

ATLAS AIR
WORLDWIDE HOLDINGS



Atlas Air Worldwide Holdings, Inc.

1Q09 Results Conference Call

May 5, 2009

Hosted By:

William J. Flynn – President and Chief Executive Officer

Jason Grant – Senior Vice President and Chief Financial Officer

Edward McGarvey – Vice President and Treasurer

ATLAS AIR WORLDWIDE HOLDINGS, INC.

1Q09 RESULTS CONFERENCE CALL

May 5, 2009, 11:00 A.M. ET

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Atlas Air Worldwide Holdings, Inc. First-Quarter 2009 Results Conference Call.

At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. If you should require assistance at any time during the conference, please press the "star", followed by the "zero".

I'd now like to turn the conference over to Mr. Ed McGarvey, Vice President and Treasurer. Please go ahead.

Ed McGarvey: Thank you, and good morning, everyone.

I am Ed McGarvey, Vice President and Treasurer of Atlas Air Worldwide Holdings.

Welcome to our First-Quarter 2009 Results Review Conference Call.

Today's call will be hosted by Bill Flynn, our President and Chief Executive Officer. Joining Bill is Jason Grant, our Senior VP and Chief Financial Officer.

I would like to remind you that in discussing the Company's performance today, we have included some forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These statements relate to future events and expectations, and involve unknown risks and uncertainties. Our actual results or actions may differ materially from those projected in the forward-looking statements.

Please refer to the Safe Harbor language in our recent press releases and to the risk factors set forth in our annual report on Form 10-K filed with the SEC on February 26, 2009, for a summary of specific risk factors that could cause results to differ materially from those expressed in our forward-looking statements.

In our discussion today, we also include some non-GAAP financial measures. You can find our presentation on the most directly comparable GAAP financial measures, calculated in accordance with generally accepted accounting principles, and our related reconciliation in our recent press releases, which are posted on our Web site, www.atlasair.com.

You may access these releases by clicking on the link to “Financial News” in the “Investor Information” section of the Web site.

At this point, I'd like to turn the call over to Bill Flynn.

Bill Flynn:

Thank you, Ed, and welcome everyone.

We're excited to discuss our record first-quarter earnings with you this morning.

And we're also very pleased to welcome Ed McGarvey as our new Vice President and Treasurer.

Ed comes to us from HSH Nordbank, where he was the head of Aviation Americas. In that role, he was responsible for both finance and business development for the bank's aviation unit.

Ed brings a deep background in aviation and structured finance to Atlas. And we're happy to have him as part of our team, especially as we work towards the delivery of our 747-8 freighters.

The solid numbers we reported this morning reflect the first full quarter of contribution from our Express Network ACMI operations.

They also provide a clear indication that its implementation has significantly transformed our business model and enhanced the quality and visibility of our earnings.

This strong positive impact is best demonstrated by referring to our segment operating results.

Total direct contribution by our reportable business segments improved to \$52.0 million in the first quarter, an increase of approximately \$34.0 million compared with the first quarter of 2008.

In our core ACMI segment, direct contribution increased to more than \$27.0 million in the first quarter, approximately \$22.0 million more than we earned in the first quarter of 2008.

The substantial increase in earnings from ACMI was driven by the addition of eight 747-400 freighters in Express Network ACMI service in the first quarter compared with none in the first quarter of 2008.

When you combine the \$22.0 million increase in ACMI earnings with more than \$12.0 million in benefits from avoiding the Scheduled Service losses that we incurred in the first quarter of 2008, our year-over-year improvement in direct contribution from these operations totaled more than \$34.0 million, primarily driven by our business transformation.

While AMC demand was down year-over-year, our first-quarter earnings also reflect a better level of AMC demand than we had anticipated.

AMC volumes averaged 1,465 block hours per month during the quarter, compared with an average of 1,524 block hours per month in the first quarter of 2008.

Led by an increase in U.S. military support for operations into Afghanistan, AMC flying in the first quarter was significantly higher than in the fourth quarter of 2008, when we averaged 1,285 block hours per month, and substantially higher than the 1,100 hours per month that we had been expecting for the first quarter of 2009.

Our business transformation, aggressive fleet management, Continuous Improvement gains and solid AMC demand drove our first-quarter net income, which totaled \$23.4 million, or \$1.12 per share.

Total operating revenues in the first quarter decreased to approximately \$245.0 million in conjunction with the deconsolidation of Polar Air Cargo Worldwide from Atlas Air Worldwide Holdings.

Strong earnings for the quarter reflect the de-risking of our business model and were achieved despite a 20%-plus decline in global airfreight traffic compared with the first quarter of 2008. They also contrast sharply with a net loss of more than \$5.0 million, or \$0.25 per share, for the first quarter of 2008.

As we discussed on our last call, revenues and pretax earnings for the first quarter of 2009 included \$10.0 million for the effective termination of a contract for two supplemental 747-400 aircraft that operated in Express Network ACMI during the quarter.

