UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2024

☐ **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 000-50368

Air Transport Services Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-1631624**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
145 Hunter Drive, Wilmington, OH	**45177**
(Address of principal executive offices)	(Zip Code)

937-382-5591
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	ATSG	The Nasdaq Stock Market LLC

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 the 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	☐	Smaller reporting company	☐
Non-accelerated filer	☐	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 November 8, 2024, there were 65,759,904 shares of the registrant's common stock outstanding.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
FORM 10-Q

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FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION

The financial information, including the financial statements, included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (the "Form 10-Q") should be read in conjunction with the audited consolidated financial statements and notes thereto of Air Transport Services Group, Inc. ("ATSG") and its subsidiaries (collectively the "Company") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission ("SEC") on February 29, 2024 ("2023 Form 10-K").

The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company at www.sec.gov. Additionally, ATSG's filings with the SEC, 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statements. The Company wishes to take advantage of the safe harbor provisions of the Act.

This Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part I, Item 2, contains forward-looking statements, within the meaning of the Act. Except for historical information contained in this Form 10-Q, the matters discussed herein contain forward-looking statements that involve inherent risks and uncertainties. Such statements are provided under the "safe harbor" protection of the Act.

Forward-looking statements include, but are not limited to, statements regarding anticipated operating results, prospects and levels of assets under management, technological developments, economic trends, expected transactions and similar matters. The words "may," "believe," "expect," "anticipate," "target," "goal," "project," "estimate," "guidance," "forecast," "outlook," "will," "continue," "likely," "should," "hope," "seek," "plan," "intend" and variations of such words and similar expressions identify forward-looking statements. Similarly, descriptions of the Company's objectives, strategies, plans, goals or targets are also forward-looking statements. Forward-looking statements are susceptible to a number of risks, uncertainties and other factors. This includes the impact of the risks related to our proposed merger with affiliates of Stonepeak (as further discussed below). While the Company believes that the assumptions underlying its forward-looking statements are reasonable, investors are cautioned that any of the assumptions could prove to be inaccurate and, accordingly, the Company's actual results and experiences could differ materially from the anticipated results or other expectations expressed in its forward-looking statements.

A number of important factors may cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to: (i) unplanned changes in the market demand for the assets and services of the Company, including the loss of customers or a reduction in the level of services it performs for customers; (ii) its operating airlines' ability to maintain on-time service and control costs; (iii) the cost and timing with respect to which it is able to purchase and modify aircraft to a cargo configuration; (iv) fluctuations in the Company's traded share price and in interest rates, which may result in mark-to-market charges on certain financial instruments; (v) the number, timing, and scheduled routes of its aircraft deployments to customers; (vi) its ability to remain in compliance with key agreements with customers, lenders and government agencies; (vii) the impact of supply chain constraints both within and outside the United States, which may be more severe or persist longer than it currently expects; (viii) the impact of the current competitive labor market, which could restrict its ability to fill key positions; (ix) changes in general economic and/or industry-specific conditions, including inflation and regulatory changes; and (x) other uncontrollable factors such as geopolitical tensions or conflicts, cybersecurity threats and human health crises. Other factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements are discussed in "Risk Factors" in Item 1A of Part II of this Form 10-Q and in Item 1A to the 2023 Form 10-K and are contained from time to time in the Company's other filings with the SEC, including its annual reports on Form 10-K and quarterly reports on Form 10-Q.

ATSG recently entered into an Agreement and Plan of Merger with Stonepeak Nile Parent LLC and Stonepeak Nile MergerCo Inc. (the "Merger"), as discussed in Note O to the condensed consolidated financial statements included with this Form 10-Q. Statements regarding the Merger, including the expected time period to consummate the Merger, the anticipated benefits (including synergies) of the Merger and integration and transition plans, opportunities, anticipated future performance, expected share buyback programs and expected dividends, are also provided under the "safe harbor" protection in the Act. Key factors that could cause actual results to differ materially include, but are not limited to, the expected timing and likelihood of completion of the Merger, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the Merger; the occurrence of any event, change or other circumstances that could give rise to the termination of the definitive agreement; the possibility that ATSG's stockholders may not approve the Merger; the risk that the anticipated tax treatment of the Transaction is not obtained; the risk that the parties may not be able to satisfy the conditions to the Merger in a timely manner or at all; risks related to disruption of management time from ongoing business operations due to the Merger; the risk that any announcements relating to the Merger could have adverse effects on the market price of ATSG's common stock; the risk that the Merger and its announcement could have an adverse effect on the parties' business relationships and business generally, including the ability of ATSG to retain customers and retain and hire key personnel and maintain relationships with their suppliers and customers, and on their operating results and businesses generally; the risk of unforeseen or unknown liabilities; customer, shareholder, regulatory and other stakeholder approvals and support; the risk of unexpected future capital expenditures; the risk of potential litigation relating to the Transaction that could be instituted against ATSG or its directors and/or officers; the risk associated with third party contracts containing material consent, anti-assignment, transfer or other provisions that may be related to the Merger which are not waived or otherwise satisfactorily resolved; the risk of rating agency actions and ATSG's ability to access short- and long-term debt markets on a timely and affordable basis; and the risks resulting from other effects of industry, market, economic, legal or legislative, political or regulatory conditions outside of the Company's control.

Readers should carefully review this Form 10-Q and should not place undue reliance on the Company's forward-looking statements. The forward-looking statements were based on information, plans and estimates as of the date of this Form 10-Q. New risks and uncertainties arise from time to time, and factors that the Company currently deems immaterial may become material, and it is impossible for the Company to predict these events or how they may affect it. Except as may be required by applicable law, the Company undertakes no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes. The Company does not endorse any projections regarding future performance that may be made by third parties.

CERTAIN DEFINED TERMS IN THIS FORM 10-Q

ATSG and its subsidiaries may sometimes be referred to in this Form 10-Q collectively as the “Company,” “we,” “our,” or “us.” ATSG’s outstanding common stock, par value $0.01 per share, is referred to in this Form 10-Q as “common stock,” “common shares,” “stock” or “shares.”

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2024	December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	$ 44,873	$ 53,555
Accounts receivable, net of allowance of $846 in 2024 and $1,065 in 2023	185,251	215,581
Inventory	49,690	49,939
Prepaid supplies and other	31,258	26,626
TOTAL CURRENT ASSETS	311,072	345,701
Property and equipment, net	2,771,568	2,820,769
Customer incentive	133,234	60,961
Goodwill and acquired intangibles	473,425	482,427
Operating lease assets	60,797	54,060
Other assets	134,227	118,172
TOTAL ASSETS	**$ 3,884,323**	**$ 3,882,090**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 248,647	$ 227,652
Accrued salaries, wages and benefits	62,126	56,650
Accrued expenses	11,817	10,784
Current portion of debt obligations	658	54,710
Current portion of lease obligations	20,234	20,167
Unearned revenue	38,431	30,226
TOTAL CURRENT LIABILITIES	381,913	400,189
Long term debt	1,561,874	1,707,572
Stock obligations	18,671	1,729
Post-retirement obligations	14,890	19,368
Long term lease obligations	41,806	34,990
Other liabilities	110,143	64,292
Deferred income taxes	286,787	285,248
TOTAL LIABILITIES	2,416,084	2,513,388
Commitments and contingencies (Note H)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 20,000,000 shares authorized, including 75,000 Series A Junior Participating Preferred Stock	—	—
Common stock, par value $0.01 per share; 150,000,000 shares authorized; 65,759,904 and 65,240,961 shares issued and outstanding in 2024 and 2023, respectively	658	652
Additional paid-in capital	917,181	836,270
Retained earnings	601,929	589,209
Accumulated other comprehensive loss	(51,529)	(57,429)
TOTAL STOCKHOLDERS' EQUITY	1,468,239	1,368,702
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 3,884,323**	**$ 3,882,090**

See notes to the unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
REVENUES	$ 471,253	$ 523,137	$ 1,445,180	$ 1,553,571
OPERATING EXPENSES				
Salaries, wages and benefits	170,102	165,110	505,663	512,283
Depreciation and amortization	98,995	86,252	281,254	253,671
Maintenance, materials and repairs	46,573	54,569	143,183	148,838
Fuel	52,307	79,020	181,429	213,046
Contracted ground and aviation services	18,362	18,353	55,794	55,823
Travel	30,633	36,223	93,259	96,998
Landing and ramp	3,732	4,271	12,267	13,139
Rent	8,001	7,811	23,231	24,197
Insurance	3,121	3,055	8,414	8,287
Other operating expenses	17,746	22,443	54,680	64,095
	449,572	477,107	1,359,174	1,390,377
OPERATING INCOME	21,681	46,030	86,006	163,194
OTHER INCOME (EXPENSE)				
Interest income	352	190	809	585
Non-service component of retiree benefit costs	(1,085)	(3,218)	(3,256)	(9,654)
Net (loss) gain on financial instruments	(5,167)	1,778	134	1,856
Loss from non-consolidated affiliate	(869)	(1,885)	(2,202)	(4,398)
Interest expense	(20,103)	(19,376)	(63,494)	(51,753)
	(26,872)	(22,511)	(68,009)	(63,364)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(5,191)	23,519	17,997	99,830
INCOME TAX BENEFIT (EXPENSE)	1,864	(6,347)	(5,277)	(24,495)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(3,327)	17,172	12,720	75,335
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAXES	—	—	—	—
NET EARNINGS (LOSS)	$ (3,327)	$ 17,172	$ 12,720	$ 75,335
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$ (0.05)	$ 0.26	$ 0.20	$ 1.08
Discontinued operations	—	—	—	—
TOTAL BASIC EARNINGS (LOSS) PER SHARE	$ (0.05)	$ 0.26	$ 0.20	$ 1.08
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$ (0.05)	$ 0.24	$ 0.20	$ 0.98
Discontinued operations	—	—	—	—
TOTAL DILUTED EARNINGS (LOSS) PER SHARE	$ (0.05)	$ 0.24	$ 0.20	$ 0.98
WEIGHTED AVERAGE SHARES				
Basic	65,036	67,253	65,012	69,909
Diluted	65,036	72,672	67,471	78,427

See notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
NET EARNINGS (LOSS)	$ (3,327)	$ 17,172	$ 12,720	$ 75,335
OTHER COMPREHENSIVE INCOME (LOSS):				
Defined Benefit Pension	1,984	3,685	5,952	11,055
Defined Benefit Post-Retirement	(17)	—	(52)	—
Foreign Currency Translation	—	—	—	20
TOTAL COMPREHENSIVE INCOME (LOSS), net of tax	$ (1,360)	$ 20,857	$ 18,620	$ 86,410

See notes to the unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Number	Amount				
BALANCE AT JUNE 30, 2023	70,761,243	$ 708	$ 951,463	$ 587,045	$ (96,012)	$ 1,443,204
Stock-based compensation plans						
Grant of restricted stock	—	—	—			—
Issuance of common shares, net of withholdings	—	—	—			—
Forfeited restricted stock	(10,400)	(1)	—			(1)
Purchase of common stock	(5,435,777)	(54)	(119,606)			(119,660)
Settlement of convertible note hedges and warrants			1,270			1,270
Amortization of stock awards and restricted stock			2,503			2,503
Total comprehensive income				17,172	3,685	20,857
BALANCE AT SEPTEMBER 30, 2023	65,315,066	$ 653	$ 835,630	$ 604,217	$ (92,327)	$ 1,348,173
BALANCE AT DECEMBER 31, 2022	72,327,758	$ 723	$ 986,303	$ 528,882	$ (103,402)	$ 1,412,506
Stock-based compensation plans						
Grant of restricted stock	265,361	3	(3)			—
Issuance of common shares, net of withholdings	122,724	2	(1,580)			(1,578)
Forfeited restricted stock	(15,000)	(1)	—			(1)
Purchase of common stock	(7,385,777)	(74)	(156,829)			(156,903)
Settlement of convertible note hedges and warrants			1,270			1,270
Amortization of stock awards and restricted stock			6,469			6,469
Total comprehensive income				75,335	11,075	86,410
BALANCE AT SEPTEMBER 30, 2023	65,315,066	$ 653	$ 835,630	$ 604,217	$ (92,327)	$ 1,348,173

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Number	Amount				
BALANCE AT JUNE 30, 2024	65,761,436	$ 658	$ 912,968	$ 605,256	$ (53,496)	$ 1,465,386
Stock-based compensation plans						
Grant of restricted stock	—	—	—			—
Issuance of common shares, net of withholdings	(1,532)	—	(15)			(15)
Forfeited restricted stock	—	—	—			—
Amortization of stock awards and restricted stock			2,967			2,967
Modification of warrants			—			—
Grant of warrants			—			—
Amortization of warrants			1,261			1,261
Total comprehensive income (loss)				(3,327)	1,967	(1,360)
BALANCE AT SEPTEMBER 30, 2024	65,759,904	$ 658	$ 917,181	$ 601,929	$ (51,529)	$ 1,468,239
BALANCE AT DECEMBER 31, 2023	65,240,961	$ 652	$ 836,270	$ 589,209	$ (57,429)	$ 1,368,702
Stock-based compensation plans						
Grant of restricted stock	470,783	5	(5)			—
Issuance of common shares, net of withholdings	52,960	1	(551)			(550)
Forfeited restricted stock	(4,800)	—				—
Amortization of stock awards and restricted stock			7,504			7,504
Modification of warrants			66,819			66,819
Grant of warrants			5,043			5,043
Amortization of warrants			2,101			2,101
Total comprehensive income				12,720	5,900	18,620

BALANCE AT SEPTEMBER 30, 2024	65,759,904	$ 658	$ 917,181	$ 601,929	$ (51,529)	$ 1,468,239

See notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
OPERATING ACTIVITIES:		
Net earnings from continuing operations	$ 12,720	$ 75,335
Net earnings from discontinued operations	$ —	$ —
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	303,150	269,705
Pension and post-retirement	7,711	14,235
Deferred income taxes	64	21,418
Amortization of stock-based compensation	7,504	6,469
Loss from non-consolidated affiliates	2,202	4,398
Net gain on financial instruments	(134)	(1,856)
Changes in assets and liabilities:		
Accounts receivable	33,301	73,443
Inventory and prepaid supplies	(16,289)	10,854
Accounts payable	100	50,881
Unearned revenue	6,967	7,325
Accrued expenses, salaries, wages, benefits and other liabilities	52,411	(671)
Pension and post-retirement balances	(6,195)	(6,308)
Other	(4,436)	865
NET CASH PROVIDED BY OPERATING ACTIVITIES	399,076	526,093
INVESTING ACTIVITIES:		
Expenditures for property and equipment	(221,003)	(581,340)
Proceeds from property and equipment	35,183	10,516
Acquisitions and investments in businesses	(19,845)	(1,600)
NET CASH (USED IN) INVESTING ACTIVITIES	(205,665)	(572,424)
FINANCING ACTIVITIES:		
Principal payments on long term obligations	(626,542)	(180,534)
Proceeds from revolving credit facilities	425,000	220,000
Payments for financing costs	—	(10,779)
Proceeds from convertible note issuance	—	400,000
Repurchase of convertible notes	—	(203,247)
Purchase of common stock	—	(155,349)
Withholding taxes paid for conversion of employee stock awards	(551)	(1,578)
Other financing related proceeds	—	1,269
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(202,093)	69,782
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,682)	23,451
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	53,555	27,134
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 44,873	$ 50,585
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	$ 73,246	$ 42,544
Federal and state income taxes paid	$ 6,298	$ 6,543
Restricted balance of cash	$ 5,954	$ 8,468
SUPPLEMENTAL NON-CASH INFORMATION:		
Accrued expenditures for property and equipment	$ 62,007	$ 84,866

See notes to the unaudited condensed consolidated financial statements.

