Aircastle LTD
Form 10-Q
May 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File number 001-32959

AIRCASTLE LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	98-0444035
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

c/o Aircastle Advisor LLC
201 Tresser Boulevard, Suite 400, Stamford, CT 06901
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (203) 504-1020

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 þ 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 þ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	þ	Accelerated filer	¨
Non-accelerated filer	o	Smaller reporting company	¨
		Emerging growth company	¨

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

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

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

	Trading Symbol	Name of Each Exchange on Which Registered
Common Shares, par value $0.01 per share	AYR	New York Stock Exchange

As of April 30, 2019, there were 75,112,638 outstanding shares of the registrant’s common shares, par value $0.01 per share.

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PART I. — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Aircastle Limited and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 92,629	$ 152,719
Restricted cash and cash equivalents	15,579	15,134
Accounts receivable	15,636	15,091
Flight equipment held for lease, net of accumulated depreciation of $1,276,266 and $1,221,985, respectively	7,138,689	6,935,585
Net investment in direct financing and sales-type leases	505,964	469,180
Unconsolidated equity method investments	76,306	69,111
Other assets	177,398	214,361
Total assets	$ 8,022,201	$ 7,871,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs and discounts	$ 773,153	$ 798,457
Borrowings from unsecured financings, net of debt issuance costs and discounts	4,128,491	3,962,896
Accounts payable, accrued expenses and other liabilities	156,887	153,341
Lease rentals received in advance	91,190	87,772
Security deposits	124,989	120,962
Maintenance payments	734,552	739,072
Total liabilities	6,009,262	5,862,500
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, $0.01 par value, 250,000,000 shares authorized, 75,077,638 shares issued and outstanding at March 31, 2019; and 75,454,511 shares issued and outstanding at December 31, 2018	751	754
Additional paid-in capital	1,460,564	1,468,779
Retained earnings	551,624	539,332
Accumulated other comprehensive loss	—	(184)
Total shareholders' equity	2,012,939	2,008,681
Total liabilities and shareholders' equity	$ 8,022,201	$ 7,871,181

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Aircastle Limited and Subsidiaries
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2019	2018
Revenues:		
Lease rental revenue	$181,234	$177,483
Direct financing and sales-type lease revenue	8,443	9,442
Amortization of lease premiums, discounts and incentives	(5,711)	(3,128)
Maintenance revenue	16,401	11,991
Total lease revenue	200,367	195,788
Gain on sale of flight equipment	12,002	5,768
Other revenue	1,558	1,124
Total revenues	213,927	202,680
Operating expenses:		
Depreciation	84,735	75,002
Interest, net	63,463	57,108
Selling, general and administrative (including non-cash share-based payment expense of $2,726 and $2,378 for the three months ended March 31, 2019 and 2018, respectively)	18,000	17,835
Maintenance and other costs	7,404	988
Total operating expenses	173,602	150,933
Total other income (expense)	(2,061)	3,174
Income from continuing operations before income taxes and earnings (loss) of unconsolidated equity method investments	38,264	54,921
Income tax provision (benefit)	3,098	(844)
Earnings (loss) of unconsolidated equity method investments, net of tax	(356)	1,782
Net income	$34,810	$57,547
Earnings per common share — Basic:		
Net income per share	$0.46	$0.73
Earnings per common share — Diluted:		
Net income per share	$0.46	$0.73
Dividends declared per share	$0.30	$0.28

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Aircastle Limited and Subsidiaries
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$34,810	$57,547
Other comprehensive income, net of tax:		
Net derivative loss reclassified into earnings	184	301
Other comprehensive income	184	301
Total comprehensive income	$34,994	$57,848

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$34,810	$57,547
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:		
Depreciation	84,735	75,002
Amortization of deferred financing costs	3,364	3,533
Amortization of lease premiums, discounts and incentives	5,711	3,128
Deferred income taxes	3,164	1,306
Non-cash share-based payment expense	2,726	2,378
Cash flow hedges reclassified into earnings	184	301
Collections on direct financing and sales-type leases	5,925	6,493
Security deposits and maintenance payments included in earnings	(14,975)	(665)
Gain on sale of flight equipment	(12,002)	(5,768)
Other	1,613	(4,501)
Changes in certain assets and liabilities:		
Accounts receivable	(3,662)	4,320
Other assets	(1,030)	(2,666)
Accounts payable, accrued expenses and other liabilities	(7,337)	(57)
Lease rentals received in advance	3,134	8,554
Net cash and restricted cash provided by operating activities	106,360	148,905
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(355,817)	(82,493)
Proceeds from sale of flight equipment	56,307	43,917
Net investment in direct financing and sales-type leases	—	(16,256)
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	19,697	2,900
Unconsolidated equity method investments and associated costs	(7,551)	—
Other	1,118	1,320
Net cash and restricted cash used in investing activities	(286,246)	(50,612)
Cash flows from financing activities:		
Repurchase of shares	(11,424)	(9,413)
Proceeds from secured and unsecured debt financings	215,000	—
Repayments of secured and unsecured debt financings	(76,131)	(101,725)
Deferred financing costs	(1,921)	—
Security deposits and maintenance payments received	45,149	53,674
Security deposits and maintenance payments returned	(27,914)	(20,262)
Dividends paid	(22,518)	(22,085)
Net cash and restricted cash provided by (used in) financing activities	120,241	(99,811)
Net decrease in cash and restricted cash:	(59,645)	(1,518)
Cash and restricted cash at beginning of period	167,853	233,857
Cash and restricted cash at end of period	$108,208	$232,339