It's important to note, however, that the \$10.0 million was included in Other revenues – and not in ACMI revenues – in our first-quarter income statement, and that fee is not part of our ACMI segment earnings. Instead,

it's a component of Unallocated Corporate Income and Expenses in our Direct Contribution segment summary.

Jason will provide you with some additional perspective about our record first-quarter results and financials in a moment. Before that, I would like to touch on our framework for driving substantial earnings improvement in 2009.

It begins with the transformation of our business model, as well as aggressive fleet management and Continuous Improvement as we have discussed. And it is supported by a more active level of military demand.

AMC demand in the first half of 2009 is being driven by the buildup in Afghanistan, and we expect demand to continue around recent levels through the end of the second quarter. We also expect demand in the second half of 2009 to be at sustainment levels – about 1,100 hours per month.

Over the medium term into 2010, we expect that the need to return, refurbish and redeploy equipment from Iraq and to sustain Afghanistan operations will drive potential incremental demand.

Our core earnings from operations should be less seasonal in 2009 than in the past, but we still expect to experience some quarter-to-quarter variability in our earnings pattern.

In the second quarter, for instance, we are likely to see lower aggregate revenues and earnings from operations than we did in the first quarter.

This largely reflects the redeployment of three of our 747-400 freighter aircraft from ACMI placement to AMC and Commercial Charter service, higher maintenance expense due to the timing of heavy airframe and engine events, including three additional C Checks and four additional engine overhauls, as well as the absence of the first-quarter contract termination fee.

Seventeen of our 22 747-400 freighters are currently under ACMI contract compared with 20 during the first quarter of 2009. Three have been profitably redeployed to AMC and Commercial Charter, but we continue to seek placement for them in our ACMI and Dry Leasing business segments.

Of the other two, one serves as our maintenance cover in ACMI and serves in Charter when not required in maintenance coverage, and the other – our only converted freighter – is profitably deployed to provide air cargo service to South America.

Our remaining exposure to ACMI contract renewal in 2009 is limited to one aircraft in the second half of the year.

Recent industry data and economic reports suggest that the pace of the deep declines that we have seen in global airfreight and business activity over the past two quarters is leveling off and a bottom may be forming.

We continue to see accelerated retirement of aging and inefficient capacity from the marketplace, due to the soft demand and concerns about prospective fuel-price levels. This will mitigate the impact of the overall reduction in airfreight demand.

As we noted in our last call, we saw a 25% reduction in the number of 747-200 freighters serving the market during 2008. In all, 37 Classic freighters left service during 2008, including 10 that we removed from our fleet. That reduced the global Classic fleet to about 108 aircraft at year-end.

Since the beginning of 2009, we estimate that at least 20 additional 747-200 freighters have been removed from the market. We continue to believe that substantially more of this older capacity will come out of the market in 2009 and beyond, and will not return to service when the eventual recovery comes, given the age, maintenance cost, and relative inefficiency of these aircraft.

Delta Airlines, for example, has announced that it will retire Northwest Airlines' fleet of 14 747-200 freighters by the end of the year.

Any improvement in demand, therefore, could have an early and meaningful impact on Atlas Air given the capacity reductions that are taking place, delays and deliveries of newer generation freighters, and the drop-off in 747-400 conversion activity.

With that, this is probably a good point for Jason to take us through the details of the financials. Following Jason, I will have some concluding remarks, and we'll go to your questions.

Jason.

Jason Grant:

Thanks, Bill, and good morning everyone.

Our first-quarter reflects the transformation that we have consistently communicated over the last 18 months.

The transformation has positioned us for substantial full-year earnings improvement in 2009 compared with 2008.

The benefits associated with the transformation of our business model were first demonstrated in our fourth-quarter 2008 earnings. Our record first-quarter earnings provide the first meaningful quarter-to-quarter comparisons reflecting the transformation that we have achieved.

As Bill noted, we deconsolidated Polar from our financial statements following the commencement of the long-term, blocked-space agreement between Polar and DHL Express.

The deconsolidation is reflected in the reporting of financial and operating data for our ACMI and Scheduled Service segments in the first quarter of 2009 compared with the first quarter of 2008. As a result of the change, block-hour volumes and associated block-hour revenues generated by aircraft in service for Polar are now included in ACMI operations rather than in the Scheduled Service segment.

As we proceed into the second quarter, our fleet currently totals 29 aircraft, comprised of 22 747-400 freighters and seven 747-200 freighters.

All of our 747-200s are completely unencumbered and are being utilized at current demand levels. We will continue to manage the 747-200 fleet opportunistically going forward.

Beyond the fleet, I would also like to draw your attention to our effective income tax rate for the quarter and for the year.

We reported an income tax rate of approximately 39% for the quarter, largely in line with an expected 2009 effective income tax rate of 40%.