AIR TRANSPORT SERVICES GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A—SUMMARY OF FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ATSG is a holding company whose subsidiaries lease aircraft and provide contracted airline operations as well as other support services mainly to the air transportation, e-commerce and package delivery industries.

The Company's primary leasing subsidiary, Cargo Aircraft Management, Inc. ("CAM"), leases aircraft to each of the Company's airlines as well as to non-affiliated airlines and other lessees. The Company's airlines, ABX Air, Inc. ("ABX"), Air Transport International, Inc. ("ATI") and Omni Air International, LLC ("OAI") each have the authority, through their separate U.S. Department of Transportation ("DOT") and Federal Aviation Administration ("FAA") certificates, to transport cargo worldwide. The Company provides a combination of aircraft, crews, maintenance and insurance services for its customers' transportation network through crew, maintenance and insurance ("CMI") agreements and aircraft, crew, maintenance and insurance ("ACMI") agreements and through charter contracts in which aircraft fuel is also included. The Company's subsidiary LGSTX Services, Inc. ("LGSTX") provides for the management of aircraft ground services.

In addition to its aircraft leasing and airline services, the Company offers a range of complementary services to delivery companies, freight forwarders, airlines and government customers. These include aircraft maintenance and modification services, aircraft parts supply, equipment maintenance services and load transfer and package sorting services.

Basis of Presentation

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying unaudited condensed interim consolidated financial statements are prepared in conformity with GAAP and such principles are applied on a basis consistent with the financial statements reflected in our 2023 Form 10-K. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC related to interim financial statements. In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring adjustments, necessary for the fair presentation of the Company's results of operations and financial position for the periods presented. Due to seasonal fluctuations, among other factors common to the air cargo industry, the results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year or any interim period. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. The accounting estimates reflect the best judgment of the management, but actual results could differ materially from those estimates.

The accompanying unaudited condensed consolidated financial statements include the accounts of ATSG and its wholly-owned subsidiaries. Inter-company balances and transactions are eliminated. Investments in affiliates in which the Company has significant influence but does not exercise control are accounted for using the equity method of accounting. Under the equity method, the Company's share of the non-consolidated affiliate's income or loss is recognized in the consolidated statement of earnings and cumulative post-acquisition changes in the investment are adjusted against the carrying amount of the investment.

Accounting Standards Updates

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." This standard requires disclosure of significant segment expenses and other segment items by reportable segment. This ASU becomes effective for annual periods beginning in 2024 and interim periods in 2025. The Company is assessing the impact of this ASU and upon adoption expects that any impact would be limited to additional segment expense disclosures in the footnotes to its consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This standard enhances disclosures related to income taxes, including the rate reconciliation and information on income taxes paid. This ASU becomes effective January 1, 2025. The Company is assessing the impact of this ASU and upon adoption expects to include certain additional disclosures in the footnotes to its consolidated financial statements.

NOTE B—GOODWILL, INTANGIBLES AND EQUITY INVESTMENTS

The carrying amounts of goodwill by reportable segment were as follows (in thousands):

	CAM	ACMI Services	All Other	Total
Carrying value as of December 31, 2023	$ 153,290	$ 234,571	$ 8,113	$ 395,974
Carrying value as of September 30, 2024	$ 153,290	$ 234,571	$ 8,113	$ 395,974

The Company's acquired intangible assets were as follows (in thousands):

	Airline Certificates	Amortizing Intangibles	Total
Carrying value as of December 31, 2023	$ 9,000	$ 77,453	$ 86,453
Amortization	—	(9,002)	(9,002)
Carrying value as of September 30, 2024	$ 9,000	$ 68,451	$ 77,451

The airline certificates have an indefinite life and therefore are not amortized. The Company amortizes finite-lived intangible assets, including customer relationship and Supplemental Type Certificates ("STC") intangibles, over 1 to 15 remaining years.

Warrants granted to Amazon.com, Inc. ("Amazon") as an incentive to lease aircraft from the Company and warrants granted to Amazon as an incentive to contract aircraft operations from the Company are reflected as a customer incentive asset. For additional information see Note C to the accompanying unaudited condensed consolidated financial statements. Customer incentive asset activity is summarized as follows (in thousands):

	Customer Incentive
Carrying value as of December 31, 2023	$ 60,961
Amortization	(17,774)
Warrants modified for operating incentive	66,820
Grants for lease incentive	18,184
Grants for operating incentive	5,043
Carrying value as of September 30, 2024	$ 133,234

The amortization of the customer incentive asset is reflected as a reduction to revenues. In addition to the incentive amortization, revenue is also reduced to reflect the value of warrants recorded in paid in capital as they vest. See the statement of equity for more information.

The Company has a 49% ownership in a joint-venture agreement with Precision Aircraft Solutions, LLC, to develop a passenger-to-freighter conversion program for Airbus A321-200 aircraft. In April 2022, the Company acquired a 40% ownership interest in the joint-venture company GA Telesis Engine Services, LLC to provide engine tear-down services to harvest and sell engine parts. The Company accounts for its investment in these joint ventures under the equity method of accounting, in which the carrying value of each investment is reduced for the Company's share of the non-consolidated affiliates' operating results.

The carrying value of the joint ventures totaled $40.3 million and $22.7 million at September 30, 2024 and December 31, 2023, respectively, and are reflected in "Other Assets" in the Company's consolidated balance sheets. The Company monitors its investments in affiliates for indicators of other-than-temporary declines in value on an ongoing basis in accordance with GAAP. If the Company determines that an other-than-temporary decline in value has occurred, it recognizes an impairment loss, which is measured as the difference between the recorded carrying value and the fair value of the investment. The fair value is generally determined using an income approach based on discounted cash flows or using negotiated transaction values.

NOTE C—SIGNIFICANT CUSTOMERS

Three customers each account for a significant portion of the Company's consolidated revenues. The percentage of the Company's revenues for the Company's three largest customers, for the three and nine month periods ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Customer	Percentage of Revenue		Percentage of Revenue	
Amazon	34%	33%	33%	34%
DoD	26%	34%	29%	31%
DHL	14%	12%	14%	13%

The accounts receivable from the Company's three largest customers as of September 30, 2024 and December 31, 2023 are as follows (in thousands):

	September 30, 2024	December 31, 2023
Customer	Accounts Receivable	
Amazon	$ 80,697	$ 74,509
DoD	42,886	56,848
DHL	6,955	8,040

DoD

The Company is a provider of cargo and passenger airlift services to the U.S. Department of Defense ("DoD"). The Company's airlines are eligible to bid for military charter operations for passenger and cargo transportation through contracts awarded by the DoD. The airlines draw from the Company's fleet of Boeing 757 combi, Boeing 777 passenger, Boeing 767 passenger and Boeing 767 freighter aircraft for the DoD operations. The DoD awards flights to U.S. certificated airlines through annual contracts and through temporary "expansion" routes.

DHL

The Company has had long-term contracts with DHL Network Operations (USA), Inc. and its affiliates (collectively, "DHL") since August 2003. The Company leases Boeing 767 aircraft to DHL under both long-term and short-term lease agreements. Under a separate CMI agreement, the Company operates Boeing 767 aircraft that DHL leases from the Company. Pricing for services provided through the CMI agreement is based on pre-defined fees, scaled for the number of aircraft operated and the number of flight crews provided to DHL for its U.S. network. The Company provides DHL with scheduled maintenance services for aircraft that DHL leases. The Company also provides additional air cargo transportation services for DHL through ACMI agreements in which the Company provides the aircraft, crews, maintenance and insurance under a single contract. As of September 30, 2024, the Company leased 14 Boeing 767 freighter aircraft to DHL comprising one Boeing 767-200 aircraft and 13 Boeing 767-300 aircraft, with expirations between 2025 and 2031. Further, the Company operates four Boeing 767 aircraft provided by DHL under an additional CMI agreement which currently runs through August 2027.

Amazon

The Company has been providing freighter aircraft, airline operations and services for cargo handling and logistical support for Amazon.com Services, LLC, ("ASI") a subsidiary of Amazon, since September 2015. On March 8, 2016, the Company entered into an Air Transportation Services Agreement (the "ATSA") with ASI, pursuant to which CAM leases Boeing 767 freighter aircraft to ASI. The ATSA also provides for the operation of aircraft by the Company's airline subsidiaries, and the management of ground services by LGSTX. As of September 30, 2024, the Company leased 30 Boeing 767 freighter aircraft to ASI with lease expirations between 2026 and 2031. Additionally, under the ATSA, the Company operated 18 Boeing 767 freighter aircraft provided by ASI as of September 30, 2024.

Amazon Investment Agreement

On December 22, 2018, the Company entered into an Amended and Restated Air Transportation Services Agreement ("A&R ATSA") with ASI, pursuant to which the Company, through CAM and its airline subsidiaries, agreed to (1) lease and operate ten additional Boeing 767-300 aircraft for ASI under the A&R ATSA, (2) extend the term of the 12 Boeing 767-200 aircraft then leased to ASI by two years to 2023 with an option for three more years, (3) extend the term of the eight Boeing 767-300 aircraft currently leased to ASI by three years to 2026 and 2027 with an option for three more years, and (4) extend the ATSA by five years through March 2026, with an option to extend for an additional three years. The Company leased all 10 of the 767-300 aircraft in 2020. In conjunction with the commitment to lease 10 additional Boeing 767-300 aircraft, extend the duration of 20 existing Boeing 767 aircraft leases and the ATSA, Amazon and ATSG entered into an Investment Agreement on December 20, 2018 (as amended, the "2018 Investment Agreement"). Pursuant to the 2018 Investment Agreement, ATSG issued to Amazon warrants for 14.8 million common shares of ATSG, all of which have vested. The warrants have an exercise price of $21.53 per share. On May 6, 2024, this group of warrants was modified to extend their expiration date from December 2025 to December of 2029 in conjunction with the 3rd A&R ATSA described below.

On May 29, 2020, the Company entered into a Second Amended and Restated Air Transportation Services Agreement (the "2nd A&R ATSA") with ASI, pursuant to which the Company agreed to lease 12 more Boeing 767-300 aircraft to ASI for operation by the Company's airline subsidiaries. The first of these leases began in the second quarter of 2020 with the remaining 11 delivered in 2021. All 12 of these aircraft leases were for 10-year terms. Pursuant to the 2018 Investment Agreement, as a result of leasing 12 aircraft, Amazon was issued warrants for 7.0 million common shares, all of which have vested. The exercise price of these warrants is $20.40 per share. On May 6, 2024, this group of warrants was modified to extend their expiration date from December 2025 to December of 2029 in conjunction with the 3rd A&R ATSA.

Prior to May 6, 2024 Amazon could earn additional warrants for up to 2.9 million common shares under the 2018 Investment Agreement by leasing up to five more cargo aircraft from the Company before January 2026. Incremental warrants granted for ASI's commitment to any such future aircraft leases would have had an exercise price based on the volume-weighted average price of the Company's common shares during the 30 trading days immediately preceding the contractual commitment for each lease. This right to earn warrants was replaced on May 6, 2024 as noted below.

On May 6, 2024, the Company entered into a Third Amended and Restated Air Transportation Services Agreement with ASI (the "3rd A&R ATSA") pursuant to which the Company, through its subsidiary air carriers, will sublease and operate 10 additional Boeing 767-300 freighter aircraft to be provided by ASI, with the potential to add up to 10 additional Boeing 767-300 freighter aircraft. The Company's subsidiary air carriers began operating seven of the initial group of ten aircraft by September 30, 2024 and the remaining three aircraft entered operations by November 2024. The initial term of the 3rd A&R ATSA runs through May 6, 2029, and may be extended by the parties for an additional five years subject to mutual agreement. In conjunction with the execution of the 3rd A&R ATSA, the Company issued warrants to Amazon.

The first of the warrants issued on May 6, 2024 was for up to 2.9 million common shares of ATSG (the "2024 Subsequent Warrant"). The 2024 Subsequent Warrant vests in four equal tranches of 728,750 shares of ATSG common stock on its issue date and each of the first three anniversaries thereof; provided that, for each of the second, third and fourth tranches, Amazon has compensated ATSG for a certain number of flight hours in a specified period immediately preceding such anniversary. The 2024 Subsequent Warrant has a term of seven years, and the exercise price is $12.9658 per share of ATSG common stock. As partial consideration for the 3rd A&R ATSA, the 2024 Subsequent Warrant was issued to replace Amazon's prior warrant right under the 2018 Investment Agreement to earn up to 2.9 million common shares related to aircraft leases commitments described above.

Also on May 6, 2024, in conjunction with the execution of the 3rd A&R ATSA, the Company and Amazon agreed upon the form of the warrant to be issued to purchase up to 2.9 million additional common shares (the "Third Subsequent Warrant"). The Third Subsequent Warrant was scheduled to be issued by the Company upon the earlier of the first anniversary of the 3rd A&R ATSA and the date upon which the Company begins providing services to Amazon with the tenth aircraft to be placed into service by Amazon pursuant to the 3rd A&R ATSA, which occurred the first week of November 2024. The Third Subsequent Warrant will vest in (i) one tranche of 291,500 shares of ATSG common stock upon Amazon's entry into each aircraft lease extension with ATSG of at least three years in duration, and (ii) four equal tranches of 72,875 shares of ATSG common stock upon each placement by Amazon of additional aircraft into service with ATSG (i.e., aircraft beyond the tenth initial aircraft, up to a maximum of 10 additional aircraft), with the first tranche vesting with the placement of the aircraft into service and the remaining tranches vesting on each of the first three anniversaries thereof; provided that, for each of the second, third and fourth tranches, Amazon has compensated ATSG for a certain number of flight hours in a specified period immediately preceding such anniversary plus a certain number of flight hours per additional aircraft placed into service during such specified period. The Third Subsequent Warrant will have a term of seven years and the exercise price per share of ATSG common stock will be the volume weighted average price of ATSG common stock for the 30 trading days preceding the warrant issue date.

Additionally, on May 6, 2024, the expiration dates for the two existing vested warrants totaling 21.8 million shares (the warrants issued on December 20, 2018 for 14.8 million shares (the "Warrant-C") and the warrants issued on May 29, 2020, for 7.0 million shares (the "2020 Subsequent Warrant") issued pursuant to the 2018 Investment Agreement, were extended from December 2025 to December of 2029.

