax expense	34	325	(291)
Income (loss) from continuing operations, net of taxes	71,138	72,172	(1,034)

	For the Nine Months Ended September 30, 2018		
	As Reported	Amounts without Adoption of New Revenue Recognition Guidance	Effect of Change Inc/(Dec)
Consolidated Statement of Operations			
Operating Revenue	\$1,912,766	\$ 1,914,701	\$ (1,935)
Operating Expenses			
Other	143,663	143,075	588
Income (loss) from continuing operations before income taxes	76,471	78,994	(2,523)
Income tax expense	16,828	17,383	(555)
Income (loss) from continuing operations, net of taxes	59,643	61,611	(1,968)

As of September 30, 2018
As Reported Amounts without Adoption of
Effect of Change Inc/(Dec)

New
Revenue
Recognition
Guidance

Consolidated Balance Sheet			
Assets			
Accounts receivable, net	\$254,425	\$255,002	\$(577)
Liabilities and Equity			
Accrued liabilities	482,085	480,139	1,946
Deferred taxes	231,673	232,228	(555)
Retained earnings	1,328,982	1,330,950	(1,968)

Deferred Revenue

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 nine months ended September 30, 2018 were as follows:

	Deferred Revenue
Balance at beginning of period	\$ 14,958
Revenue recognized	(34,465)
Amounts collected or invoiced	45,085
Balance at end of period	\$ 25,578

Accounts Receivable

Accounts receivable, net of allowances related to customer contracts, excluding Dry Leasing contracts, was \$219.0 million as of September 30, 2018 and \$173.2 million as of December 31, 2017.

Performance Obligations and Accounting Policies

ACMI and CMI Services

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 these 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.

Revenue from ACMI and CMI contracts is typically recognized over time 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. See Note 6 to our Financial Statements for a discussion of a customer incentive asset.

ACMI and CMI customers are generally billed monthly based on Block Hours operated on behalf of a customer during a given month, as defined contractually. Payment terms and conditions vary by contract, although terms generally require partial payment for minimum contracted Block Hour guarantees in advance of the services being provided. Since advance payments are typically made shortly before the services are performed, such payments are not considered significant financing components.

Charter Services

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, 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 South America. The customer pays a fixed charter fee or a variable fee based on the weight of cargo flown and we typically bear all direct operating costs for both cargo and passenger charters, which include fuel, insurance, landing and navigation fees, and most other operational fees and costs. When we purchase cargo capacity from our ACMI customers for Charter flights, we are responsible for selling the capacity we purchase. We record revenue related to such purchased capacity as part of Charter revenue and record the related expenses in Navigation fees, landing fees and other rent.

Revenue from Charter contracts is typically recognized over time as the services are performed based on Block Hours operated on behalf of a customer. Any revenue adjustments related to on-time performance targets with the AMC are recognized over the applicable measurement period for the target, which requires significant judgment to estimate the total number of Block Hours expected. We generally expense sales commissions when incurred because the amortization period is less than one year. Payment

terms and conditions vary by charter contract, although many contracts require payment in advance of the services being provided. Since advance payments are typically made shortly before the services are performed, such payments are not considered significant financing components.

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 are all accounted for as operating leases. We record Dry Lease rental income on a straight-line basis over the term of the operating lease. Rentals received but unearned under the lease agreements are recorded in deferred revenue and included in Accrued liabilities until earned.

Customer maintenance reserves are amounts received under our Dry Lease contracts that are subject to reimbursement to the lessee upon the completion of qualifying maintenance work on the specific Dry Leased aircraft and are included in Accrued liabilities. We defer revenue recognition for customer maintenance reserves until the end of the lease, when we are able to finalize the amount, if any, to be reimbursed to the lessee.

Other Services

Other services include administrative and management support services and flight simulator training. Revenue for these services is recognized when the services are provided.

Estimated revenue expected to be recognized in the future is not presented because our contracts, excluding Dry Leasing contracts, typically involve either a duration or measurement period for revenue recognition of one year or less.