We ended the quarter with cash, cash equivalents, and short-term investments totaling \$442.0 million compared with \$411.0 million at year-end 2008.

Our debt and capital lease obligations totaled approximately \$655.0 million on March 31, with their face value totaling about \$721.0 million versus \$740.0 million on December 31, 2008.

About \$8.0 million of the reduction and outstanding debt during the quarter related to our prepayment of term loans on aircraft at a substantial discount. As a result, we recorded a \$2.7 million gain on the early extinguishment of this debt.

Our capital expenditures in the first quarter totaled approximately \$13.0 million, which included about \$3.0 million of capitalized interest related to our Boeing 747-8F order.

Capital expenditures for the remainder of 2009 are expected to total approximately \$80.0 to \$85.0 million. This includes approximately \$48.0 million in aircraft progress payments planned for the fourth quarter, about \$10.0 million of which will be funded by drawings under our existing PDP facility.

As we noted on the last call, we are in discussions with Boeing regarding a revised delivery schedule for our -8F aircraft. While we are well positioned from a cash flow perspective, we will be opportunistic about sourcing capital for our 747-8 freighters.

With that, I'd like to turn it back to Bill.

Bill Flynn:

Thank you, Jason.

We often talk about our service quality and how important it is to differentiate our Company from our competitors. And this is especially true during challenging times.

I'm pleased to let you know that the annual Air Cargo Excellence Awards, a survey of freight forwarders, has recognized our ACMI customer – Emirates SkyCargo – as the number one cargo airline for customer service, performance, and overall value.

Polar Air Cargo Worldwide received an overall excellent rating.

And in addition, Qantas was a top-ten pick, and British Airways was in the top 20, and both received excellent ratings as well.

The outstanding metrics that our customers and Polar have achieved are the direct result of the strong efforts and commitments of our operating teams and crew.

Being able to deliver service quality and compelling value to our customers enables us to perform well in a difficult market environment, and positions us for future earnings growth.

With the full startup of the Polar BSA, we have removed the risk of our historically unprofitable Scheduled Service business.

The combination of the effective ACMI rate that we will earn in 2009 for flying six 747-400 aircraft in express ACMI and the elimination of losses

due to yield and fuel risk in the Scheduled Service business will generate substantial year-over-year earnings improvement.

We remain focused on costs and productivity enhancement, and we will continue to execute on initiatives that will drive future revenues and earnings.

We have a solid financial platform, and we continue to look forward to the launch of our 747-8 freighter service.

With that, I think it's a good time to take some questions.

Operator, may we have the first question, please.

Operator: Ladies and gentlemen, at this time we will conduct a question-and-answer session.

If you'd like to ask a question, please press the "star", followed by the "one" on your touchtone phone. You'll hear a tone indicating that you've been placed in the queue. You may remove yourself from the queue at any time by pressing the "star", followed by the "two".

We ask that if you are using a speakerphone, please pick up the handset prior to pressing the numbers. Once again, if you do have a question, please press the "star", followed by the "one", at this time.

As a reminder, if you have done so prior to this prompt, you will need to do so again.

Our first question comes from the line of David Campbell. Please go ahead.

David Campbell: Yes, good morning. Good morning, everybody. Thank you for taking my question.

In general, I see the international market as picking up pretty well, particularly in March and April, versus earlier in the year. And I'm just curious why there haven't been more new contracts for your ACMI aircraft.

Like you said, you had three that are available for ACMI, but you're apparently not being able to put them into any contracts. And I'm curious as to why that would be given the – given what I think is a significant increase of demand.

Bill Flynn:

Yeah, well I think, David – first of all, good morning. This is Bill Flynn, and thanks for joining the call.

I think what we see is a bottoming in the market, but on a year-over-year basis that market is still down 20 percentage points – below where it was in 2008. And this is on – I think we're running seven or eight months of continued decline in airfreight demand, and in some markets it might be as many as 10 months of continuous decline in demand.

And there are a number of aircraft parked and lots of -200s coming out of service, as we've talked about on this call and prior calls. So the market is bottoming, and that's good. We haven't, I don't think, yet seen growth of any meaningful kind in any market.

Now on the aircraft, the three aircraft that we have, on our prior call we did talk about an LOI that we had in place with a customer, and that we have formally amended that LOI with that customer. And it's initially for two aircraft, and we said that those aircraft should go into service not earlier than October of this year. And in fact that LOI considers two incremental aircraft later on.

So right now, again, we've recently amended that. We feel good about the LOI. Clearly, they have to move into contract, and we're working towards that end.

So I think that as we said also in the call and others, we think as we come out of this very soft market we're very well positioned for as demand picks up, given the retirement – and not only the retirement of the older capacity, but just the inherent quality and the efficiencies of the -400 and the solutions that we provide using them.