The Company's accounting for warrants granted to a customer is determined in accordance with the financial reporting guidance for equity-based payments to non-employees and for financial instruments. Warrants conditionally promised to a customer related to the lease of aircraft and lease extensions were recorded as an incentive asset using their fair value at the projected time of issuance if they are probable of vesting at the time of grant. The incentive is amortized against revenues over the duration of the related lease term. The warrants granted in conjunction with aircraft lease incentives were recorded as liabilities at the time of grant and will be reclassified to additional paid in capital at the time of the last vesting event. Warrants classified as liabilities are re-measured to fair value at the end of each reporting period. The vested warrants issued as an incentive for aircraft services were recorded as an incentive asset and are being amortized over the service contract period. The unvested warrants issued for aircraft services are recognized as additional paid in capital and contra revenue during their related vesting period. The extension of expiration dates from December 2025 to December 2029 that took place on May 6, 2024, for 21.8 million vested warrants resulted in a value re-measurement of $66.8 million which was recorded as a customer incentive asset and is being amortized to May 2029, the end of the initial term of the 3rd A&R ATSA. The Company's earnings in future periods will be impacted by the vesting of additional warrants, the re-measurements of warrant fair values, amortizations of the incentive and the related income tax effects. For income tax calculations, the value and timing of related tax deductions may differ from that used for financial reporting.

During the three and nine month periods ended September 30, 2024, the remeasurements of warrants and sale options to fair value resulted in pre-tax losses of $1.6 million and pre-tax gains of $1.2 million, respectively, compared to losses of $0.1 million and $1.1 million in the corresponding periods in 2023.

Warrant grants for common shares, in millions, are summarized below as of September 30, 2024:

	Vested	**Unvested**
December 31, 2023	21.8	2.9
New grants	0.7	2.2
September 30, 2024	22.5	5.1

For all outstanding warrants vested, Amazon may select a cashless conversion option. If the per share price of ATSG common stock at the time of conversion is greater than the warrant exercise price and Amazon elects the cashless conversion option, Amazon would receive common shares equal to the full number of shares underlying the exercised warrant less the number of common shares having a market value equal to the aggregate exercise price. Unvested warrants may be impacted by the Merger, as described in Note O.

Amazon is required to vote shares of ATSG it owns in excess of 14.9% of the outstanding shares in accordance with the recommendations of the ATSG Board of Directors (the "Board").

ATSG resumed repurchases of its own shares during October 2022 in conjunction with the expiration of certain government restrictions stemming from the Coronavirus Aid, Relief and Economic Security Act. Pursuant to the Investment Agreement, dated March 8, 2016, between Amazon and ATSG (as amended, the "2016 Investment Agreement"), if ATSG repurchases its own common shares, Amazon has the option to sell shares of ATSG common stock to ATSG to maintain its ownership percentage of less than 19.9% of ATSG's outstanding common shares. Pursuant to such terms, on August 14, 2023, Amazon sold 1,177,000 shares of ATSG common stock back to ATSG for cash of $22.9 million. An option for Amazon to sell a certain number of shares to ATSG under certain conditions at a firm price was modified with the May 6, 2024 amendment to the 2016 Investment Agreement in favor an agreement that the sale price shall be the volume weighted average price of ATSG's common stock for the 30 trading days preceding ATSG's notice to Amazon of a repurchase program. Any sale election by Amazon that creates an obligation for ATSG to purchase the shares of ATSG's common stock designated by Amazon is limited to the volume of ATSG common stock that would reduce Amazon's beneficial ownership of ATSG common stock to 19.5% of the then issued and outstanding amount.

NOTE D—FAIR VALUE MEASUREMENTS

The Company's money market funds and interest rate swaps are reported on the Company's consolidated balance sheets at fair values based on market values from comparable transactions. The fair value of the Company's money market funds, Convertible Notes (as defined in Note F), convertible note hedges and interest rate swaps are based on observable inputs (Level 2) from comparable market transactions.

The fair values of the stock warrant obligations to Amazon were determined using a Black-Scholes pricing model which considers various assumptions, including ATSG common stock price, the volatility of ATSG common stock, the expected dividend yield, exercise price and the risk-free interest rate (Level 2 inputs). The fair value of the stock warrant obligations for unvested stock warrants, conditionally granted to Amazon for the execution of incremental future aircraft leases, include additional assumptions including the expected exercise prices and the probabilities that future vesting events will occur (Level 3 inputs). The fair value of the sale option for Amazon to sell back shares to the Company under certain conditions was determined based on future share repurchase scenarios. Judgment was applied to determine the number of shares that would be repurchased by the Company at a certain price and the probability of each scenario (Level 3 inputs).

The following table reflects assets and liabilities that are measured at fair value on a recurring basis (in thousands):

As of September 30, 2024	**Fair Value Measurement Using**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents—money market	$ —	$ 21,392	$ —	$ 21,392
Total Assets	$ —	$ 21,392	$ —	$ 21,392
Liabilities				
Interest rate swap	—	(1,637)	—	(1,637)
Stock warrant obligations	—	—	(18,671)	(18,671)
Total Liabilities	$ —	$ (1,637)	$ (18,671)	$ (20,308)

As of December 31, 2023	**Fair Value Measurement Using**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents—money market	$ —	$ 1,248	$ —	$ 1,248
Total Assets	$ —	$ 1,248	$ —	$ 1,248
Liabilities				
Interest rate swap	—	(529)	—	(529)
Sale Option	—	—	(1,258)	(1,258)
Stock warrant obligations	—	—	(471)	(471)
Total Liabilities	$ —	$ (529)	$ (1,729)	$ (2,258)

As a result of higher market interest rates compared to the stated interest rates of the Company's fixed rate debt obligations, the fair value of the Company's debt obligations, based on Level 2 observable inputs, was approximately $51.2 million less than the carrying value, which was $1,562.5 million at September 30, 2024. As of December 31, 2023, the fair value of the Company's debt obligations was approximately $97.6 million less than the carrying value, which was $1,762.3 million. The non-financial assets, including goodwill, intangible assets and property and equipment are measured at fair value on a non-recurring basis.

NOTE E—PROPERTY AND EQUIPMENT

The Company's property and equipment consists primarily of cargo aircraft, aircraft engines and other flight equipment. Property and equipment, to be held and used, is summarized as follows (in thousands):

	September 30, 2024	December 31, 2023
Flight equipment	$ 4,101,307	$ 3,865,049
Ground equipment	68,227	72,463
Leasehold improvements, facilities and office equipment	42,185	42,120
Aircraft modifications and projects in progress	426,520	638,631
	4,638,239	4,618,263
Accumulated depreciation	(1,866,671)	(1,797,494)
Property and equipment, net	$ 2,771,568	$ 2,820,769

CAM owned aircraft with a carrying value of $1,775.0 million and $1,640.9 million that were under lease to external customers as of September 30, 2024 and December 31, 2023, respectively.

NOTE F—DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Revolving credit facility	529,000	730,000
Senior notes	578,934	578,574
Convertible notes	445,852	444,420
Other financing arrangements	8,746	9,288
Total debt obligations	1,562,532	1,762,282
Less: current portion	(658)	(54,710)
Total long term obligations, net	$ 1,561,874	$ 1,707,572

The Company is a party to a syndicated credit agreement (as amended, the "Senior Credit Agreement") which includes the ability to execute term loans and a revolving credit facility. The Senior Credit Agreement includes a revolving credit facility of up to $1 billion, has a maturity date of October 19, 2027, requires a collateral to outstanding loan ratio of 1.25:1:00 and permits cash dividends and share repurchases provided the secured leverage ratio is less than 3.00 to 1.00 and the total leverage ratio is less than 3.50 to 1.00. The interest rate under the Senior Credit Agreement is a pricing premium added to the Secured Overnight Financing Rate defined therein ("SOFR") based upon the ratio of the Company's debt to its earnings before interest, taxes, depreciation and amortization expenses ("EBITDA") as defined under the Senior Credit Agreement. Under the terms of the Senior Credit Agreement, interest rates are adjusted at least quarterly based on the Company's EBITDA, its outstanding debt level and prevailing SOFR or prime rates. At the Company's debt-to-EBITDA ratio as of September 30, 2024, the SOFR-based financing for the revolving credit facility bears a variable interest rate of 6.55%. As of September 30, 2024, the unused revolving credit facility available to the Company at the trailing 12-month EBITDA level was $458.3 million, and additional permitted indebtedness under the Senior Credit Agreement subject to compliance with other covenants.

The Senior Credit Agreement is collateralized by certain of the Company's Boeing 777, 767 and 757 aircraft. Under the terms of the Senior Credit Agreement, the Company is required to maintain certain collateral coverage ratios set forth in the Senior Credit Agreement. The Senior Credit Agreement contains covenants, including a maximum permitted total EBITDA to debt ratio, a fixed charge covenant ratio requirement, and limitations on certain additional indebtedness and on guarantees of indebtedness. The Senior Credit Agreement stipulates events of default, including unspecified events that may have material adverse effects on the Company. If an event of default occurs, the Company may be forced to repay, renegotiate or replace the Senior Credit Agreement. The Company has an additional revolving credit facility domiciled in Ireland (the "Irish Facility"). The terms and conditions of the Irish Facility are similar to the Senior Credit Agreement in the U.S. The Irish Facility has a maximum capacity of $100.0 million, including a $7.5 million letter of credit sub-facility, and has the ability to be upsized using the same accordion feature that is present in the Senior Credit Agreement. The maturity date of the Irish Facility is the same as the Senior Credit Agreement.

On August 14, 2023 the Company issued $400.0 million aggregate principal amount of Convertible Senior Notes due 2029 ("2023 Convertible Notes"). These notes were issued in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "1933 Act"). The 2023 Convertible Notes bear interest at a rate of 3.875% per year payable semi-annually in arrears on February 15 and August 15 each year, beginning February 15, 2024. The 2023 Convertible Notes mature on August 15, 2029, unless repurchased or converted in accordance with their terms prior to such date. The 2023 Convertible Notes are unsecured indebtedness, subordinated to the Company's existing and future secured indebtedness and other liabilities, including trade payables.

Conversion of the 2023 Convertible Notes can only occur upon satisfaction of certain conditions and during certain periods, beginning any calendar quarter commencing after December 31, 2023 and thereafter, until the close of business on the second scheduled trading day immediately preceding the maturity date. The Company will settle the principal value of the notes in cash. The initial conversion rate is 31.2864 common shares per $1,000 principal amount of 2023 Convertible Notes (equivalent to an initial conversion price of approximately $31.96 per common share). If a “make-whole fundamental change” (as defined in the offering circular with the 2023 Convertible Notes) occurs, ATSG will, in certain circumstances, increase the conversion rate for a specified period of time. Upon the occurrence of certain fundamental changes, holders of the Convertible Notes can require the Company to repurchase their notes for a cash repurchase price equal to the principal amount of the notes, plus any accrued and unpaid interest.

The Company used a portion of the proceeds from the 2023 Convertible Notes to repurchase 5,435,777 shares of its common stock concurrently with offering of the 2023 Convertible Notes. Additionally, the Company used a portion of the proceeds to repurchase $204.5 million principal amount of its outstanding 1.125% Convertible Senior Notes issued in 2017 (the “2017 Convertible Notes”). The Company used the remainder of the proceeds from the offering to satisfy fees and expenses associated with the offering, to repay a portion of the outstanding borrowings under its revolving credit facility and for general corporate purposes.

On January 28, 2020, CAM completed a debt offering of $500.0 million in senior unsecured notes (the “Senior Notes”) that were guaranteed by ATSG and certain of its other subsidiaries. The Senior Notes were sold only to qualified institutional buyers in the United States pursuant to Rule 144A under the 1933 Act, and certain investors pursuant to Regulation S under the 1933 Act. The Senior Notes are senior unsecured obligations that bear interest at a fixed rate of 4.75% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2020. The Senior Notes will mature on February 1, 2028. The Senior Notes contain customary events of default and certain covenants which are generally no more restrictive than those set forth in the Senior Credit Agreement. On April 13, 2021, the Company, through a subsidiary, completed its offering of $200.0 million of additional notes (“Additional Senior Notes”) under the existing Senior Notes. The Additional Senior Notes are fully fungible with the Senior Notes, treated as a single class for all purposes under the indenture governing the existing notes with the same terms as those of the existing notes (other than issue date and issue price). The proceeds of $205.5 million, net of scheduled interest payable, were issued, in conjunction with draws from the revolving credit facility to repay the unsubordinated term loans. Upon retirement of the unsubordinated term loans, the Company expensed debt issuance costs of $6.5 million related to the unsubordinated term loans.

The balance of the Senior Notes is net of debt issuance costs of $3.5 million and $4.3 million as of September 30, 2024 and December 31, 2023, respectively. The Senior Notes do not require principal payments until maturity, but prepayments are allowed without penalty beginning February 1, 2025.

In September 2017, ATSG issued $258.8 million aggregate principal amount of 1.125% Convertible Senior Notes due 2024 (the "2017 Convertible Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the 1933 Act. The 2017 Convertible Notes matured on October 15, 2024. The 2017 Convertible Notes were unsecured indebtedness, subordinated to the Company's existing and future secured indebtedness and other liabilities, including trade payables. The 2017 Convertible Notes bore interest at a rate of 1.125% per year payable semi-annually in arrears on April 15 and October 15 each year, beginning April 15, 2018. In conjunction with the 2017 Convertible Notes, the Company purchased convertible note hedges under privately negotiated transactions for $56.1 million, having the same number of ATSG common shares (8.1 million shares at that time) and same strike price ($31.90) that underlaid the 2017 Convertible Notes. The convertible note hedges were intended to reduce the potential equity dilution with respect to ATSG common shares, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the 2017 Convertible Notes. In conjunction with the offering of the 2017 Convertible Notes, the Company also sold warrants to the convertible note hedge counterparties in separate, privately negotiated warrant transactions at a higher strike price and for the same number of the Company's common shares, subject to customary anti-dilution adjustments. On August 14, 2023, the Company repurchased outstanding 2017 Convertible Notes having a principal value of $204.5 million in the open market, reducing the 2017 Convertible Notes carrying value to $54.2 million. The Company recognized a pre-tax gain of $1.3 million, net of fees, which was recorded under net gain on financial instruments on the income statement during the corresponding period. In conjunction with the repurchase of the 2017 Convertible Notes, the Company settled a pro-rata portion of the related warrants and note hedges and received $1.3 million in net cash proceeds. As of September 30, 2024 the warrants could result in 1.7 million additional shares if the Company's traded market price exceeds the strike price which is $41.35 per share and is subject to certain adjustments under the terms of the warrant transactions.