5. Special Charge and Other Expense (Income)

During the nine months ended September 30, 2018, we recognized \$9.4 million of impairment losses for five CF6-80 engines to be traded in as part of our engine acquisition program that were classified as held for sale. Depreciation ceased on the engines when they were classified as held for sale. Four of the five engines were traded in during the second quarter and one engine remains held for sale as of September 30, 2018. The carrying value of the remaining CF6-80 engine held for sale at September 30, 2018 was \$1.3 million, which was included within Prepaid expenses and other current assets in the consolidated balance sheet. This engine was traded in during October 2018.

We recognized a refund of \$12.4 million related to aircraft rent paid in previous years within Other expense (income) during the nine months ended September 30, 2018.

6. Amazon

In May 2016, we entered into certain agreements with Amazon.com, Inc. and its subsidiary, Amazon Fulfillment Services, Inc., (collectively "Amazon"), which involves, among other things, CMI operation of 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). Between August 2016 and September 2018, we have placed 18 freighter aircraft into service for Amazon and we expect to be operating all 20 before the end of 2018.

In conjunction with these agreements, we granted Amazon a warrant providing the right to acquire up to 20% of our outstanding common shares, after giving effect to the issuance of shares pursuant to the warrants, at an exercise price

of \$37.50 per share. A portion of the warrant, representing the right to purchase 3.75 million shares, vested immediately upon issuance of the warrant. The remainder of the warrant, representing the right to purchase 3.75 million shares, vests in increments of 375,000 as the lease and operation of each of the 11th through 20th aircraft commences. During the fourth quarter of 2017, a portion of the warrant representing the right to purchase 750,000 shares vested as the lease and operation of the 11th and 12th aircraft commenced. During the nine months ended September 30, 2018, a portion of the warrant representing the right to purchase 2,250,000 shares vested as the lease and operation of the 13th through 18th aircraft commenced. The warrant will be exercisable in accordance with its terms through 2021. As of September 30, 2018, no portion of the warrant has been exercised.

The agreements also provide 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, after giving effect to the issuance of shares pursuant to the warrants, for an exercise price of \$37.50 per share. This warrant to purchase 3.75 million shares

would vest in conjunction with payments by Amazon for additional business with us. As of September 30, 2018, no portion of this warrant has vested. Upon vesting, the warrant would become exercisable in accordance with its terms through 2023.

At the time of vesting, the fair value of the vested portion of the warrant issued to Amazon is recorded as a warrant liability within Financial instruments and other liabilities (the “Amazon Warrant”). This initial fair value of the vested portion of the warrant is also recognized as a customer incentive asset within Deferred costs and other assets, net and is amortized as a reduction of revenue in proportion to the amount of revenue recognized over the terms of the Dry Leases and CMI agreements. Determining the amount of amortization related to the CMI agreements requires significant judgment to estimate the total number of Block Hours expected over the terms of those agreements. The following table provides a summary of the customer incentive asset:

Balance at December 31, 2017	\$ 106,538
Initial value for vested portion of warrant	76,419
Amortization of customer incentive asset	(10,010)
Balance at September 30, 2018	\$ 172,947

We amortized \$4.1 million and \$1.5 million of the customer incentive asset for the three months ended September 30, 2018 and 2017, respectively. We amortized \$10.0 million and \$2.9 million of the customer incentive asset for the nine months ended September 30, 2018 and 2017, respectively. There were no impairment losses for the nine months ended September 30, 2018 and 2017.

The Amazon Warrant liability is marked-to-market at the end of each reporting period with changes in fair value recorded in Unrealized loss (gain) on financial instruments. We recognized a net unrealized gain of \$46.1 million and a net unrealized loss of \$11.7 million on the Amazon Warrant during the three and nine months ended September 30, 2018, respectively. We recognized net unrealized losses of \$44.8 million and \$36.2 million on the Amazon Warrant during the three and nine months ended September 30, 2017, respectively. The fair value of the Amazon Warrant liability was \$215.9 million as of September 30, 2018 and \$127.8 million as of December 31, 2017.

7. Accrued Liabilities

Accrued liabilities consisted of the following as of:

	September 30, 2018	December 31, 2017
Maintenance	\$ 162,194	\$ 156,042
Customer maintenance reserves	100,350	89,037
Salaries, wages and benefits	62,903	65,546
U.S. class action settlement	-	30,000
Aircraft fuel	37,602	22,196
Deferred revenue	36,685	20,986
Other	82,351	71,036
Accrued liabilities	\$ 482,085	\$ 454,843

8. Debt

Term Loans

We have entered into various term loans during 2018 to finance the purchase of aircraft, passenger-to-freighter conversion of aircraft, and for GENx engine performance upgrade kits and overhauls. Each term loan requires payment of principal and interest either monthly or quarterly in arrears at a fixed interest rate. Each term loan is subject to usual and customary fees and covenants, and events of default.