And in the interim, we've been able to use those aircraft in our military and charter demand, and all of that adds up to the quarter that we've delivered, where we're operating only 29 aircraft, which is significantly less than our average operation was last year.

David Campbell:

I mean you've done a brilliant job of de-leveraging and improving the ability of the Company to earn money in a downturn.

But I'm a little worried about the fact that you have so many fewer aircraft than last year, and therefore less upside potential if there is improvement in cargo demand year-to-year later this year and into 2010. Do you have any comments on that?

Bill Flynn:

Well, I think, what we've got are our 22 -400s, and they will be deployed where we get the best return and the maximum return.

With the seven -200s that we have, earlier we were thinking about perhaps retiring one or two of those, and we've made the decision not to given the demand.

And then we look forward to medium-term growth. We'll have our 747-8s coming on later, and there we see some real fleet and capacity growth.

So it is a bit of balancing and weighing the risks and the returns that are out there, and using our best estimate of how demand and the timing of how demand returns, while continuing to focus on cost and productivity to drive the earnings growth in this year and to take advantage of what the market will give us in 2010. And we watch it closely.

David Campbell: And late 2010 is when – is the current date for the 747-8s to start coming in?

Jason Grant: Yes, David, it's Jason.

Our current discussions with Boeing are indicating late 2010 is the earliest we'd take the aircraft. But that's a fair sort of starting point to think of the new capacity coming in.

But, I think, David, your point is an important point.

We have focused on de-leveraging the Company. We have focused on growing earnings despite reducing our asset base and our liabilities. We are, I think, in a better position than anyone else in the space as growth comes back into the market to take advantage of those opportunities.

I think the -8s are well-timed. I think if we miss the first few months of the market improvement, you know, that in the end will be less of a factor for us in the long run.

The -8's are the right asset for us. We think they're a step function improvement from – for the market, and I think the timing is compelling, and we're a Company that we feel well positioned given the de-leveraging that we've achieved.

David Campbell: Okay, thanks. I'll let someone else have it.

Jason Grant: Thank you, David.

Bill Flynn: Thanks, David.

Operator: Thank you. And our next question comes from the line of Bob Labick. Please go ahead.

Matthew Burg: Good morning, this is Matthew Burg for Bob Labick.

Bill Flynn: Good morning.

Matthew Burg: Your charter sales were stronger than we had expected. Could you tell us what's been driving that strength, and also if this level is sustainable?

Bill Flynn: Well, I think there's a couple things.

There is certainly some activity in discrete markets. Some of the charter sales, for example, were commercial activity or commercial charter that were supporting the movement of food and other supplies into Afghanistan outside of the military channel.

We were able to take advantage of military traffic that we had, and carry a number of one-way charters, and we were very competitively positioned to do that. The -400 that we have – some of the -400 flying that we've been doing has also been in Commercial Charter, and that -400 is a very competitive asset when compared to the -200s that other folks may be deploying into those markets, given its range and fuel efficiency, higher load factor, etc.

So I think what we see today is kind of a – the level of flying we did in Commercial is probably a level to think about going forward for the rest of the year. It's not that there's no commercial charter, it's just that it's not as robust as it's been in prior years, but certainly there is some activity available.

Matthew Burg: All right, thank you. That's helpful.

And on the ACMI revenue per block hour, I was wondering if you could tell me why the rate was higher than it had been previously.

Jason Grant: Yeah, Matthew, it's Jason.

I think Q1 was really a function of customers flying below their minimum guarantees. I think we had a similar phenomenon that we saw in the first quarter of 2008 with a customer. I think we saw more of that in 2009, which won't surprise you. And that really drove a higher effective rate for the first quarter.

I think it's important that when we look out for the rest of the year, we do see that – we expect customers to be flying closer to their minimums and

really eating away at some of the deficit that was created in the first quarter.

Matthew Burg: Okay, so that rate is expected to decline to historic norms, you'd say?

Jason Grant: It is, yes.

Matthew Burg: Okay. All right, thank you gentlemen.

Bill Flynn: Thank you.

Operator: Thank you. And our next question comes from the line of John Mims. Please go ahead.

John Mims: Hey, good morning, guys.

Bill Flynn: Morning, John.

Jason Grant: Hi, John.

John Mims: Kind of following up on that, with the revenue per block hour in ACMI, when you look at some of these cancelable hours that people have in their contracts, I mean where – have people flown so far below minimums, like in Q1, that they are running out of the buffer room that they could carry forward for the rest of the year? Where are people in line with their minimums, I guess?

Bill Flynn: Yeah, well there's a couple things there, John.

First, we bill at the minimum hours. And as you know, there are some cancellations that are allowed throughout the year, and customers did take their cancellation. But back to that prior question, we're billing at minimum and people were flying below minimum, and then the math simply drove up a much higher block-hour rate and we expect that to normalize.