The carrying value of the Company's convertible debt is shown below (in thousands):

	2017 Convertible Notes	**2023 Convertible Notes**	**Total Convertible Notes**
Principal Value December 31, 2023	54,225	400,000	454,225
Unamortized issuance cost	—	(8,373)	(8,373)
Convertible Debt September 30, 2024	54,225	391,627	445,852

In October 2024, upon maturity, the Company settled all of the principal due for the 2017 Convertible Notes with cash funded by the Company's revolving credit facility. Having demonstrated the intent and ability to refinance the 2017 Convertible Notes with a long-term obligation, the Company classified $54.2 million of debt outstanding as of September 30, 2024 as long-term debt.

NOTE G—DERIVATIVE INSTRUMENTS

The Company maintains derivative instruments for protection from fluctuating interest rates. The table below provides information about the Company's interest rate swaps (in thousands):

		September 30, 2024		December 31, 2023	
Expiration Date	Stated Interest Rate	Notional Amount	Market Value (Liability)	Notional Amount	Market Value (Liability)
March 31, 2026	3.793%	50,000	(160)	50,000	237
March 31, 2026	3.836%	50,000	(195)	50,000	189
June 30, 2026	4.257%	50,000	(680)	50,000	(525)
June 30, 2026	4.185%	50,000	(602)	50,000	(430)

The outstanding interest rate swaps are not designated as hedges for accounting purposes. The effects of future fluctuations in SOFR interest rates on derivatives held by the Company will result in the recording of unrealized gains and losses into the statement of operations. The Company recorded pre-tax losses on derivatives of $3.6 million and $1.1 million for the three and nine month periods ended September 30, 2024, respectively, compared to pre-tax gains of $1.5 million and $2.6 million for the corresponding periods in 2023. The liability for outstanding derivatives is recorded in other liabilities and in accrued expenses.

NOTE H—COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases property, aircraft, aircraft engines and other types of equipment under operating leases. The Company's airlines operate 24 freighter aircraft provided by customers and six passenger aircraft leased from external companies. Property leases include hangars, warehouses, offices and other space at certain airports with fixed rent payments and lease terms ranging from one month to nine years. The Company is obligated to pay the lessor for maintenance, real estate taxes, insurance and other operating expenses on certain property leases. These expenses are variable and are not included in the measurement of the lease asset or lease liability. These expenses are recognized as variable lease expense when incurred and are not material. Equipment leases include ground support and industrial equipment as well as computer hardware with fixed rent payments and terms of one month to five years.

The Company records the initial right-to-use asset and lease liability at the present value of lease payments scheduled during the lease term. For the nine months ended September 30, 2024 and 2023, non-cash transactions to recognize right-to-use assets and corresponding liabilities for new leases were $25.2 million and $6.1 million, respectively. Unless the rate implicit in the lease is readily determinable, the Company discounts the lease payments using an estimated incremental borrowing rate at the time of lease commencement. The Company estimates the incremental borrowing rate based on the information available at the lease commencement date, including the rate the Company could borrow for a similar amount, over a similar lease term with similar collateral. The Company's weighted-average discount rate for operating leases at September 30, 2024 and December 31, 2023 was 5.4% and 4.0%, respectively. Leases often include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments when appropriate. Although not material, the amount of such options is reflected below in the maturity of operating lease liabilities table. Lease expense is recognized on a straight-line basis over the lease term. Our weighted-average remaining lease term is 4.2 years and 3.9 years as of September 30, 2024 and December 31, 2023, respectively.

For the nine months ended September 30, 2024 and 2023, cash payments against operating lease liabilities were $17.5 million and $19.7 million, respectively. As of September 30, 2024, the maturities of operating lease liabilities are as follows (in thousands):

	Operating Leases
2024	$ 7,234
2025	20,934
2026	14,183
2027	9,634
2028	7,402
2029 and beyond	10,377
Total obligations undiscounted	69,764
Less: amount representing interest	(7,724)
Present value of future minimum lease commitments	62,040
Less: current obligations under leases	20,234
Long-term lease obligation	$ 41,806

Purchase Commitments

The Company has agreements with vendors for the conversion of Boeing 767-300, Airbus A321 and Airbus A330 passenger aircraft into a standard configured freighter aircraft. The conversions primarily consist of the installation of a standard cargo door and loading system. As of September 30, 2024, the Company owned eight Boeing 767-300 aircraft, six Airbus A321-200 aircraft and five Airbus A330 aircraft that were in or awaiting the modification process. As of September 30, 2024, the Company has agreements to purchase two more Boeing 767-300 aircraft and one Airbus A330-300 passenger aircraft through 2026. As of September 30, 2024, the Company's commitments to acquire aircraft and convert these aircraft totaled $321.6 million, including estimated payments of $47.8 million through the remainder of 2024 and the remaining payments through 2028. Actual conversion payments will be based on the achievement of progress milestones. The Company has 24 additional conversion slots with scheduled induction dates beginning in 2025. The total cost to secure corresponding passenger aircraft feedstock and complete these aircraft conversions will depend on the sourcing of aircraft, engine conditions and progress of each aircraft's conversion process.

Guarantees and Indemnifications

Certain leases and agreements of the Company contain guarantees and indemnification obligations to the lessor, or one or more other parties that are considered reasonable and customary (e.g., use, tax and environmental indemnifications), the terms of which range in duration and are often limited. Such indemnification obligations may continue after expiration of the respective lease or agreement.

Other

In addition to the foregoing matters, the Company is also a party to legal proceedings in various federal and state jurisdictions from time to time arising out of the operation of the Company's business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, the Company believes that its ultimate liability, if any, arising from pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to its financial condition or results of operations.

Employees Under Collective Bargaining Agreements

As of September 30, 2024, the flight crewmembers, flight attendants and flight dispatchers were represented by the labor unions listed below:

Airline	Labor Agreement Unit	Percentage of the Company's Employees
ABX	International Brotherhood of Teamsters	6.2 %
ATI	Air Line Pilots Association	11.7 %
OAI	International Brotherhood of Teamsters	6.9 %
ATI	Association of Flight Attendants	0.8 %
OAI	Association of Flight Attendants	6.6 %
OAI	Transport Workers Union of America	0.3 %

In July 2024, the flight dispatchers of OAI that are represented by Transport Workers Union of America entered into a collective bargaining agreement.

NOTE I—PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Defined Benefit and Post-retirement Healthcare Plans

ABX sponsors a qualified defined benefit pension plan for ABX crewmembers and a qualified defined benefit pension plan for a major portion of its ABX employees that meet minimum eligibility requirements. ABX also sponsors non-qualified defined benefit pension plans for certain employees. These non-qualified plans are unfunded. Employees are no longer accruing benefits under any of the defined benefit pension plans. ABX also sponsors a post-retirement healthcare plan for its ABX crewmembers, which is unfunded. Benefits for covered individuals terminate upon reaching age 65 under the post-retirement healthcare plans.

The accounting and valuation for these post-retirement obligations are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long time period over which benefits will be accrued and paid. The long-term nature of these benefit payouts increases the sensitivity of certain estimates of our post-retirement obligations. The assumptions considered most sensitive in actuarially valuing ABX's pension obligations and determining related expense amounts are discount rates and expected long-term investment returns on plan assets. Additionally, other assumptions concerning retirement ages, mortality and employee turnover also affect the valuations. Actual results and future changes in these assumptions could result in future costs significantly higher than those recorded in our results of operations.

ABX measures plan assets and benefit obligations as of December 31 of each year. Information regarding ABX's sponsored defined benefit pension plans and post-retirement healthcare plans follows below. The accumulated benefit obligation reflects pension benefit obligations based on the actual earnings and service to-date of current employees.

ABX's net periodic benefit costs for its defined benefit pension plans and post-retirement healthcare plans for the nine month periods ended September 30, 2024 and 2023 are as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Plans		Post-Retirement Healthcare Plan		Pension Plans		Post-Retirement Healthcare Plan	
	2024	2023	2024	2023	2024	2023	2024	2023
Service cost	$ —	$ —	$ 5	$ 13	$ —	$ —	$ 15	$ 39
Interest cost	6,614	8,631	23	33	19,842	25,893	69	99
Expected return on plan assets	(8,122)	(10,192)	—	—	(24,366)	(30,576)	—	—
Amortization of net loss	2,593	4,745	(23)	—	7,781	14,235	(70)	—
Net periodic benefit cost	$ 1,085	$ 3,184	$ 5	$ 46	$ 3,257	$ 9,552	$ 14	$ 138

During the nine month period ended September 30, 2024, the Company made contributions to the pension plans of $1.5 million.

NOTE J—INCOME TAXES

The provision for income taxes for interim periods is based on management's best estimate of the effective income tax rate expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through September 30, 2024 have been estimated utilizing a rate of 27% based upon year-to-date income and projected results for the full year. The recognition of discrete tax items, such as the conversion of employee stock awards, the granting of warrants, aircraft leasing efforts under an Irish subsidiary, and other items can have an impact on the effective rate during a period.

As a result of these differences in which expenses and benefits for tax purposes are different than required by GAAP, the Company's effective tax rate for the nine months ended September 30, 2024 was 29%. The final effective tax rate for the year 2024 will depend on the actual amount of pre-tax book results by the Company for the full year, the additional conversions of employee stock awards, executive compensation and other items.

The Company has operating loss carryforwards for U.S. federal income tax purposes. Management expects to utilize the loss carryforwards to offset federal income tax liabilities in the future. Due to the Company's deferred tax assets, including its loss carryforwards, cash payments for income taxes will be limited through 2025. The Company is required to pay some federal tax due to loss carryforward usage limitations and certain state and local income taxes.

NOTE K—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the following items by components for the nine month periods ended September 30, 2024 and 2023 (in thousands):

	Defined Benefit Pension	Defined Benefit Post-Retirement	Foreign Currency Translation	Total
Balance as of June 30, 2023	$ (96,048)	$ 36	$ —	$ (96,012)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	—	—	—	—
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	4,745	—	—	4,745
Income Tax (Expense) or Benefit	(1,060)	—	—	(1,060)
Other comprehensive income (loss), net of tax	3,685	—	—	3,685
Balance as of September 30, 2023	$ (92,363)	$ 36	$ —	$ (92,327)
Balance as of January 1, 2023	$ (103,418)	$ 36	$ (20)	$ (103,402)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	—	—	20	20
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	14,235	—	—	14,235
Income Tax (Expense) or Benefit	(3,180)	—	—	(3,180)
Other comprehensive income (loss), net of tax	11,055	—	20	11,075
Balance as of September 30, 2023	$ (92,363)	$ 36	$ —	$ (92,327)
Balance as of June 30, 2024	$ (53,963)	$ 467	$ —	$ (53,496)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	2,593	(23)	—	2,570
Income Tax (Expense) or Benefit	(609)	6	—	(603)
Other comprehensive income (loss), net of tax	1,984	(17)	—	1,967
Balance as of September 30, 2024	$ (51,979)	$ 450	$ —	$ (51,529)
Balance as of January 1, 2024	$ (57,931)	$ 502	$ —	$ (57,429)
Amounts reclassified from accumulated other comprehensive income:				
Actuarial costs (reclassified to salaries, wages and benefits)	7,781	(70)	—	7,711
Income Tax (Expense) or Benefit	(1,829)	18	—	(1,811)
Other comprehensive income (loss), net of tax	5,952	(52)	—	5,900
Balance as of September 30, 2024	$ (51,979)	$ 450	$ —	$ (51,529)

NOTE L—STOCK-BASED COMPENSATION

The Board has granted stock-based incentive awards to certain employees and directors pursuant to a long-term incentive plan which was approved by the Company's stockholders in May 2005 and in May 2015. Employees have been awarded non-vested restricted stock, non-vested stock units with performance conditions, and non-vested stock units with market conditions. The restrictions on the non-vested restricted stock awards lapse at the end of a specified service period, which is typically three years from the grant date. The non-vested stock units will be converted into a number of ATSG common shares depending on the satisfaction of the performance conditions or market conditions at the end of a specified service period, which is typically three years from the grant date. The performance condition awards will be converted into a number of ATSG common shares based on the Company's average return on invested capital during the service period. Similarly, the market condition awards will be converted into a number of common shares depending on the appreciation of ATSG common shares compared to the Nasdaq Transportation Index. Directors have been granted time-based awards that vest after a period of 12 months. Under each of the stock-based incentive awards, the restrictions may lapse sooner than the stated settlement period upon (1) the participant's death or disability, (2) an employee participant's qualification for retirement or (3) a change in control, in the case of an employee participant under the 2015 long-term incentive plan, or a business combination, in the case of a director participant under the 2005 or 2015 long-term incentive plan. The Company expects to settle all of the stock unit awards by issuing new ATSG common shares. The table below summarizes award activity for the nine months ended September 30, 2024 and 2023:

	September 30, 2024		September 30, 2023	
	Number of Awards	Weighted average grant-date fair value	Number of Awards	Weighted average grant-date fair value
Outstanding at beginning of period	1,066,784	$ 20.19	929,205	$ 21.83
Granted	970,367	12.43	577,598	21.35
Converted	(113,031)	23.46	(192,028)	21.04
Expired	(11,000)	12.57	(1,600)	22.03
Forfeited	(61,123)	17.20	(30,000)	24.52
Outstanding at end of period	1,851,997	$ 16.07	1,283,175	$ 21.66
Vested	466,643	$ 10.32	346,565	$ 9.78

The average grant-date fair value of each performance condition award, non-vested restricted stock award and time-based award granted by the Company in 2024 was $12.19, the fair value of the Company's stock on the date of grant. The average grant-date fair value of each market condition award granted in 2024 was $12.95. The market condition awards granted in 2024 were valued using a Monte Carlo simulation technique based on daily stock prices over three years and using the following variables:

	2024
Risk-free interest rate	4.4%
Volatility	43.0%

For the nine months ended September 30, 2024 and 2023, the Company recorded expense of $7.5 million and $6.5 million respectively, for stock-based incentive awards. At September 30, 2024, there was $11.2 million of unrecognized expense related to the stock-based incentive awards that is expected to be recognized over a weighted-average period of 1.3 years. As of September 30, 2024, none of the awards were convertible, 466,643 units of the directors' time-based awards had vested and none of the outstanding shares of the restricted stock had vested. These awards could result in the issuance of a maximum number of 2,348,647 additional outstanding shares of ATSG common stock depending on service, performance and market results through December 31, 2026.

NOTE M—COMMON STOCK AND EARNINGS PER SHARE

Earnings per Share

The calculation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Earnings (loss) from continuing operations - basic	$ (3,327)	$ 17,172	$ 12,720	$ 75,335
Gain from stock warrants revaluation, net of tax	$ —	$ —	$ —	$ (106)
Convertible debt interest charge, net of tax	$ —	$ 443	$ 475	$ 1,999
Earnings (loss) from continuing operations - diluted	$ (3,327)	$ 17,615	$ 13,195	$ 77,228
Denominator:				
Weighted-average shares outstanding for basic earnings per share	65,036	67,253	65,012	69,909
Common equivalent shares:				
Effect of stock-based compensation awards and warrants	—	583	759	1,511
Effect of convertible debt	—	4,836	1,700	7,007
Weighted-average shares outstanding assuming dilution	65,036	72,672	67,471	78,427
Basic earnings (loss) per share from continuing operations	$ (0.05)	$ 0.26	$ 0.20	$ 1.08
Diluted earnings (loss) per share from continuing operations	$ (0.05)	$ 0.24	$ 0.20	$ 0.98

Basic weighted average shares outstanding for purposes of basic earnings per share are less than the shares outstanding due to 723,154 shares and 471,610 shares of restricted stock for 2024 and 2023, respectively, which are accounted for as part of diluted weighted average shares outstanding in diluted earnings per share. The warrants granted to a customer (see Note C to the accompanying unaudited condensed consolidated financial statements) as of September 30, 2024, would have resulted in 27.6 million additional shares of the common stock if the warrants were settled by tendering cash.

