

Air Transport Services Group, Inc.
Form 10-Q
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
Commission file number 000-50368

(Exact name of registrant as specified in its charter)

Delaware	26-1631624
(State of Incorporation)	(I.R.S. Employer Identification No.)
145 Hunter Drive, Wilmington, OH 45177	
(Address of principal executive offices)	
937-382-5591	
(Registrant's telephone number, including area code)	

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x
As of August 8, 2013, 64,672,632 shares of the registrant's common stock, par value \$0.01, were outstanding.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
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FORWARD LOOKING STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts are considered forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995). Words such as “projects,” “believes,” “anticipates,” “will,” “estimates,” “plans,” “expects,” “intends” and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are based on expectations, estimates and projections as of the date of this filing, and involve risks and uncertainties that are inherently difficult to predict. Actual results may differ materially from those expressed in the forward-looking statements for any number of reasons, including those described in this report and in our 2012 Annual Report filed on Form 10-K with the Securities and Exchange Commission.

Filings with the Securities and Exchange Commission

The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding Air Transport Services Group, Inc. at www.sec.gov. Additionally, our filings with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, are available free of charge from our website at www.atsginc.com as soon as reasonably practicable after filing with the SEC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
REVENUES	\$ 138,904	\$ 153,554	\$ 282,183	\$ 299,060
OPERATING EXPENSES				
Salaries, wages and benefits	41,964	44,570	85,273	91,674
Fuel	12,440	14,084	26,801	27,924
Maintenance, materials and repairs	25,005	25,270	47,139	48,384
Depreciation and amortization	21,765	21,514	42,685	41,814
Travel	4,772	5,566	9,499	11,544
Rent	6,791	6,244	13,570	11,974
Landing and ramp	1,972	3,880	6,037	7,946
Insurance	1,396	1,826	2,907	3,836
Other operating expenses	8,630	8,998	17,690	18,560
	124,735	131,952	251,601	263,656
OPERATING INCOME	14,169	21,602	30,582	35,404
OTHER INCOME (EXPENSE)				
Interest income	18	38	39	66
Interest expense	(3,554)	(3,671)	(6,686)	(7,218)
Net gain on derivative instruments	452	202	742	662
	(3,084)	(3,431)	(5,905)	(6,490)
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	11,085	18,171	24,677	28,914
INCOME TAX EXPENSE	(4,170)	(6,952)	(9,261)	(11,033)
EARNINGS FROM CONTINUING OPERATIONS	6,915	11,219	15,416	17,881
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	(1)	(160)	(2)	(390)
NET EARNINGS	\$ 6,914	\$ 11,059	\$ 15,414	\$ 17,491
BASIC EARNINGS PER SHARE				
Continuing operations	\$ 0.11	\$ 0.18	\$ 0.24	\$ 0.28
Discontinued operations	—	(0.01)	—	—
TOTAL BASIC EARNINGS PER SHARE	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.28
DILUTED EARNINGS PER SHARE				
Continuing operations	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.28
Discontinued operations	—	—	—	(0.01)
TOTAL DILUTED EARNINGS PER SHARE	\$ 0.11	\$ 0.17	\$ 0.24	\$ 0.27
WEIGHTED AVERAGE SHARES				
Basic	64,050	63,431	63,931	63,431
Diluted	64,859	64,393	64,692	64,383

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
NET EARNINGS	\$6,914	\$11,059	\$15,414	\$17,491
OTHER COMPREHENSIVE INCOME (LOSS):				
Defined Benefit Pension	1,958	1,682	3,916	3,364
Defined Benefit Post-Retirement	(834	) (806	) (1,668	) (1,612
Gains and Losses on Derivatives	(8	) (9	) (16	) (18
TOTAL OTHER COMPREHENSIVE INCOME	1,116	867	\$2,232	\$1,734
TOTAL COMPREHENSIVE INCOME	\$8,030	\$11,926	\$17,646	\$19,225

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$20,932	\$15,442
Accounts receivable, net of allowance of \$601 in 2013 and \$749 in 2012	43,840	47,858
Inventory	8,491	9,430
Prepaid supplies and other	7,584	8,855
Deferred income taxes	19,154	19,154
Aircraft and engines held for sale	2,716	3,360
TOTAL CURRENT ASSETS	102,717	104,099
Property and equipment, net	855,954	818,924
Other assets	20,419	20,462
Intangibles	5,021	5,146
Goodwill	86,980	86,980
TOTAL ASSETS	\$1,071,091	\$1,035,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$39,455	\$36,521
Accrued salaries, wages and benefits	18,893	22,917
Accrued expenses	8,797	8,502
Current portion of debt obligations	23,426	21,265
Unearned revenue	10,408	10,311
TOTAL CURRENT LIABILITIES	100,979	99,516
Long term debt obligations	365,330	343,216
Post-retirement liabilities	169,858	185,097
Other liabilities	60,592	62,104
Deferred income taxes	56,806	46,422
TOTAL LIABILITIES	753,565	736,355
Commitments and contingencies (Note G)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock	—	—
Common stock, par value \$0.01 per share; 75,000,000 shares authorized; 64,672,632 and 64,130,056 shares issued and outstanding in 2013 and 2012, respectively	647	641
Additional paid-in capital	523,706	523,087
Accumulated deficit	(91,772)	(107,185)
Accumulated other comprehensive loss	(115,055)	(117,287)
TOTAL STOCKHOLDERS' EQUITY	317,526	299,256
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,071,091	\$1,035,611

See notes to unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended	
	June 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net earnings from continuing operations	\$15,416	\$17,881
Net loss from discontinued operations	(2	) (390
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	42,685	41,814
Pension and post-retirement	3,530	2,781
Deferred income taxes	9,111	10,722
Amortization of stock-based compensation	1,275	1,816
Amortization of DHL promissory note	(3,100	) (3,100
Net gain on derivative instruments	(742	) (662
Changes in assets and liabilities:		
Accounts receivable	4,023	3,793
Inventory and prepaid supplies	1,689	501
Accounts payable	(2,243	) (10,625
Unearned revenue	(3,079	) 6,420
Accrued expenses, salaries, wages, benefits and other liabilities	(2,964	) (718
Pension and post-retirement liabilities	(15,239	) (5,276