Going forward, I think our current gauge of the market will depend on customers. But when you average it up, we're looking at kind of single-digit-percentage flying below contractual minimums. Some customers will meet them, their block hours; some will fly a little below. But clearly the trend and the discussion that we're having with our customers suggest that first quarter was very tough – we all know what the IATA stats and other stats tell us. It's improving as we go forward and their schedules – in terms of the schedules they've provided us – to fly show that.

John Mims: Okay. And there's the 17 -400s in ACMI in Q1, correct?

Bill Flynn: No, in Q2.

John Mims: Okay, there will be 17 in Q2.

Bill Flynn: Right, because we have – it was 20 in Q1, and it'll be 17 in Q2.

And those three are the three that we talked about flying in military charter and commercial.

John Mims: So then the renewal in H2 could bring that down to 16 then?

Jason Grant: It's important to understand we expect to renew that aircraft.

Bill Flynn: If we didn't, that would be the effect, yes.

John Mims: Yeah, kind of a worst-case scenario.

Could you – is there a ballpark minimum block-hour number for the fleet? You know, let's say it's 17 for the rest of the year, or it drops down to 16 like third quarter. Is there a – I know each contract is different, but is there kind of a general range that we could look at?

Jason Grant: John, it's Jason.

In terms of total aircraft utilization, I think you can look at probably a relatively flat level of block-hour activity across the quarters this year, which I think would differ slightly from some prior years. But in terms of expectation, I think that's probably about right.

John Mims: Okay. Yeah, that makes sense.

All right, one more and then I'll hand it off.

The block hours in the "all other", I guess that – does that still include the Dry Leasing? You know, it's down 78% year-over-year, so I was trying to get an idea of how that dry-lease contract plays into that, or if there's anything else in that "all other" line, or something that used to be in there that's not in there now.

Jason Grant: And John I want to just make sure, you said block hours?

John Mims: Right.

Jason Grant: You're referring to revenue or block hours. Yeah, the "all other" block hours is really just non-revenue ferry hours...

Bill Flynn: Ferry placement...

There's no block-hour equivalent stated for aircraft that are dry leased. They're just dry leased, there's no block hours.

John Mims: Yeah, I was – for some reason, I was thinking the British Airways revenue is driven off of that number as well.

Jason Grant: It's important to understand that when you look at the actual operating revenue classification, we have a line called Dry Leasing, which is currently where the revenue is presented for the British Airways flying.

And then we have a line called “Other”, which is really revenue that's unrelated to flying. In this case, it's predominantly the \$10 million cancellation fee that we booked in the first quarter.

John Mims: Okay, that makes sense. Great quarter. Thanks for the time.

Jason Grant: Thank you.

Bill Flynn: Thanks, John.

Operator: Thank you. And our next question comes from the line of Alex Brand. Please go ahead.

Alex Brand: Thanks, guys. Good morning.

Bill Flynn: Morning, Alex.

Jason Grant: Hi, Alex.

Alex Brand: I guess I want to start with sort of clarification, first of all, on the maintenance expense, can be up sequentially due to timing of some of your maintenance events and, therefore, you said earnings would be down sequentially.

Are we talking down – first of all can you quantify what we're talking about on maintenance? Is this a big deal? And second of all, are we talking about down from the \$1.12? Or down from extracting your one-time items in the quarter?

Jason Grant: Alex, it's Jason.

I think, just to put it in perspective, I think if you look at our Q1 expense this year, it is low relative to historical. I think Q1 '07 was \$45.0 million, Q1 '08 was \$53.0 million.

We do have fewer -200s, that is driving lower heavy maintenance costs. But there is a timing effect, where Q1 has been lower because of some events that that we will move into Q2. The magnitude of that is really the sort of the four engine events, the three C Checks we talked about.

I think that when you think about Q2, you said it correctly, which is there are some one-time items here. We have the DHL fee, we have the retirements related to debt and aircraft, and then we have the adjustment for maintenance. And as long as you correctly captured the shift out of ACMI and into military for the aircraft, I think you've got all the factors on the quarter-over-quarter differences.

Alex Brand: Okay. And can you just segue that into any commentary? I think last quarter – your last call you gave commentary about your guidance was here and there were some adjustments. Do you have any further commentary, or you guys kind of done with guidance?

Bill Flynn: Well, I don't think we're updating guidance.

But one other fact that you might think about, back to the maintenance: we're right now looking at something like \$105.0 to \$110.0 million for the year.

So that's not going to be equally distributed over the quarters. That's another way to think about it, as Jason was just describing some of the unit-specific events that are going to happen incremental in second quarter versus first quarter.

And what we talked about the last time was a couple things: We talked about that we had these 747-400s that are coming off of ACMI not being immediately placed and rolling off into – or being promptly deployed into AMC and Charter, but that that would kind of have a year impact of something like \$5.0 to \$7.0 million per unit. We still think that's the impact, and that's pretty much where we are. We wanted to give a little more color on maintenance because that will vary quarter to quarter.