The determination of diluted earnings per share requires the exclusion of the fair value re-measurement of the stock warrants recorded as a liability (see Note C to the accompanying unaudited condensed consolidated financial statements), if such warrants have an anti-dilutive effect on earnings per share. The dilutive effect of the weighted-average diluted shares outstanding is calculated using the treasury method for periods in which equivalent shares have a dilutive effect on earnings per share. Under this method, the number of diluted shares is determined by dividing the assumed proceeds of the warrants recorded as a liability by the average stock price during the period and comparing that amount with the number of corresponding warrants outstanding.

NOTE N—SEGMENT AND REVENUE INFORMATION

The Company operates in two reportable segments. The CAM segment consists of the Company's aircraft and engine leasing operations. The ACMI Services segment consists of the Company's airline operations, including CMI agreements as well as ACMI, charter service and passenger service agreements that the Company has with its customers. The Company's aircraft maintenance services, aircraft modification services, ground services and other support services, are not large enough to constitute reportable segments and are combined in All other. Intersegment revenues are valued at arms-length market rates.

The Company's segment information from continuing operations is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Total revenues:				
CAM	$ 112,469	$ 109,725	$ 322,487	$ 333,147
ACMI Services	321,972	365,248	983,975	1,065,562
All other	93,000	112,841	299,680	334,218
Eliminate inter-segment revenues	(56,188)	(64,677)	(160,962)	(179,356)
Total	$ 471,253	$ 523,137	$ 1,445,180	$ 1,553,571
Customer revenues:				
CAM	$ 85,594	$ 83,930	$ 243,684	$ 251,282
ACMI Services	321,966	365,127	983,845	1,065,419
All other	63,693	74,080	217,651	236,870
Total	$ 471,253	$ 523,137	$ 1,445,180	$ 1,553,571

The Company's external customer revenues from other activities for the three and nine month periods ended September 30, 2024, and 2023 are presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Aircraft maintenance, modifications and part sales	$ 31,598	$ 31,443	$ 108,518	$ 112,681
Ground services	21,247	22,733	66,702	71,385
Other, including aviation fuel sales	10,848	19,904	42,431	52,804
Total customer revenues	$ 63,693	$ 74,080	$ 217,651	$ 236,870

During the three and nine month periods ended September 30, 2024, the Company recognized $5.2 million and $4.5 million, respectively, of non-lease revenue that was reported as deferred revenue at the beginning of the applicable period, compared to $1.6 million and $13.3 million for the comparable periods in 2023. Current deferred revenue of $20.2 million and $4.5 million as of September 30, 2024 and December 31, 2023, respectively, for contracts with customers is derived from other activities as described above. Revenue related to deferred revenue will be recognized based on percentage of completion. Customers are required to pay deposits and may be required to make milestone payments for these services resulting in deferred revenue. Long-term contract assets were $3.9 million as of September 30, 2024 compared to $8.7 million as of December 31, 2023. Cash will be collected over the term of the multi-year agreement based on number cycles per period while revenue is recognized as parts are provided for engine maintenance services. This may result in a contract asset or liability based on the timing of engine maintenance services.

CAM's leases do not contain residual guarantees. Approximately 17% of CAM's leases to external customers contain purchase options at projected market values. As of September 30, 2024, minimum future payments from external customers for leased aircraft and equipment were scheduled to be $76.0 million for the remainder of 2024, and $289.5 million, $266.6 million, $237.2 million and $201.8 million, respectively, for each of the next four years ending December 31, 2028 and $292.0 million thereafter. CAM's external customer revenues for non-lease activities were $7.9 million and $17.7 million for the three and nine month periods ended September 30, 2024, respectively, for engine services and the sale of spare engine parts compared to $8.1 million and $23.6 million during the comparable periods in the prior year

The Company's other segment information from continuing operations is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Depreciation and amortization expense:				
CAM	$ 72,048	$ 60,751	$ 204,315	$ 179,239
ACMI Services	26,382	24,907	75,006	72,363
All other	565	594	1,933	2,069
Total	$ 98,995	$ 86,252	$ 281,254	$ 253,671
Interest expense				
CAM	15,064	12,616	45,043	33,546
ACMI Services	4,336	5,662	15,307	15,678
Customer incentive contra revenue				
CAM	3,096	3,420	9,289	12,353
ACMI Services	5,694	816	10,586	2,424
Segment earnings (loss):				
CAM	$ 18,279	$ 23,306	$ 46,935	$ 88,526
ACMI Services	(14,412)	12,414	(24,973)	34,057
All other	(1,586)	(7,968)	3,694	(8,613)
Net unallocated interest expense	(351)	(908)	(2,335)	(1,944)
Net (loss) gain on financial instruments	(5,167)	1,778	134	1,856
Other non-service components of retiree benefit costs, net	(1,085)	(3,218)	(3,256)	(9,654)
Loss from non-consolidated affiliate	(869)	(1,885)	(2,202)	(4,398)
Pre-tax earnings (loss) from continuing operations	$ (5,191)	$ 23,519	$ 17,997	$ 99,830

The Company's assets are presented below by segment (in thousands). Cash and cash equivalents are reflected in Assets - All other.

	September 30, 2024	December 31, 2023
Assets:		
CAM	$ 2,857,455	$ 2,885,508
ACMI Services	873,942	828,703
All other	152,926	167,879
Total	$ 3,884,323	$ 3,882,090

During the nine months ended September 30, 2024, the Company had capital expenditures for property and equipment of $62.6 million and $159.6 million for the ACMI Services and CAM, respectively.

NOTE O—MERGER AGREEMENT

On November 3, 2024, ATSG entered into an Agreement and Plan of Merger (the "Merger Agreement") with Stonepeak Nile Parent LLC, a Delaware limited liability company ("Parent"), and Stonepeak Nile MergerCo Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("MergerCo"), providing for, among other things, MergerCo to merge with and into ATSG (the "Merger"), with ATSG surviving the Merger (with its subsidiaries) as a wholly-owned subsidiary of Parent. If the Merger is consummated, ATSG's securities will be delisted from the Nasdaq Stock Market LLC as soon as practicable following the Effective Time (defined below), and ATSG will become a privately held company.

Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of common stock issued and outstanding as of immediately prior to the Effective Time (other than any shares of common stock as to which appraisal rights have been perfected in accordance with the Delaware General Corporation Law and certain other shares of common stock excluded under the terms of the Merger Agreement), will be cancelled and extinguished and automatically converted into the right to receive an amount in cash equal to $22.50 per share (the "Merger Consideration"), payable to the holder thereof, without interest.

At the Effective Time, each outstanding warrant for shares of common stock governed by the Amazon Warrants (as defined in the Merger Agreement) will automatically vest and, following ATSG's exercise of its mandatory exercise right, be exercised in accordance with the terms of the Amazon Warrants for the Merger Consideration applicable to the underlying common stock.

At the Effective Time, in connection with the Merger, outstanding Company equity awards relating to, convertible into, or exchangeable for shares of common stock shall vest in full and be cancelled in exchange for the right to receive the Merger Consideration set forth in the Merger Agreement (including restricted stock units with performance conditions, assuming the attainment of all applicable performance goals at the higher of target level of performance and actual level of performance measured as of the Effective Time, and for all other awards, at a rate corresponding to the number of shares of ATSG common stock underlying such equity award).

The consummation of the Merger is subject to certain customary closing conditions, including, but not limited to: (i) the approval and adoption of the Merger Agreement by the holders of a majority of the outstanding shares of ATSG common stock (the "Company Stockholder Approval"); (ii) the expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the receipt of certain consents or approvals from the U.S. Department of Transportation, the U.S. Federal Communications Commission and certain other applicable foreign direct investment laws of certain jurisdictions; (iii) the absence of any law or order enjoining, restraining or otherwise making illegal, preventing or prohibiting the consummation of the Merger; (iv) each party's performance of its covenants and obligations contained in the Merger Agreement in all material respects; and (v) the accuracy of the representations and warranties of the parties in the Merger Agreement (subject to customary materiality qualifiers). The obligation of Parent to consummate the Merger is also subject to there not having occurred since the date of the Merger Agreement a material adverse effect. The Merger is not subject to any financing condition, and Parent and MergerCo have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement.

During the period from the date of the Merger Agreement through December 8, 2024 (the "Go-Shop Period"), ATSG may solicit Takeover Proposals (as defined in the Merger Agreement) from third parties and provide information to, and participate in discussions and engage in negotiations with, third parties regarding any Takeover Proposals, subject to certain extensions and conditions provided in the Merger Agreement. The end of the Go-Shop Period for each applicable third party is the "Cut-Off Date."

The Merger Agreement also contains certain customary termination rights for each of Parent and ATSG, including, (i) by mutual written agreement, (ii) if the Merger has not been consummated on or before May 3, 2025 or such later date or time as may be agreed to in writing by Parent and ATSG (the "Outside Date"), subject to certain extensions provided in the Merger Agreement; (iii) a governmental authority of competent jurisdiction has issued an order, or applicable law is in effect, enjoining, restraining or otherwise making illegal, preventing or prohibiting the consummation of the Merger and is, or has become, final and non-appealable, (iv) if the Company Stockholder Approval shall not have been obtained at a meeting of ATSG's stockholders; or (v) if the other party breaches or fails to perform any representation, warranty or covenant that results in the failure of the related closing condition to be satisfied, subject to a cure period in certain circumstances.

ATSG also may, under certain circumstances and subject to the terms of the Merger Agreement, terminate the Merger Agreement (x) in order for ATSG to enter into an alternative acquisition agreement with respect to a Superior Proposal (as defined in the Merger Agreement) or (y) if all of the applicable closing conditions have been satisfied or waived and ATSG is prepared to consummate the Merger but Parent and MergerCo fail to consummate the Merger in accordance with the Merger Agreement. Additionally, Parent may, under certain circumstances and subject to the terms of the Merger Agreement, terminate the Merger Agreement if ATSG's Board withdraws or adversely modifies its recommendation that ATSG's stockholders vote in favor of adopting the Merger Agreement.

If the Merger Agreement is terminated by ATSG prior to the Cut-Off Date in order for the Company to enter concurrently into an alternative acquisition agreement with respect to a Superior Proposal with an Excluded Party, ATSG will be obligated to pay to Parent a one-time fee equal to $37,156,852 in cash. If the Merger Agreement is terminated by ATSG in order for ATSG to enter concurrently into an alternative acquisition agreement with respect to a Superior Proposal in other circumstances, the Company will be obligated to pay Parent a one-time fee equal to $55,339,993 in cash. Additionally, ATSG will be obligated to pay Parent a one-time fee equal to $55,339,993 in cash if the Merger Agreement is terminated in certain other specified circumstances, including if the Merger Agreement is terminated by Parent because the Board withdraws or adversely modifies its recommendation that ATSG's stockholders vote in favor of adopting the Merger Agreement.

If the Merger Agreement is terminated (i) by ATSG (A) if all of the closing conditions have been satisfied or waived and ATSG is prepared to consummate the Merger but Parent and MergerCo fail to consummate the Merger in accordance with the Merger Agreement or (B) in connection with Parent or MergerCo breaching or failing to perform its representations, warranties or covenants in a manner that would cause the related closing conditions to not be satisfied (subject to a cure period in certain circumstances), or (ii) if either party terminates because the Merger has not been consummated by the Outside Date, and at the time of such termination, ATSG was otherwise entitled to terminate the Merger Agreement for either of the foregoing reasons, then, in each case, Parent will be obligated to pay to ATSG a one-time fee equal to $150,000,000 in cash, in addition to recovery costs (if any) up to a maximum of $7,500,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") has been prepared with reference to the historical financial condition and results of operations of ATSG and its subsidiaries. The MD&A describes the principal factors affecting our results of operations, financial condition, cash flow, liquidity and capital resources. The MD&A should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) contained in this Form 10-Q and the audited consolidated financial statements and related notes prepared in accordance with GAAP contained in our 2023 Form 10-K.

OVERVIEW

We provide aircraft leasing and air cargo transportation and related services. To support the needs of our leasing customers in the aviation and logistics industries at large, we offer a range of complementary services to delivery companies, freight forwarders, e-commerce operators, airlines and government customers. Our principal subsidiaries include our aircraft leasing company (CAM) and three independently certificated airlines (ABX, ATI and OAI).

We primarily operate through two reportable segments, CAM and ACMI Services:

> CAM offers aircraft leasing and related services to external customers and also leases aircraft internally to our airlines. CAM acquires passenger aircraft and manages the modification of the aircraft into freighters. The follow-on aircraft leases normally cover a term of five to ten years. CAM currently leases Boeing 767, 757 and 777 aircraft, Airbus A321 aircraft and aircraft engines, and is in the process of adding Airbus A330 freighter aircraft to its fleet.
>
> ACMI Services consists of the cargo and passenger transportation operations of our three airline subsidiaries. Our airlines operate under contracts to provide a combination of aircraft, flight crews, aircraft maintenance, aircraft hull and liability insurance and aviation fuel. Our customers are typically responsible for supplying the necessary aviation fuel and cargo handling services and reimbursing our airline for other operating expenses such as landing fees, ramp expenses, certain aircraft maintenance expenses and fuel procured directly by the airline. Aircraft charter agreements, including those for the DoD, usually require the airline to provide full service, including fuel and other operating expenses for a fixed, all-inclusive price.

Our other business operations, which primarily provide support services to the transportation industry, include providing aircraft maintenance and modification services to customers, cargo load transfer and sorting services as well as related equipment maintenance services. These operations do not constitute reportable segments and are reported in "All other."

At September 30, 2024, we owned 110 Boeing aircraft and three Airbus aircraft that were in revenue service. We owned two Boeing 767-300 freighter aircraft not in revenue service having been returned from lease and that are expected to be re-leased later in 2024. We also owned eight Boeing 767-300 aircraft, six Airbus 321-200 aircraft and five Airbus A330 aircraft, either undergoing or awaiting induction into the freighter conversion process at September 30, 2024. In addition to these aircraft, we leased six passenger aircraft from third parties and operated 24 freighter aircraft provided by customers for whom we provide services under CMI agreements.