14

The following table summarizes the terms for each term loan entered into during 2018 (in millions):

	Issue Date	Face Value	Collateral Type	Original Term	Fixed Interest Rate
First 2018 Term Loan	March 2018	\$19.4	None	60 months	3.12%
Second 2018 Term Loan	May 2018	83.5	777-200	120 months	4.63%
Third 2018 Term Loan	May 2018	83.5	777-200	120 months	4.63%
Fourth 2018 Term Loan	May 2018	20.1	None	60 months	3.31%
Fifth 2018 Term Loan	June 2018	21.1	767-300	108 months	3.97%
Sixth 2018 Term Loan	June 2018	3.9	767-300	108 months	5.14%
Seventh 2018 Term Loan	June 2018	20.7	767-300	108 months	3.98%
Eighth 2018 Term Loan	June 2018	4.0	767-300	108 months	5.14%
Ninth 2018 Term Loan	June 2018	20.9	767-300	108 months	3.98%
Tenth 2018 Term Loan	June 2018	4.0	767-300	108 months	5.13%
Eleventh 2018 Term Loan	June 2018	4.0	767-300	98 months	5.10%
Twelfth 2018 Term Loan	June 2018	4.0	767-300	104 months	5.11%
Thirteenth 2018 Term Loan	June 2018	4.0	767-300	106 months	5.11%
Fourteenth 2018 Term Loan	June 2018	4.0	767-300	106 months	5.11%
Fifteenth 2018 Term Loan	June 2018	4.0	767-300	108 months	5.11%
Sixteenth 2018 Term Loan	June 2018	4.0	767-300	108 months	5.11%
Seventeenth 2018 Term Loan	July 2018	20.4	None	60 months	3.38%
Eighteenth 2018 Term Loan	September 2018	21.0	767-300	108 months	4.04%
Nineteenth 2018 Term Loan	September 2018	4.0	767-300	108 months	5.19%
Twentieth 2018 Term Loan	September 2018	21.0	767-300	108 months	4.04%
Twenty-first 2018 Term Loan	September 2018	4.0	767-300	108 months	5.19%
Twenty-second 2018 Term Loan	September 2018	21.0	767-300	108 months	4.04%
Twenty-third 2018 Term Loan	September 2018	4.0	767-300	108 months	5.19%
Total		\$400.5			

Convertible Notes

In May 2017, we issued \$289.0 million aggregate principal amount of 1.875% convertible senior notes that mature on June 1, 2024 (the “2017 Convertible Notes”) in an underwritten public offering. In June 2015, we issued \$224.5 million aggregate principal amount of 2.25% convertible senior notes that mature on June 1, 2022 (the “2015 Convertible Notes”) in an underwritten public offering. The 2017 Convertible Notes and the 2015 Convertible Notes (collectively, the “Convertible Notes”) are senior unsecured obligations and accrue interest payable semiannually on June 1 and December 1 of each year. The Convertible Notes are due on their respective maturity dates, unless earlier converted or repurchased pursuant to their respective terms.

The Convertible Notes consisted of the following as of September 30, 2018:

2017	2015
Convertible	Convertible

	Notes	Notes
Remaining life in months	68	44
Liability component:		
Gross proceeds	\$ 289,000	\$ 224,500
Less: debt discount, net of amortization	(58,841)	(30,676)
Less: debt issuance cost, net of amortization	(4,640)	(2,901)
Net carrying amount	\$ 225,519	\$ 190,923
Equity component ⁽¹⁾	\$ 70,140	\$ 52,903

(1) Included in Additional paid-in capital on the consolidated balance sheet as of September 30, 2018. The following table presents the amount of interest expense recognized related to the Convertible Notes:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Contractual interest coupon	\$2,618	\$ 2,618	\$7,853	\$ 5,730
Amortization of debt discount	3,994	3,752	11,798	7,990
Amortization of debt issuance costs	397	352	1,119	776
Total interest expense recognized	\$7,009	\$ 6,722	\$20,770	\$ 14,496

Revolving Credit Facility

In December 2016, we entered into a three-year \$150.0 million secured revolving credit facility (the “Revolver”) for general corporate purposes, including financing the acquisition of aircraft prior to obtaining permanent financing for the aircraft. As of September 30, 2018, the outstanding balance on the Revolver was \$75.0 million at an interest rate of 4.49% and there was \$60.6 million of unused availability under the Revolver, based on the collateral borrowing base.