Alex Brand: Okay.

Bill, you've talked a little bit about where you think the market is in terms of demand and capacity.

I'm wondering, as you've talked to customers and potential customers who I'm assuming for the last several months have been unwilling to commit to longer-term deals at reasonable prices, as demand seems to have at least stabilized, if not improved, and capacity continues to come out of the market, does that change the conversation at all?

Are the customers looking out say three, four, five years, so that maybe we're getting to a point where they're more willing to say, you know, it's bad now, but it isn't going to get enough worse that I wouldn't consider that commitment?

I know this is a gray area for you, but any color you could provide would be helpful.

Bill Flynn:

Well, actually, I think you've actually teed it up pretty well, Alex.

December, January, maybe even the beginning of February, was hard to get anybody to think about fixed-term, fairly substantial commitments going forward for capacity.

But the conversations have changed, both with current customers, who again we have specific data points – “Here's my schedule for the summer season” – and we can look at the number of hours and what they intend to fly there; to conversations with specific customers, where they're sharing with us their perspective on the market the end of 2009 coming into 2010. And we've heard certainly more optimistic outlooks.

And then, as we've said, we're working on placements. People were very reticent for placements for summer season, just because you're talking to people back in January and February about that, who now are certainly looking for us to model with them schedules, utilization, etc. And I think, as I said in my comments, the -400 is going to play well relative to the other assets that are out there and given the retirements of older assets. So, it's a different tone. And that's clearly what we're hearing.

Alex Brand:

All right. That's very helpful, Bill. I appreciate that.

And can I just circle back on the expense side one more time? The expense run rate was very good, I thought, overall in the first quarter.

Other than maintenance, which is always going to have some timing issues, is there anything else? I mean you took out a number of more expensive aircraft. That helped crew, travel expenses, for example. Should we assume the rest of those expenses are sort of – you know, that the run rate is at a lower level now?

Jason Grant: Alex, you should.

I think the – most of the costs now become very, I think, easy to model.

I think the only nuance you want to be aware of is fuel with the military.

The military has been in the process of lowering their peg rate. You'll see we did go into some detail on that in the Q you'll see later today. But that's effectively a pass-through cost, so it's more of a geography issue. We are otherwise on a relative run-rate basis pretty clean on the costs, other than maintenance as we've discussed.

Alex Brand: Okay. I appreciate the time, guys. Nice quarter.

Jason Grant: Thanks, Alex.

Bill Flynn: Thank you very much.

Operator: Thank you. And our next question comes from the line of Steve O'Hara. Please go ahead.

Steve O'Hara: Hi, good morning. I just had a question about the -8s and what kind of lead time you look at in terms of trying to get them – you know, customers lined up for those?

Bill Flynn: Yeah, well there's two parts to the answer.

One, we need, of course, to finalize the delivery schedule with Boeing, and we're in those discussions with them.

But typically, you'll find that your six months to a year out on a customer commitment, whether it's for a -400 or a -8, because those decisions are large-dollar-spend decisions. You think about a five-year contract and then block-hour rates, and those typically need to go to some form of a capital committee or a senior budgeting committee at our customer organization.

Steve O'Hara: Okay, great. And then, I guess the other question is any changes in the Open Skies. Does that affect you guys at all, if that were to take place?

Bill Flynn: No, not specifically. I mean, we're a fan of Open Skies. Any relaxation and regulation that makes it generally more – creates generally a more open market is a good market for us.

Steve O'Hara: I guess my question is, any pullback in the relaxation, I guess.

Bill Flynn: No, it doesn't really have – I mean we're operating under that regulatory regime today. So a delay in further easing of regulations is the market we're already in.

Steve O'Hara: Okay. All right, thank you.

Bill Flynn: Thank you.

Operator: Thank you. And once again ladies and gentlemen if you do have a question, please press the “star”, followed by the “one”. As a reminder, if you're using a speakerphone, you will need to lift the handset prior to pressing the numbers.

Our next question comes from the line of Michael Beer. Please go ahead.

Michael Beer: Hi, how are you. Michael Beer from Wolfe Research. Good morning, guys.

Quick question on AMC. I know previously you had kind of given some guidance, minimum block hours. Assuming you threw a couple more aircraft in that segment, how does that guidance kind of change with those minimum block-hour obligations?

Bill Flynn: Well, what we said is that – you saw the numbers that were reported for the first quarter. Earlier we had been looking at more like 1,100 hours is what we had said. And this quarter is going to look a lot like the first quarter, as we build up.

But right now, what we said earlier is we're looking at about 1,100 hours in the second half because the buildup will have occurred and then you get into sustainment. And that's our view of it today, that part of the challenge is there – you don't have good long-term visibility on the military, and so we have to triangulate on the answer. And that's where that 1,100 number comes from.