Customers

Our largest customers are ASI, which is a subsidiary of Amazon, the DoD and DHL. Revenues from our commercial arrangements with ASI comprised approximately 33% and 34% of our consolidated revenues during the nine month periods ended September 30, 2024 and 2023, respectively. As of September 30, 2024, we leased 30 Boeing 767 freighter aircraft to ASI with lease expirations between 2026 and 2031. The aircraft lease terms typically range from 5 to 10 years. Under our air transportation services agreement, we operate those aircraft for ASI and we operate 18 other Boeing 767 aircraft provided by ASI. We also provide ground services and aircraft maintenance services to ASI.

On May 6, 2024, we entered into the 3rd A&R ATSA to operate 10 additional Boeing 767-300 freighter aircraft to be provided by ASI, with the potential to add up to 10 additional Boeing 767-300 freighter aircraft. The first seven of the initial group of 10 aircraft began operating in the third quarter of 2024 with the balance of that group delivered by early November 2024. The initial term of the 3rd A&R ATSA runs through May 6, 2029. Also on May 6, 2024, in conjunction with the 3rd A&R ATSA, we agreed to issue additional warrants to Amazon and modify provisions of certain existing warrants. See Note C to the accompanying unaudited condensed consolidated financial statements for additional information regarding the agreements with ASI.

DHL comprised 14% and 13% of our consolidated revenues during the nine month periods ended September 30, 2024 and 2023, respectively. As of September 30, 2024, we leased 14 Boeing 767 freighter aircraft to DHL, including one Boeing 767-200 aircraft and 13 Boeing 767-300 aircraft with expirations between 2025 and 2031. Ten of the 14 Boeing 767 aircraft were being operated by our airlines for DHL. Additionally, we operated six Boeing 767 aircraft that were provided by DHL.

The DoD comprised 29% and 31% of our consolidated revenues during the nine month periods ended September 30, 2024 and 2023 respectively, derived primarily from operating passenger and combi charter flights. We utilize our fleet of 15 passenger aircraft to operate troop movement flights for the DoD. We also operate our four combi aircraft for the DoD, which are capable of simultaneously carrying cargo and passengers on the main deck. We have been providing services to the DoD since the 1990s, typically under one-year agreements.

MERGER AGREEMENT

As described in Note O, on November 3, 2024, ATSG entered into an Agreement and Plan of Merger (the "Merger Agreement") with Parent and MergerCo, pursuant to which, subject to the terms and conditions thereof, MergerCo will be merged with and into ATSG, with ATSG surviving the Merger (with its subsidiaries) as a wholly owned subsidiary of Parent upon closing of the Merger, which is anticipated to occur in the first half of 2025. Consummation of the Merger is subject to the approval of ATSG's stockholders and other customary closing conditions. If the Merger is consummated, ATSG's securities will be delisted from the Nasdaq Stock Market LLC as soon as practicable following the Effective Time, and the Company will become a privately held company. The Company has incurred and expects to incur certain costs relating to the proposed Merger, such as financial, advisory, legal, accounting and other professional services fees. See Part II, Item 1A in this Form 10-Q for risks related to the Merger Agreement and the transactions contemplated by the Merger Agreement.

RESULTS OF OPERATIONS

Revenue and Earnings Summary

External customer revenues from continuing operations decreased by $51.9 million, or 10%, to $471.3 million and $108.4 million, or 7%, to $1,445.2 million during the three and nine month periods ended September 30, 2024, respectively, compared to the same periods in 2023. Customer revenues during the first nine months of 2024 decreased as a result of lower revenues from the following sources compared to the previous year: contracted passenger flight operations, flight operations for our customers' delivery networks, Boeing 767-200 aircraft leases, an engine power program related to such 767-200 aircraft leases and the resale of aviation fuel.

The consolidated results from continuing operations were net losses of $3.3 million and net income of $12.7 million for the three and nine month periods ended September 30, 2024, respectively, compared to net income of $17.2 million and $75.3 million for the corresponding periods in the prior year. The pre-tax earnings from continuing operations were $5.2 million and $18.0 million for the three and nine month periods ended September 30, 2024, respectively, compared to $23.5 million and $99.8 million for the corresponding periods in the prior year. Earnings were affected by the following events and items that do not directly reflect our underlying operations among the periods presented. Pre-tax earnings from continuing operations included:

- losses of $5.2 million and gains of $0.1 million for the three and nine month periods ended September 30, 2024, respectively, for financial instrument valuations, including interest rate swaps and instruments granted to Amazon compared to gains of $1.8 million and $1.9 million for the same periods in the prior year.

- $8.8 million and $19.9 million for the three and nine month periods ended September 30, 2024, respectively, for the amortization of customer incentives given to Amazon in the form of warrants compared to $4.2 million and $14.8 for the same periods in the prior year.

- losses of $1.1 million and $3.3 million for the three and nine month periods ended September 30, 2024, respectively, for non-service components of retiree benefit plans compared to $3.2 million and $9.7 million for the same periods in the prior year.

- losses of $0.9 million and $2.2 million for the three and nine month periods ended September 30, 2024 , respectively, for our share of joint venture results, including engineering costs for the development of an aircraft modification for the Airbus A321 aircraft type compared to losses of $1.9 million and $4.4 million for the same periods in the prior year.

- losses of less than $0.1 million for both the three and six month periods ended September 30, 2023, respectively, net of related insurance recoveries for the costs which occurred as a direct result of a foam release after a hangar's fire suppression system malfunctioned during 2022.

After removing the effects of these events and items, adjusted pre-tax earnings from continuing operations, a non-GAAP financial measure (see the reconciliation of adjusted pre-tax earnings from continuing operations to pre-tax earnings from continuing operations in the following table), were $10.7 million and $43.2 million for three and nine month periods ended September 30, 2024 compared to $31.1 million and $126.9 million for the corresponding periods in 2023. Adjusted pre-tax earnings from continuing operations for the three and nine month periods ended September 30, 2024 decreased $20.4 million and $83.7 million, respectively, due to lower earnings from Boeing 767-200 aircraft leases and a related engine power program, lower earnings from our airline operations, as well as higher interest expense and depreciation expense, most of which are reflected in our CAM segment. Revenues and block hours flown for customers' delivery networks and for contracted passenger flying resulted in lower earnings for ACMI Services compared to the same periods of the previous year.

A summary of our revenues from continuing operations, pre-tax earnings from continuing operations and adjusted pre-tax earnings from continuing operations, as well as a reconciliation of adjusted pre-tax earnings from continuing operations to pre-tax earnings from continuing operations, is shown below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues from Continuing Operations:				
CAM				
Aircraft leasing and related services	$ 115,565	$ 113,145	$ 331,776	$ 345,500
Customer incentive	(3,096)	(3,420)	(9,289)	(12,353)
Total CAM	112,469	109,725	322,487	333,147
ACMI Services				
ACMI services revenue	327,666	366,064	994,561	1,067,986
Customer incentive	(5,694)	(816)	(10,586)	(2,424)
Total ACMI Services	321,972	365,248	983,975	1,065,562
Other Activities	93,000	112,841	299,680	334,218
Total Revenues	527,441	587,814	1,606,142	1,732,927
Eliminate internal revenues	(56,188)	(64,677)	(160,962)	(179,356)
Customer Revenues	$ 471,253	$ 523,137	$ 1,445,180	$ 1,553,571
Pre-Tax Earnings from Continuing Operations:				
CAM, inclusive of interest expense	$ 18,279	$ 23,306	$ 46,935	$ 88,526
ACMI Services, inclusive of interest expense	(14,412)	12,414	(24,973)	34,057
Other Activities	(1,586)	(7,968)	3,694	(8,613)
Net unallocated interest expense	(351)	(908)	(2,335)	(1,944)
Net financial instrument re-measurement (loss) gain	(5,167)	1,778	134	1,856
Other non-service components of retiree benefits costs, net	(1,085)	(3,218)	(3,256)	(9,654)
Loss from non-consolidated affiliate	(869)	(1,885)	(2,202)	(4,398)
Pre-Tax Earnings from Continuing Operations	(5,191)	23,519	17,997	99,830
Add other non-service components of retiree benefit costs, net	1,085	3,218	3,256	9,654
Add charges for non-consolidated affiliates	869	1,885	2,202	4,398
Add contra-revenue from customer incentive	8,790	4,236	19,875	14,777
Add net loss (gain) on financial instruments	5,167	(1,778)	(134)	(1,856)
Add net charges for hangar foam incident	—	58	—	71
Adjusted Pre-Tax Earnings from Continuing Operations (non-GAAP)	$ 10,720	$ 31,138	$ 43,196	$ 126,874

We define adjusted pre-tax earnings from continuing operations, a non-GAAP financial measure, as pre-tax earnings from continuing operations excluding the following: (i) non-service components of retiree benefit costs; (ii) gains and losses for the fair value re-measurement of financial instruments including warrants issued to Amazon; (iii) customer lease incentive amortization; (iv) gains and losses from non-consolidated joint ventures; and (v) charges related to the discharge of a fire suppression system in the Company's aircraft hangar, net of related insurance recoveries. We exclude these items from pre-tax earnings from continuing operations because they are distinctly different in their predictability or not closely related to our ongoing operating activities. Management uses adjusted pre-tax earnings from continuing operations to compare the performance of core operating results between periods. Presenting this non-GAAP financial measure provides management and investors with a comparative metric of fundamental operations while highlighting changes to certain items among periods. Adjusted results should not be considered in isolation or as a substitute for analysis of the Company's results as calculated and reported under GAAP.

Aircraft Fleet Summary

Our fleet of cargo and passenger aircraft is summarized in the following table as of September 30, 2024, and December 31, 2023. Our freighters, converted from passenger aircraft, utilize standard shipping containers and can be deployed into regional cargo markets more economically than larger capacity aircraft, newly built freighters or other competing alternatives. At September 30, 2024, we owned eight Boeing 767-300 aircraft, six Airbus A321-200 aircraft and five Airbus A330 aircraft that were either already undergoing or awaiting induction into the freighter conversion process. As of September 30, 2024, we also owned two Boeing 767-300 freighter aircraft staging for future lease.

Aircraft fleet activity during the first nine months of 2024 is listed below:

- CAM completed the modification of eight Boeing 767-300 freighter aircraft purchased in the previous year. The aircraft are leased to external customers under multi-year leases.

- CAM leased two Boeing 767-300 freighter aircraft, one to ATI and the other to an external customer under a multi-year lease. This aircraft is being operated by ABX under a separate agreement.

- OAI returned one Boeing 767-300 passenger aircraft to CAM, and CAM leased this aircraft to an external customer under a multi-year lease.

- An external customer returned three Boeing 767-300 freighter aircraft to CAM. One aircraft has been leased to ABX. One aircraft was sold to another external customer. The third aircraft is available for lease.

- OAI began leases of two Boeing 767-300 passenger aircraft from an external lessor.

- CAM purchased four Boeing 767-300 passenger aircraft. One of these aircraft along with another Boeing 767-300 passenger aircraft purchased in 2023 were sold to an external customer. These remainder of the aircraft purchased in 2024 are expected to be converted into standard freighter configuration and leased to external customers during 2025 or 2026.

- ATI began to operate one customer-provided Boeing 767-300 freighter aircraft. ABX began to operate seven customer-provided Boeing 767-300 freighter aircraft.

- CAM leased one Boeing 767-200 freighter aircraft to an external customer under a multi-year lease.

- CAM sold one Boeing 767-200 freighter aircraft to an external lessee.

- ABX returned one Boeing 767-200 freighter aircraft to CAM, and CAM sold this aircraft to an external customer.

- External customers returned eight Boeing 767-200 freighter aircraft to CAM. Three of these aircraft were leased to ABX and one was leased to ATI. Three aircraft were sold to a different external customer. The remaining one aircraft has currently been removed from service and its parts and engines will be used to support the fleet, re-leased to customers or possibly sold.

- CAM sold one Boeing 767-200 returned from an external lessee in 2023 and previously removed from service to an external customer.

- CAM purchased two Airbus A330 passenger aircraft for the purpose of converting them into a standard freighter configuration. These aircraft are expected to be leased to an external customer during 2025.

	September 30, 2024			December 31, 2023		
	ACMI Services	CAM	Total	ACMI Services	CAM	Total
In-service aircraft						
Aircraft owned						
Boeing 767-200 Freighter	7	8	15	4	16	20
Boeing 767-200 Passenger	2	—	2	2	—	2
Boeing 767-300 Freighter	4	77	81	2	71	73
Boeing 767-300 Passenger	4	1	5	5	—	5
Boeing 777-200 Passenger	3	—	3	3	—	3
Boeing 757-200 Combi	4	—	4	4	—	4
Airbus A321-200 Freighter	—	3	3	—	3	3
	24	89	113	20	90	110
Operating lease						
Boeing 767-200 Passenger	1	—	1	1	—	1
Boeing 767-300 Passenger	5	—	5	3	—	3
Boeing 767-200 Freighter	2	—	2	2	—	2
Boeing 767-300 Freighter	22	—	22	14	—	14
Total	30	—	30	20	—	20
Other aircraft						
Owned Boeing 767-300 under or awaiting modification	—	8	8	—	14	14
Owned Airbus A321-200 under or awaiting modification	—	6	6	—	6	6
Owned Airbus A330 under or awaiting modification	—	5	5	—	3	3
Boeing 767 available for lease	—	2	2	—	4	4

As of September 30, 2024, ABX, ATI and OAI were leasing 24 in-service aircraft internally from CAM for use in ACMI Services. Of CAM's eight externally leased Boeing 767-200 freighter aircraft, one was leased to DHL and operated by ABX and seven were leased to other external customers. Of the 77 externally leased Boeing 767-300 freighter aircraft, 30 were leased to ASI and operated by ABX or ATI, nine were leased to DHL and operated by ABX, four were leased to DHL and were being operated by a DHL-affiliated airline and 34 were leased to other external customers. The carrying values of the total in-service fleet as of September 30, 2024 and December 31, 2023 were $2,068.3 million and $1,898.7 million, respectively. Additionally, we own several Boeing 767 airframes that are not in service condition. These aircraft are being used to support our in-service Boeing fleet with engines and aircraft parts or are being marketed for possible sale.

CAM

CAM's revenues from external customers totaled $85.6 million and $243.7 million for the three and nine month periods ended September 30, 2024, respectively, compared to $83.9 million and $251.3 million for the same periods in the prior year. CAM's revenues from our airlines totaled $26.9 million and $78.8 million during the three and nine month periods ended September 30, 2024 , respectively, compared to $25.8 million and $81.9 million for the same periods in the prior year. CAM's aircraft leasing and related services revenues, which exclude customer lease incentive amortization, increased $2.4 million and decreased $13.7 million for the three and nine month periods ended September 30, 2024, compared to the corresponding periods in 2023. Revenues improved during the third quarter of 2024 due to the four new leases of Boeing 767-300 freighter aircraft to external customers and increased hours in engine power programs. Overall 2024 revenues were reduced by the scheduled returns of Boeing 767-200 freighter aircraft from lease and lower full year hours flown by engines in our Boeing 767-200 engine power program. Since October 1, 2023, CAM added ten Boeing 767-300 freighter aircraft and one Airbus A321-200 freighter to its portfolio and placed all eleven of these aircraft with external customers under long-term leases. During that same time period, nine 767-200 freighters and six 767-300 freighters were returned from leases from external customers. CAM's revenues from its 767-200 engine power program decreased $1.3 million and $14.7 million for the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods of 2023, due primarily to the reduction in leased 767-200 aircraft.