9. Income Taxes

Our effective income tax expense rates were 0.0% and 72.7% for the three months ended September 30, 2018 and 2017, respectively. Our effective income tax expense rates were 22.0% and 59.1% for the nine months ended September 30, 2018 and 2017, respectively. The effective income tax expense rates for the three and nine months ended September 30, 2018 and 2017 differed from the U.S. statutory rate primarily due to nondeductible or nontaxable changes in the value of the warrant liability (see Note 6 to our Financial Statements). In addition, the effective income tax rates for the three and nine months ended September 30, 2018 were impacted by the benefit of \$8.7 million we recorded related to the remeasurement of our deferred income tax liability for Singapore (see below). Further, the effective tax expense rates for 2018 reflect the reduced U.S. federal corporate income tax rate of 21% as a result of the enactment of the U.S. Tax Cuts and Jobs Act of 2017. For interim accounting purposes, we recognize income taxes using an estimated annual effective tax rate.

We participate in an aircraft leasing incentive program in Singapore which entitled us to a reduced income tax rate of 10.0% on our Singapore Dry Leasing income through July 31, 2018. We renewed our participation in this program at a reduced income tax rate of 8.0% through July 31, 2023, effective in the third quarter of 2018. As a result, we recorded a benefit of approximately \$8.7 million related to the remeasurement of our deferred income tax liability for Singapore.

We continue to analyze the different aspects of the U.S. Tax Cuts and Jobs Act of 2017, which could potentially affect the provisional estimates recorded at December 31, 2017. We no longer indefinitely reinvest the earnings of our overseas dry leasing subsidiaries outside the U.S. As a result, we may repatriate those earnings to the U.S. in the future, and we recorded an immaterial deferred tax liability related to state income taxes for the nine months ended September 30, 2018.

The U.S. Internal Revenue Service is currently examining the 2015 tax year. It is reasonably possible that our unrecognized tax benefits could significantly decrease within the next twelve months. Due to the uncertainty related to the potential outcome of this examination, we cannot estimate a range of reasonably possible adjustments to our unrecognized tax benefits.

10. 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, Short-term investments and Restricted cash is based on cost, which approximates fair value.

Long-term investments consist of debt securities, maturing within five years, for which we have both the ability and the intent to hold until maturity. These investments are classified as held-to-maturity and reported at amortized cost. The fair value of our Long-term investments is based on a discounted cash flow analysis using the contractual cash flows of the investments and a discount rate derived from unadjusted quoted interest rates for debt securities of comparable risk. Such debt securities represent investments in Pass-Through Trust Certificates (“PTCs”) related to enhanced equipment trust certificates (“EETCs”) issued by Atlas in 1998 and 1999.

Term loans and notes consist of term loans, notes guaranteed by the Export-Import Bank of the United States (“Ex-Im Bank”), the Revolver and EETCs. 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 fair value of the Amazon Warrant and certain long-term performance-based restricted shares are based on a Monte Carlo simulation which requires inputs such as our common stock price, the warrant strike price, estimated common stock price volatility, and risk-free interest rate, among others.

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

	September 30, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$214,961	\$214,961	\$214,961	\$-	\$-
Short-term investments	18,511	18,511	-	-	18,511
Restricted cash	11,194	11,194	11,194	-	-
Long-term investments and accrued interest	1,722	2,649	-	-	2,649
	\$246,388	\$247,315	\$226,155	\$-	\$21,160
Liabilities					
Term loans and notes	\$2,120,532	\$2,083,788	\$-	\$-	\$2,083,788
Convertible notes (1)	416,442	607,377	607,377	-	-
Amazon Warrant	215,865	215,865	-	215,865	-
	\$2,752,839	\$2,907,030	\$607,377	\$215,865	\$2,083,788
December 31, 2017					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$280,809	\$280,809	\$280,809	\$-	\$-
Short-term investments	13,604	13,604	-	-	13,604
Restricted cash	11,055	11,055	11,055	-	-
Long-term investments and accrued interest	15,371	18,074	-	-	18,074
	\$320,839	\$323,542	\$291,864	\$-	\$31,678
Liabilities					
Term loans and notes	\$1,791,918	\$1,844,445	\$-	\$-	\$1,844,445
Convertible notes (1)	403,544	602,846	602,846	-	-
Amazon Warrant	127,755	127,755	-	127,755	-
	\$2,323,217	\$2,575,046	\$602,846	\$127,755	\$1,844,445