What is new I think is – what is also new is a view on 2010.

We had initially thought those numbers were coming down to around 900. But with what we understand in terms of the DOD policy going forward, which is to return and redeploy equipment from Iraq, which heretofore we thought a lot was going to be left behind and we no longer think that. And with the troop levels that are building up in Afghanistan, and it's not a three-month kind of deployment, that we're looking at stronger 2010 levels than we anticipated.

Michael Beer: So probably back at that 1,100 per month rate?

Bill Flynn: You know, that's probably not a bad range to use for now. We don't have – you know, the new contract gets awarded in August, and volumes will be better forecast in August by the military with their fiscal year starting in October. But that wouldn't be a bad data point to use.

Michael Beer: I see. And just one more question on the block-space agreement with DHL.

Under what circumstances could they put any of their other aircraft back to you? I think there's a five-year provision, 10-year, 15. Just kind of remind me of exactly how that plays out.

Bill Flynn: Sure. The agreement is for six aircraft. And at the end of year five, DHL can take the aircraft and redeploy it elsewhere. But that's not a put to us, that's a take.

And if they exercise that, they notify us of their intent to terminate the agreement and to walk, and they have to notify us at the end of year four. So it's a one-year notice, and it's a take.

The lease on the aircraft, or the commitment on the aircraft, then, if they don't exercise the take in year five, will extend through 10 years, a total of 10 years.

Jason Grant: And, Bill, I would add that if the aircraft – if they take the aircraft, they take the liability for the aircraft.

Bill Flynn: For the remaining life of the aircraft.

Michael Beer: So you're absolved from any and all liability from thereon forward?

Bill Flynn: That's correct, on the take. At the end of year 10, there is no liability.

It's 10 years are up and the aircraft gets returned to us. And so that would be in 2018.

Michael Beer: Okay. Thank you much.

Bill Flynn: Thank you.

Operator: Thank you. And once again ladies and gentlemen, if you do have a question, please press the “star”, followed by the “one”, at this time. As a reminder, if you are using a speakerphone you will need to lift the handset prior to pressing the numbers.

Our next question comes from the line of Chris Robertson. Please go ahead.

Chris Robertson: Hi, guys. Just wanted to catch up a little bit on some of the timing around the -8 payments.

You mentioned the \$48.0 million in the fourth quarter. Any chance that that would get pushed further, depending on delays from the Boeing side?

Jason Grant: Yeah, Chris, it's Jason.

The \$48.0 is really – it's where we stand today. We have no updates from Boeing. We are in continuous discussions with them on the schedule. As I said in the prepared remarks, we have yet to settle on and agree to a delivery schedule with Boeing.

So is there a potential for some movement? There is the potential. But the \$48.0 for Q4 reflects where we stand today.

Chris Robertson: Okay. And can you talk a little bit about any other use of cash that you'd have in the rest of the year besides the \$48.0?

You talked previously about using some cash to buy back shares, and we don't have all the details yet. But just based on the share count number, it doesn't look like you did any buying.

Jason Grant: And Chris, we haven't, and we really haven't since our activity back in late fourth quarter, or early fourth quarter.

And, you know, I think the message we've given since then, and we continue to give is, like a lot of sort of leveraged asset-intensive companies, we're being very careful, very prudent about cash.

We have a significant investment coming up in the -8s. The advance rates that we will achieve on those aircraft will be a function of the condition of the credit markets when we go to market. And I think those are still factors that are moving on a monthly basis, potentially on a daily basis. So we're going to continue to be, I think, very careful and prudent with the cash.

Chris Robertson: Are you feeling like you're getting closer to setting up some financing terms for the -8s? Are you considering...

Jason Grant: Yeah, so Chris, we're working – I think, to be practical, there's still a long time to go here.

I think banks' ability to reserve capital on their balance sheet this far in advance right now, particularly in this environment, is difficult.

At the same time, I guess I'll repeat something that we've said in the past, which is I feel that there was a lot of, sort of \$73.0 billion worth of, aircraft to get financed in the world, and most of those aircraft are going to get financed.

Atlas has, I think, a very compelling story to tell from a credit standpoint relative to most of the credits that need to go to market to finance aircraft.

We feel good about the asset, the residual value of the aircraft, and we believe that there is a viable market for us at a reasonable cost that we'll be able to access. We are advancing discussions. I think it's still early, so I want to be careful about setting expectations in terms of timing.

But we still feel good about our access to capital, and we feel good about the assets and the story to the credit market.

Chris Robertson: And does the market that we're in, as you're still talking about delivery terms from Boeing, give you any types of opportunity to get a little bit better terms on the jets?

Jason Grant: You know, we would be obviously very careful about any conversations we're having with Boeing, and those wouldn't be conversations we would or could talk about publicly.

I think there's just a lot of uncertainty generally, globally, in the sort of aircraft market right now about terms and conditions for delayed aircraft. And I guess we're in a similar position, but those are conversations that would be tough for us to talk about publicly.