CAM's pre-tax earnings, inclusive of internally allocated interest expense, were $18.3 million and $46.9 million for the three and nine months ended September 30, 2024, respectively, compared to $23.3 million and $88.5 million for the same period in the prior year. CAM's earnings were negatively impacted by the reduction in 767-200 freighter lease and engine power program revenues. Additionally, depreciation expense increased $11.2 million and $25.1 million for the three and nine months ended September 30, 2024, respectively, primarily due to the 11 new aircraft placed into service since October 1, 2023. Reduced earnings also included $2.5 million and $11.5 million more internally allocated interest expense for the three and nine months ended September 30, 2024, respectively, due to higher company-wide interest expense.

During the first nine months of 2024, CAM leased eight freighter aircraft externally and two aircraft to an internal airline. CAM's future operating results will depend on a number of factors including additional aircraft deployments, the continued demand from lessees for mid-sized widebody freighters, our ability to convert passenger aircraft into freighters within planned costs and within the time frames required by customers and the lease rates under which aircraft are redeployed or renewed. Our CAM fleet projections for 2024 are described below by aircraft type:

- CAM has two Boeing 767-300 freighter aircraft available for lease and eight Boeing 767-300 aircraft subject to freighter modification as of September 30, 2024. CAM plans to complete the modification of one more Boeing 767-300 aircraft during 2024 and has commitments for two aircraft to external customers.

- CAM expects to complete the freighter modification of the six Airbus A321 aircraft that were subject to freighter modification as of September 30, 2024. CAM is currently marketing these six aircraft for lease to external customers. CAM does not have commitments to acquire more Airbus A321 aircraft at this time. The U.S. FAA, the Civil Aviation Administration of China and aviation regulators in Europe have certified the design of the modified Airbus A321 that CAM utilizes to convert the passenger aircraft to a freighter via its joint venture.

- In addition to the five Airbus A330 aircraft that CAM owned at September 30, 2024, CAM is scheduled to purchase one more Airbus A330 passenger aircraft during 2024. CAM expects to complete the freighter modification for one of these Airbus A330 aircraft, and this aircraft is committed to a long-term lease with an external customer beginning in 2024.

- During the remainder of 2024, CAM has one Boeing 767-300 aircraft lease scheduled to expire. CAM has commitments for this aircraft to be leased to another external customer in 2024.

CAM's future operating results will also depend on depreciation expense for newly modified aircraft as an aircraft reaches service condition, the sale price of aircraft which could be sold, interest expense, revenues from the utilization of the engines that power our Boeing 767-200 aircraft and other factors. Further, certain airline customers serving international routes have in recent times experienced and could further experience a weakness in demand from the large integrators and markets they serve. This could lead to a disruption in our expected revenues and cash remittances from one or more customers. CAM's pre-tax earnings are subject to changes from market interest rates and our level of debt. Changes to market conditions could affect the demand for modified aircraft or the projected returns on our fleet expansion from the outcomes currently expected, and further, management may take additional actions such as the further deferral or cancellation of planned growth investments or the divestiture of certain aircraft.

ACMI Services

Total revenues from ACMI Services decreased $43.2 million and $81.6 million compared to 2023 for the three and nine month periods ended September 30, 2024, respectively, to $322.0 million and $984.0 million. During both the three and nine month periods ended September 30, 2024, block hours flown for our customers' delivery networks decreased 7%, compared to the corresponding periods in 2023 reflecting to the removal of certain Boeing 767-200 aircraft and fewer international flights. Block hours for passenger services during the three and nine month periods ended September 30, 2024, including operation of Boeing 757 combi aircraft decreased 34% and 15%, respectively, compared to the corresponding periods of 2023. Revenues for ACMI Services were also reduced by $4.9 million and $8.2 million for more customer incentive charges for the three and nine month periods ended September 30, 2024 compared to the corresponding periods in 2023 for additional stock warrants granted to Amazon in May of 2024. (See Note C to the accompanying unaudited condensed consolidated financial statements).

ACMI Services had pre-tax losses of $14.4 million and $25.0 million during the three and nine month periods ended September 30, 2024, respectively, compared to pre-tax earnings of $12.4 million and $34.1 million for the corresponding periods of 2023 inclusive of internally allocated interest expense. In addition to the lower flying levels and reduced revenues, ACMI Services experienced increased expenses for maintenance, travel and ground service rates. The decline in earnings during 2024 reflects the reduced operations for certain of our customers' passenger networks during 2024 compared to the first nine months of 2023.

During the third quarter, ACMI Services began to operate seven customer-provided Boeing 767-300 aircraft that were added to our flight operations for ASI. For the remainder of the year, we expect ACMI Services revenues to increase for these seven aircraft and three additional customer-provided Boeing 767-300 aircraft that were added to our flight operations for ASI through November 8, 2024. Beginning in the fourth quarter, ACMI Services will benefit from customer rate increases. Profitability in ACMI Services will depend on a number of factors, including customer flight schedules, the impact of inflation on operating expenses, customer billing rates, crewmember productivity and pay, employee attrition, employee benefits, aircraft maintenance schedules and the number of aircraft we operate. The aircraft additions will require start-up expenses and may impact our operational performance in the near term. The war in Israel and conflicts in other parts of the world may also affect our operations, reducing the number of flights that we operate for the DoD and other customers.

Other Activities

External customer revenues from all other activities decreased $10.4 million and $19.2 million for the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods of 2023. Revenues from the resale of aviation fuel decreased due to lower fuel prices and gallons sold compared to the previous year. External aircraft maintenance revenues declined during the third first nine months of of 2024 compared to 2023 while aircraft maintenance resources were applied to more internally billed projects. Pre-tax results from other activities were losses of $1.6 million and earnings of $3.7 million for the three and nine month periods ended September 30, 2024, respectively, compared to pre-tax losses of $8.0 million and $8.6 million for the same periods in the prior year. Pre-tax losses from other activities during 2023 reflected additional costs of aircraft parts and inventory adjustments; aircraft maintenance contract asset and contract liability adjustments and additional administrative costs. The improvement in earnings during 2024 reflects a revenue mix of higher margin airframe maintenance contracts instead of lower margin line maintenance revenues and lower employee turnover. Additionally, lower overhead expense during 2024 contributed to improved earnings compared to the previous year.

Expenses from Continuing Operations

Salaries, wages and benefits expense increased $5.0 million or 3% and decreased $6.6 million or 1% during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. The overall decline in expense during first six months of 2024 compared to the previous year reflects a reduction in the number of employees providing ground services under contracts with customers that ended beginning in October of 2023 through June of 2024. The increase in expense for the third quarter of 2024 compared to 2023 includes scheduled step increases for employees hired in recent years, training and preparation expenses for adding ten Amazon aircraft in the second half of 2024 and higher costs for aircraft line maintenance performed while aircraft are on ramp.

Depreciation and amortization expense increased $12.7 million and $27.6 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. The increase reflects incremental depreciation for eleven newly converted aircraft added to the Company's operating fleet since October 1, 2023 and increased amortization of intangible assets related to customer contracts. Increased depreciation from newly converted aircraft was partially offset by lower depreciation for our fleet of Boeing 767-200 aircraft. We expect depreciation expense to continue to increase during future periods in conjunction with our fleet expansion, engine programs and capital spending plans.

Maintenance, materials and repairs expense decreased by $8.0 million and $5.7 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. This expense line includes the cost of materials and repairs to maintain aircraft and engines, as well as similar costs for providing maintenance services to customers. Fewer scheduled and unscheduled maintenance events occurred in 2024 compared to the previous year periods. The aircraft maintenance and material expenses can vary among periods due to the number of maintenance events and the scope of airframe checks that are performed.

Contracted ground and aviation services expense includes navigational services, aircraft and cargo handling services, baggage handling services and other airport services. Contracted ground and aviation services remained flat during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. Contracted ground and aviation services can vary with airport destinations and the level of passenger airline operations from period to period.

Fuel expense decreased by $26.7 million and $31.6 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. Fuel expense includes the cost of fuel to operate DoD flights, fuel used to position aircraft for service and for maintenance purposes, as well as the cost of fuel we resell to customers at the airport in Wilmington, Ohio. For the three and nine month periods ended September 30, 2024, the decrease in fuel expense reflects a decrease in block hours flown, lower gallons sold and a decrease in the price of fuel.

Travel expense decreased by $5.6 million and $3.7 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. The decrease in travel expense was due to the decrease in flying volumes.

Other operating expenses decreased by $4.7 million and $9.4 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023.

Other Income, Adjustments and Expenses

Interest expense increased by $0.7 million and $11.7 million during the three and nine month periods ended September 30, 2024, respectively, compared to the corresponding periods in 2023. Interest rates under our Senior Credit Agreement increased year over year. Additionally, during August 2023 we issued $400.0 million of unsecured convertible notes bearing interest at 3.875%, proceeds from which were used in part to replace $204.5 million of convertible notes bearing 1.125% which were set to mature in 2024.

We recorded unrealized pre-tax losses on financial instrument re-measurements of $5.2 million and pre-tax gains of $0.1 million during the three and nine month periods ended September 30, 2024, respectively, compared to pre-tax gains of $1.8 million and $1.9 million for the corresponding periods in 2023. The gains and losses include the re-valuing, as of September 30, 2024 and 2023, of the stock warrants and ATSG stock sale option granted to Amazon and interest rate swaps that we hold. Generally, the warrant values increase or decrease with corresponding decreases or increases in the ATSG common stock price during the measurement period. Additionally, the value of warrants depends partially on the probability that warrants will vest upon the execution of aircraft leases. Increases in the probability of a warrant vesting and the sales option exercise price being above the traded ATSG price results in higher liabilities and losses.

Non-service components of retiree benefits resulted in net losses of $1.1 million and $3.3 million during the three and nine month periods ended September 30, 2024, respectively, compared to losses of $3.2 million and $9.7 million for the corresponding periods in 2023. The non-service component gain and losses of retiree benefit costs are determined by actuaries and include the amortization of unrecognized gain and loss stemming from changes in assumptions regarding discount rates, expected investment returns and other retirement plan assumptions. The non-service components of retiree benefit costs can vary significantly from one year to the next based on investment results and changes in discount rates used to account for defined benefit retirement plans.

The provision for income taxes for interim periods is based on management's best estimates of the effective income tax rates expected to be applicable for the current year, plus any adjustments arising from changes in the estimated amount of taxable income related to prior periods. Income taxes recorded through September 30, 2024 have been estimated based on year-to-date income and projected results for the full year.

The effective tax rate from continuing operations for the nine month period ended September 30, 2024 was 29%. The effective tax rate is affected by the discrete tax items in which expense and benefits for tax purposes are different than required by generally accepted accounting principles. The effective rate can be impacted by a number of factors, including the apportionment of income among taxing jurisdictions, deductibility limitations on employee compensation, deductibility limitations on meals and per diems and the results of an Irish leasing subsidiary. Our effective tax rate before including the effects of the re-measurement of financial instruments, incentive amortizations and other adjustments for adjusted pre-tax earnings from continuing operations (see items in the table above) was 26% for the nine month period ended September 30, 2024 compared to 24% for the corresponding period of 2023. The increase in the effective tax rate for 2024 is due to an increase in non-deductible items on lower pre-tax earnings and an increase in the portion of pre-tax earnings occurring in tax jurisdictions with higher rates.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash generated from operating activities totaled $399.1 million and $526.1 million for the nine month periods ended September 30, 2024 and 2023, respectively. Operating cash flows during the first nine months of 2024 declined compared to the same period of 2023 due to lower operating results from a lower level of flight operations. Additionally, operating cash flow during 2023 reflects the collection of large amounts of customer receivables from previous periods. Cash payments for interest expense increased $30.7 million to $73.2 million for the first nine months of 2024 compared to the same period of 2023 due to increased interest rates. Cash outlays for pension contributions were $1.5 million for both nine month periods ended September 30, 2024 and 2023, respectively.

Capital spending levels were primarily the result of aircraft modification costs and the acquisition of aircraft for freighter modification. Cash payments for capital expenditures were $221.0 million and $581.3 million for the nine month periods ended September 30, 2024 and 2023, respectively. Capital expenditures for the first nine months of 2024 included $145.0 million for the acquisition of four Boeing 767-300 aircraft, two Airbus A330 aircraft and freighter modification costs; $69.1 million for required heavy maintenance; and $6.9 million for other equipment. Capital expenditures in the first nine months of 2023 included $422.9 million for the acquisition of eight Boeing 767-300 aircraft, two Airbus A321-200 aircraft and freighter modification costs; $149.2 million for required heavy maintenance; and $9.2 million for other equipment.

Cash proceeds of $35.2 million and $10.5 million were received during the nine month periods ended September 30, 2024 and 2023, respectively, primarily for the sale of aircraft and engines.

During the nine month period ended September 30, 2024 we spent $19.8 million to invest in joint ventures compared to $1.6 million during the corresponding period in 2023. Our joint venture with Precision Aircraft Solutions, LLC, developed a passenger-to-freighter conversion program for Airbus A321-200 aircraft which it markets and our joint venture with GA Telesis Engine Services, LLC provides engine tear-down services to harvest and sell engine parts.

Net cash used in financing activities was $202.1 million during the nine-month period ended September 30, 2024 compared to $69.8 million net cash provided by financing activities during the corresponding period in 2023. During the first nine months of 2024, we drew $425.0 million from the revolving credit facility under the Senior Credit Agreement and repaid $626.5 million on the revolving credit and other financing arrangements. During the corresponding period in the prior year, we made debt principal payments of $180.5 million and we drew $220.0 million from the revolving credit facility. During the first nine months of 2023, we used $155.3 million to repurchase ATSG common shares in the market.

Commitments

As of September 30, 2024, we had 19 aircraft that were in or awaiting modification to a freighter configuration. Additionally, we placed non-refundable deposits and have agreements to purchase two more Boeing 767-300 aircraft and one Airbus A330 passenger aircraft through 2026. We outsource a significant portion of the aircraft freighter modification process to non-affiliated third parties. The modification process primarily consists of the installation of a standard cargo door and loading system. We estimate that total capital expenditures for 2024 will be approximately $350 million, of which the majority will be related to aircraft purchases and freighter modifications. Actual capital spending for any future period will be impacted by whether customer demand supports our return requirements as well as aircraft acquisitions, maintenance and modification processes.