(1) Carrying value is net of debt discounts and debt issuance costs. Hedge transactions associated with the Convertible Notes are reflected in additional paid-in-capital (see Note 8 to our Financial Statements).

Gross unrealized gains on our long-term investments and accrued interest were \$0.9 million at September 30, 2018 and \$2.7 million at December 31, 2017.

11. Segment Reporting

Our business is organized into three operating segments based on our service offerings: ACMI, Charter and Dry Leasing. All 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. We do not aggregate our operating segments and, therefore, our operating segments are our reportable segments.

We use an economic performance metric (“Direct Contribution”) that shows the profitability of each segment after allocation of direct operating and ownership costs. Direct Contribution represents Income (loss) from continuing operations before income taxes excluding the following: Special charges, Transaction-related expenses, nonrecurring items, Losses (gains) on the disposal of aircraft, Losses on early extinguishment of debt, Unrealized losses (gains) on financial instruments, Gains on investments 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 and other non-operating costs.

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

	For the Three Months Ended September 30, 2018		For the Three Months Ended September 30, 2017*		For the Nine Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017*	
Operating Revenue:								
ACMI	\$288,602	\$258,109	\$832,777	\$687,982				
Charter	322,750	243,583	954,725	743,302				
Dry Leasing	44,487	30,804	120,837	86,120				
Customer incentive asset amortization	(4,124)	(1,531)	(10,010)	(2,873)				
Other	4,892	4,783	14,437	13,977				
Total Operating Revenue	\$656,607	\$535,748	\$1,912,766	\$1,528,508				
Direct Contribution:								
ACMI		\$51,672	\$51,185	\$145,251	\$139,858			
Charter		44,370	34,510	129,738	87,911			
Dry Leasing		12,645	10,245	36,195	29,629			
Total Direct Contribution for Reportable Segments		108,687	95,940	311,184	257,398			
Unallocated income and expenses, net		(82,830)	(63,703)	(212,373)	(181,176)			
Loss on early extinguishment of debt		-	(167)	-	(167)			
Unrealized gain (loss) on financial instruments		46,080	(44,775)	(11,691)	(36,225)			
Special charge		-	-	(9,374)	-			
Transaction-related expenses		(765)	(1,092)	(1,275)	(3,403)			
Loss on disposal of aircraft		-	(211)	-	(64)			
Income (loss) from continuing operations before income taxes		71,172	(14,008)	76,471	36,363			
Add back (subtract):								
Interest income		(1,592)	(1,688)	(4,704)	(4,286)			
Interest expense		31,115	26,553	87,639	72,747			
Capitalized interest		(1,120)	(1,922)	(4,335)	(5,633)			
Loss on early extinguishment of debt		-	167	-	167			
Unrealized loss (gain) on financial instruments		(46,080)	44,775	11,691	36,225			
Other expense (income)		975	(1,165)	(10,777)	(357)			
Operating Income		\$54,470	\$52,712	\$155,985	\$135,226			

* The direct contribution amounts for the ACMI and Charter segments and the unallocated income and expenses, net above have been revised to reflect immaterial adjustments. The Company does not believe the impact to the previously issued consolidated financial statements was material.

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

	For the Three Months Ended					
	September 30, 2018			September 30, 2017		
	Cargo	Passenger	Total	Cargo	Passenger	Total
Commercial customers	\$ 158,129	\$ 11,651	\$ 169,780	\$ 113,125	\$ 5,607	\$ 118,732
AMC	85,267	67,703	152,970	40,164	84,687	124,851
Total Charter Revenue	\$ 243,396	\$ 79,354	\$ 322,750	\$ 153,289		