Chris Robertson: And just back to my cash flow question for a second.

Outside of the -8s, is there anything that you can talk about from a cash flow perspective in spending? You mentioned the capex number, which I believe you said was for the remainder of the year, the \$80.0 to \$85.0 million, or was that total for '09?

Jason Grant: Just to go back to some guidance I think we gave in the fourth quarter that's still true today, we're expecting maintenance capex, the sort of core capex, of \$40.0 to \$45.0 million for '09.

We have the \$48.0 million of PDP commitments in Q4. \$10.0 million of that \$48.0 is covered under the existing PDP financing commitment.

And so that's really – you know, Chris, that's the picture for '09. You know, and that's really what we're looking at now.

Chris Robertson: Okay. My last question is, is there any kind of detail that you can give on the DHL for the quarter that would give us a better sense as to making transitions in our models from the previous year to this year, breaking anything out?

Bill Flynn: Well, I think, though, we addressed that even in our prepared remarks.

We talked about the earnings growth in 2009 versus 2008. And what we essentially have are six aircraft flying for DHL in ACMI service. And as we said, average contract minimums are 400 hours or greater and rates are \$6,000 or better. And just doing that math versus the losses that we reported in Scheduled Service for 2008 should give you a very clean line on the delta earnings improvement that DHL is going to drive.

Jason Grant: And Chris, if you're referring to [inaudible] your model, I think you'll find the 10-Q helpful, because in the MD&A we sort of go expense line item by line item in terms of what the delta is quarter over quarter related to DHL. So, hopefully, that is helpful for you to sort of break down your line item detail.

Chris Robertson: Definitely. And thanks for going over that again, Bill. I missed that in the prepared remarks.

I guess the only other thing I wanted to qualify is when you talk about the number of contracts that you had outstanding. And you talked about shifting from the roughly 16 jets in ACMI in the first quarter and then that falling off – it didn't sound like there was going to be a fall off, other than you mentioned that there was one that you still expected to renew. That sounded new to me.

Bill Flynn: Well, let's go back through the numbers again.

We have 22 747-400s.

One is a converted freighter, and we use that in our South America charter service. One is a maintenance cover, so when we have major maintenance events, that aircraft comes in and flies for additional revenues for our customers.

So that gets us to a core of an operating fleet of 20. What we said was in the first quarter we had 20 in ACMI. And that from the second quarter going forward we'll have 17.

And those three aircraft, the delta, those three aircraft, specifically, was the Air New Zealand contract, which ended and wasn't renewed; and the other two were aircraft 7 and 8 that DHL had leased in on a supplemental basis, independent of the core six. And those came back, and we got \$10.0 million termination fee for those. Those are the three aircraft.

So from 20 to 17, the three aircraft we are flying in military. We've got an uptick in military demand and in commercial. And we're seeking to place those aircraft, and that's where we got into the discussion about the letter of intent that we have that moved, shifted the start-up date, and we've got to pursue that and conclude that.

We have one other contract for renewal this year, and we expect to renew it. And I think that went back to someone else's question, "well, if you didn't renew it," then you'd only have at that moment in time 16 in ACMI and four in military or commercial charter.

Chris Robertson: Okay, that's perfect. I appreciate the clarity in running through that again, Bill. Thank you very much.

Bill Flynn: No problem. Thank you.

Operator: Thank you. And our next question comes from the line of John Mims. Please go ahead.

John Mims: Hey, guys, just a quick follow-up.

I know we've run through these numbers a lot. But could you walk me through the revenue per block hour for AMC quickly? I mean fuel is set at \$2.40 a gallon, correct? Is that going to carry for the next couple of quarters?

Jason Grant: No, John, that is resetting.

So effectively, you want to think about fuel – the military generally is a cost-plus contract, and fuel is a component of that.

Fuel is resetting down to a \$1.55 a gallon going into the second quarter. So if you just want to kind of think of rough math, you know the aircraft is burning, 747-200 is burning about 3,500 gallons an hour. And we're going from a \$2.40 a gallon down to \$1.55 a gallon peg price for the military. And again, that's effectively a cost-plus contract, and so that's really how you think about working through the revenue and the cost line for the military.

John Mims: So, as long as you're running – if you did employ -400 and not, then you would get a little bit better margin, too, just because...

Jason Grant: We get to keep the improvement on the fuel efficiency, correct.

John Mims: Okay. Well, thanks again.

Bill Flynn: Thanks, Alex – I'm sorry, thank you, John.

John Mims: That's all right.

Operator: Thank you. And that does conclude our question-and-answer session today. I'd like to hand it back to management for any closing remarks.

Bill Flynn: Okay. Well, thank you, Operator, and thanks to all of you for your interest in Atlas Air Worldwide Holdings and for your participation in our call today.

END