Liquidity and Capital Resources

At September 30, 2024, we had $44.9 million of cash balances and $458.3 million available from the unused portion of the revolving credit facility under the Senior Credit Agreement as described in Note F of the accompanying consolidated financial statements. We expect our operations in 2024 to continue to generate significant net cash in-flows after deducting required spending of approximately $130 million for heavy maintenance and other sustaining capital expenditures. To expand our fleet, we estimate that capital expenditures for aircraft purchases and freighter modifications will total $220 million for 2024. We believe that our current cash balance, forecasted cash flows provided from customer leases and operating agreements, combined with the Senior Credit Agreement, will be sufficient to fund the expansion and maintenance of our fleet while meeting our contractual obligations, other commitments and working capital requirements for at least the next twelve months. See Note F to the accompanying unaudited condensed consolidated financial statements for additional information regarding our credit facilities and outstanding debt obligations. As described in Note F, in October 2024, we drew from the revolving credit facility to fully repay the 2017 Convertible Notes that matured.

CRITICAL ACCOUNTING ESTIMATES

The MD&A and certain other disclosures included elsewhere in this Form 10-Q are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies. In certain cases, there are alternative estimation techniques which could be applied. On an ongoing basis, we evaluate the estimation techniques we use, including those related to revenue recognition, post-retirement liabilities, bad debts, self-insurance reserves, valuation of spare parts inventory, useful lives, salvage values and impairment of property and equipment, income taxes, contingencies and litigation. We base our estimates on historical experience, current conditions and on various other assumptions that are believed by management to be reasonable under the circumstances. Those factors form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources, as well as for identifying and assessing our accounting treatment with respect to commitments and contingencies. By their nature, these judgments are subject to uncertainty. Actual results may differ from these estimates under different assumptions or conditions.

For information regarding recently issued accounting pronouncements and the expected impact on our annual statements, see Note A to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q. Except as provided in Note A, our critical accounting policies and estimates have not changed materially from those disclosed in our 2023 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to market risk for increasing interest rates and changes in the price of jet fuel. The risk associated with jet fuel, however, is largely mitigated by reimbursement through the agreements with its customers.

Market risks have not materially changed from those disclosed in Item 7A of our 2023 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2024, the Company carried out an evaluation, under the supervision and with the participation of ATSG’s Executive Chairman (in his capacity as the Principal Executive Officer) and Chief Financial Officer (in his capacity as the Principal Financial Officer and Principal Accounting Officer) of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Form 10-Q (the “Evaluation Date”). Based upon the evaluation, ATSG's Executive Chairman and Chief Financial Officer concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including the Executive Chairman and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Company’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Company’s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. An evaluation of controls cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s “internal control over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during its most recently completed fiscal quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are currently a party to legal proceedings in various federal and state jurisdictions arising out of the operation of the Company's business. The amount of alleged liability, if any, from these proceedings cannot be determined with certainty; however, we believe that the Company's ultimate liability, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities, should not be material to our financial condition or results of operations. In addition, we carry various forms of aviation, commercial, property and casualty, cybersecurity, product liability, and other forms of insurance; however, such insurance may not be applicable or adequate to cover the costs associated with a judgment against us.

For more information on various legal proceedings, see the discussion in Note H to our Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q. The information set forth therein related to legal proceedings is incorporated into this Item 3 by reference.

ITEM 1A. RISK FACTORS.

We face risks that could adversely affect our condition or results of operations. Other than the items noted below, there have been no material changes to the risk factors disclosed in Item 1A of ATSG's 2023 Form 10-K. Other risks that are currently unknown to management or are currently considered immaterial or unlikely, could also adversely affect us.

Customers and Market Risks

On May 6, 2024, we entered into amended aircraft operating and investment agreements with Amazon with the expectation that the transactions would result in various benefits including, among others, growth in revenues, improved cash flows and operating efficiencies. Achieving the anticipated benefits from the agreements with Amazon is subject to a number of factors, including aircraft transitions, crew training and our customer achieving anticipated revenue levels. If we are unable to achieve our objectives or if we experience delays in implementing the necessary changes to our and our customers' operations, the expected benefits may be only partially realized or not at all, or may take longer to realize than expected, which could adversely impact our financial condition and results of operations. In conjunction with the amended agreements, we granted to Amazon warrants to acquire ATSG common shares. We expect that the warrants issued and issuable to Amazon, including effects of the proposed Merger thereon, will increase the number of shares outstanding when exercised, which would have a dilutive effect on reported earnings per share measures and the ownership interest in ATSG held by other stockholders. Further, the warrants are subject to fair value measurements during the periods that they are outstanding. Accordingly, future fluctuations in the fair value of the warrants may adversely impact our reported earnings measures.

Risks Related to the Proposed Merger

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

On November 3, 2024, ATSG entered into the Merger Agreement, which provides that the consummation of the Merger is subject to certain customary closing conditions, including:

(i) obtaining the Company Stockholder Approval (as defined above);

(ii) receipt of certain regulatory approvals and the expiration or termination of any waiting period (and any extension thereof) applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder as well as certain other applicable foreign direct investment laws of certain jurisdictions;

(iii) the absence of any law or order enjoining, restraining or otherwise making illegal, preventing or prohibiting the consummation of the Merger;

(iv) the other party's compliance in all material respects with of its pre-closing covenants contained in the Merger Agreement; and

(v) the accuracy of the other party's representations and warranties (subject to customary materiality qualifiers).

While it is anticipated that the Merger will be consummated during the first half of 2025, the conditions above may not be satisfied in a timely manner or at all, or an effect, event, development or change could delay or prevent these conditions from being satisfied. If the Merger is not consummated for any reason, the trading price of our common stock may decline to the extent that the market price of the common stock reflects positive market assumptions that the Merger will be consummated and the related benefits will be realized. We may also be subject to additional risks if the Merger is not completed, including:

- the requirement in the Merger Agreement that, under certain circumstances, we pay Parent a termination fee of up to $55,339,993 million in cash;
- we may experience negative reactions from the financial markets, including negative impacts on the market price of our common stock;
- we cannot be certain that we could find a merger partner or transaction as attractive as Parent and the Merger;
- incurring substantial costs related to the Merger, such as financial advisory, legal, accounting and other professional services fees that have already been incurred or will continue to be incurred until closing;
- reputational harm including relationships with investors, customers and business partners due to the adverse perception of any failure to successfully complete the Merger;
- potential disruption to our business and distraction of our workforce and management team to pursue other opportunities that could be beneficial to us, in each case without realizing any of the benefits of having the Merger completed.

We or Parent may terminate the Merger Agreement if the Merger has not been consummated on or before May 3, 2025 or such later date or time as may be agreed to in writing by Parent and the Company (the "Outside Date"), subject to certain extensions provided in the Merger Agreement. We or Parent also may terminate the Merger Agreement (i) by mutual written agreement; (ii) if a governmental authority of competent jurisdiction has issued an order, or applicable law is in effect, enjoining, restraining or otherwise making illegal, preventing or prohibiting the consummation of the Merger and such order or law is, or has become, final and non-appealable, (iii) if the Company Stockholder Approval shall not have been obtained at a meeting of the Company's stockholders; or (iv) the other party breaches or fails to perform in any material respect any representation, warranty or covenant that results in the failure of the related closing condition to be satisfied, subject to a cure period in certain circumstances. The Company also may, under certain circumstances and subject to the terms of the Merger Agreement, terminate the Merger Agreement (x) in order for the Company to enter into an alternative acquisition agreement with respect to a Superior Proposal (as defined in the Merger Agreement) or (y) if all of the applicable closing conditions have been satisfied and the Company is prepared to consummate the Merger but Parent and MergerCo fail to consummate the Merger in accordance with the Merger Agreement. Additionally, Parent may, under certain circumstances and subject to the terms of the Merger Agreement, terminate the Merger Agreement if the Company's Board withdraws or adversely modifies its recommendation that the Company's stockholders vote in favor of adopting the Merger Agreement. The occurrence of the aforementioned could adversely affect our stock price, business, financial condition and results of operations.

Additionally, in approving the Merger Agreement, the Company's Board considered a number of factors and potential benefits, including the fact that the merger consideration to be received by holders of common stock represents a significant premium to the recent market price. If the Merger is not completed, neither the Company nor the holders of our common stock will realize this benefit of the Merger. Moreover, we would also have nevertheless incurred substantial transaction-related costs and the loss of management time and resources.

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

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

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

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

- the treatment of ATSG equity awards and incentive cash awards provided for under the Merger Agreement;
- severance and other benefits in the case of certain qualifying terminations under the terms of an individual change in control agreement or employee severance plans;
- any retention or transaction bonuses if or when established for the benefit of Company employees; and
- continued indemnification and insurance coverage under the Merger Agreement, ATSG's organizational documents and indemnification agreements ATSG has entered into with each of its directors and executive officers.

The Merger Agreement may limit our ability to pursue alternatives to the Merger and may discourage other companies from trying to acquire us for greater consideration than what is specified in the Merger Agreement.

The Merger Agreement contains provisions that make it more difficult for us to sell our business to a company other than Parent. These provisions include restrictions on ATSG's solicitation of alternative acquisition proposals from third parties outside of a defined go-shop period. Under the Merger Agreement, ATSG is required to pay a termination fee of up to $55,339,993 if the Merger Agreement is terminated under certain circumstances (including to accept certain superior acquisition proposals), which could deter other potential bidders from making an acquisition proposal prior to the consummation of the Merger and could impact ATSG's ability to engage in another transaction for up to twelve months if the Merger Agreement is terminated in certain circumstances.

We may be the target of lawsuits challenging the Merger Agreement that may prevent the Merger from being consummated within the expected timeframe or at all.

Lawsuits may be filed against us, our Board of Directors or other parties to the Merger Agreement, challenging our acquisition by Parent, or making other claims in connection with the Merger. Even if these lawsuits are without merit, defending against these claims can result in substantial costs and divert management time and resources. Such lawsuits may be brought by purported stockholders or other interested parties, seeking, among other things, to enjoin consummation of the Merger. One of the conditions to the consummation of the Merger is that the consummation of the Merger is not enjoined, restrained or otherwise made illegal, prevented or prohibited by any order or legal or regulatory restraint or prohibition of a court of competent jurisdiction or any governmental entity. As such, if the plaintiffs in such potential lawsuits are successful in obtaining an injunction prohibiting the defendants from completing the Merger on the agreed upon terms, then such injunction may prevent the Merger from becoming effective within the expected timeframe or at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On November 29, 2022, the Board authorized the repurchase of up to $150.0 million of ATSG’s outstanding common stock (the “2022 Repurchase Program”). The 2022 Repurchase Program does not require the repurchase of a specific number of shares or establish a time frame for any repurchase, there is no expiration date for the 2022 Repurchase Program, and the Board may terminate the 2022 Repurchase Program at any time. Repurchases may be made under the 2022 Repurchase Program from time to time in the open market or in privately negotiated transactions. ATSG did not purchase any of its common stock under the 2022 Repurchase Program during the third quarter of 2024. As of September 30, 2024, the remaining available authorization under the 2022 Repurchase Program was $103.5 million.

On July 27, 2023, the Board authorized the repurchase of up to $120.0 million of ATSG’s outstanding common stock (the “2023 Repurchase Program”) exclusively in conjunction with a convertible bond offering that ATSG was marketing at that time. The 2023 Repurchase Program is separate from the 2022 Repurchase Program. ATSG subsequently purchased shares in August 2023. The remaining available authorization under the 2023 Repurchase Program is $1.5 million which can only be used in conjunction with the repurchase of our 2017 Convertible Notes.

ITEM 5. OTHER INFORMATION

During the quarter ended September 30, 2024, no director or officer (as defined under Rule 16a-1 of the Exchange Act) of the Company adopted or terminated any Rule 10b5-1 trading arrangements or any non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

ITEM 6. EXHIBITS.

The following exhibits are filed with or incorporated by reference into this report.

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation of Air Transport Services Group, Inc. reflecting an amendment on May 16, 2019, filed herewith. [This document represents the Restated Certificate of Incorporation of Air Transport Services Group, Inc. in compiled form, incorporating all amendments. This compiled document has not been filed with the Delaware Secretary of State.] (1)
3.2	Amended and Restated Bylaws of Air Transport Services Group, Inc. (2)
	Material Contracts
10.1	Air Transport Services Group, Inc. Executive Incentive Compensation Plan. (3)
10.2	Form of Time-Based Restricted Stock Award Agreement under the Air Transport Services Group, Inc. Amended and Restated 2015 Long-Term Incentive Plan. (3)
10.3	Amendment to 2016 Investment Agreement and Participation Notice and Acknowledgement, dated May 6, 2024, by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (4)
10.4+	Supplement and Amendment to 2018 Investment Agreement, dated May 6, 2024, by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (4)
10.5+	Second Amended and Restated Stockholders Agreement, dated May 6, 2024, by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (4)
10.6+	Amended and Restated Warrant to Purchase Common Stock by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (for 14,801,369 shares); Original Issue Date: December 20, 2018; Amendment and Restatement Date: May 6, 2024 (the “A&R Warrant-C”). (4)
10.7+	Amended and Restated Warrant to Purchase Common Stock by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (for 7,014,804 shares); Original Issue Date: May 29, 2020; Amendment and Restatement Date: May 6, 2024 (the “A&R 2020 Subsequent Warrant”). (4)
10.8+	Amended and Restated Warrant to Purchase Common Stock by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (for 2,915,000 shares); Issue Date: May 6, 2024 (the “2024 Subsequent Warrant”). (4)
10.9+	Form of Amended and Restated Warrant to Purchase Common Stock by and between Air Transport Services Group, Inc. and Amazon.com, Inc. (for 2,915,000 shares) (the “Third Subsequent Warrant”). (4)
	Certifications
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

104	Cover Page Interactive Date File (formatted as inline XBRL and contained in Exhibit 101).

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(1) Incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on February 29, 2024.

(2) Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on November 7, 2022.

(3) Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on February 23, 2024.

(4) Incorporated by reference to the Company's Form 8-K/a filed with the Securities and Exchange Commission on May 10, 2024.

\+ Certain terms in this exhibit have been redacted in accordance with Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AIR TRANSPORT SERVICES GROUP, INC.,
a Delaware corporation

/S/ JOSEPH C. HETE
Joseph C. Hete
Executive Chairman (Principal Executive Officer)

Date: November 8, 2024

/S/ QUINT O. TURNER
Quint O. Turner
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Date: November 8, 2024

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph C. Hete, certify that:

1. I have reviewed this report on Form 10-Q of Air Transport Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2024

/s/ JOSEPH C. HETE

Joseph C. Hete
Executive Chairman

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Quint O. Turner, certify that:

1. I have reviewed this report on Form 10-Q of Air Transport Services Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2024

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Air Transport Services Group, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph C. Hete, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Air Transport Services Group, Inc. and will be retained by Air Transport Services Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/S/ JOSEPH C. HETE
Joseph C. Hete
Executive Chairman

Date: November 8, 2024

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Air Transport Services Group, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Quint O. Turner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as enacted by § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Air Transport Services Group, Inc. and will be retained by Air Transport Services Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ QUINT O. TURNER

Quint O. Turner
Chief Financial Officer

Date: November 8, 2024