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Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	$92,629	$210,815
Restricted cash and cash equivalents	15,579	21,524
Unrestricted and restricted cash and cash equivalents	$108,208	$232,339
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$54,673	$36,949
Cash (received) paid for income taxes	$(858)	$3,884
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	$22,355	$7,751
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	$10,877	$17,951
Transfers from flight equipment held for lease to Net investment in direct financing and sales-type leases and Other assets	$42,709	$31,430

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Aircastle Limited and Subsidiaries
Consolidated Statements of Changes in Shareholders’ Equity
(Dollars in thousands, except share amounts)
(Unaudited)

	Common Shares		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders’ Equity
	Shares	Amount				
Balance, December 31, 2018	75,454,511	$ 754	$ 1,468,779	$ 539,332	$ (184)	$ 2,008,681
Issuance of common shares to directors and employees	276,923	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(653,796)	(6)	(11,418)	—	—	(11,424)
Amortization of share-based payments	—	—	2,410	—	—	2,410
Reclassification of prior year director stock award liability	—	—	796	—	—	796
Dividends declared	—	—	—	(22,518)	—	(22,518)
Net income	—	—	—	34,810	—	34,810
Net derivative loss reclassified into earnings	—	—	—	—	184	184
Balance, March 31, 2019	75,077,638	$ 751	$ 1,460,564	$ 551,624	$ —	$ 2,012,939

	Common Shares		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders’ Equity
	Shares	Amount				
Balance, December 31, 2017	78,707,963	$ 787	$ 1,527,796	$ 380,331	$ (1,350)	$ 1,907,564
Issuance of common shares to stockholders, directors and employees	293,680	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(462,452)	(5)	(9,408)	—	—	(9,413)
Amortization of share-based payments	—	—	2,048	—	—	2,048
Reclassification of prior year director stock award liability	—	—	1,680	—	—	1,680
Dividends declared	—	—	—	(22,085)	—	(22,085)
Net income	—	—	—	57,547	—	57,547
Adoption of accounting standard	—	—	—	(188)	—	(188)
Net derivative loss reclassified into earnings	—	—	—	—	301	301
Balance, March 31, 2018	78,539,191	$ 785	$ 1,522,113	$ 415,605	$ (1,049)	$ 1,937,454

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 2019

Note 1. Summary of Significant Accounting Policies
Organization and Basis of Presentation
Aircastle Limited ("Aircastle," the "Company," "we," "us" or "our") is a Bermuda exempted company that was incorporated o
October 29, 2004 under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business is acquiring, leasing, managing and selling commercial jet aircraft.
Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our Chief Executive Officer is the chief operating decision maker.
The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.
Effective January 1, 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842, Leases ("ASC 842") which, together with all subsequent amendments, replaced the existing guidance in ASC 840, Leases ("ASC 840"). The accounting for leases by lessors remained largely unchanged from the concepts that existed in ASC 840. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct financing lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective.
As a result of the Company's adoption of ASC 842, we have recognized right-of-use assets and lease liabilities on our Consolidated Balance Sheet as of March 31, 2019, for our office leases classified as operating leases under ASC 842, existing at, or entered into after, January 1, 2019. We adopted the standard using the required "modified retrospective" approach and the available practical expedients. The standard did not have a material impact on our consolidated financial statements and related disclosures.
As part of the Company's adoption of ASC 842, we classified collections on direct financing and sales-type leases within operating activities on our Consolidated Statement of Cash Flows for the three months ended March 31, 2019. This had previously been included within investing activities. The presentation for the three months ended March 31, 2018, has also been reclassified to conform to the current period presentation:

	Three Months Ended March 31, 2018	
Net cash and restricted cash provided by operating activities as previously reported	$	142,412
Collections on direct financing and sales-type leases	6,493	
	$	148,905

Net cash and restricted cash
provided by operating
activities

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of March 31, 2019, through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 2019

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates four Variable Interest Entities ("VIEs") of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding: (a) whether an entity is subject to consolidation as a VIE; (b) who the variable interest holders are; (c) the potential expected losses and residual returns of the variable interest holders; and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider: (1) the entity's purpose and design; (2) which variable interest holder has the power to direct the activities that most significantly impact the entity's economic performance; and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While Aircastle believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Lease Revenue Recognition

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options in our leases, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a London Interbank Offered Rate ("LIBOR") index are recognized on a straight-line basis over the lease term using the prevailing rate at lease commencement. Changes to rate-based lease rentals are recognized in the statement of income in the period of change.

Flight Equipment Held for Lease and Depreciation

Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% to 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value or when events or changes in circumstances, or indicators, suggest that the carrying amount or net book value of an asset may not be recoverable.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments and related updates. The standard affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The standard replaces today's incurred loss model with an expected loss model that requires entities to consider a broader range of information to estimate expected credit losses over the lifetime of the asset. Under the new standard, an allowance for credit losses is recorded which represents amounts not expected to be collected. The standard is applied on a modified retrospective approach. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as early as the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 2019

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The standard modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use-software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

In October 2018, the FASB issued ASU No. 2018-17, Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities. The standard changes how all entities evaluate decision-making fees under the variable interest entity guidance. The standard is applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

Note 2. Fair Value Measurements

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.
- Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.
- The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following tables set forth our financial assets as of March 31, 2019 and December 31, 2018 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

Aircastle Limited and Subsidiaries
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March 31, 2019

		Fair Value Measurements at March 31, 2019 Using Fair Value Hierarchy			
	Fair Value as of March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	$92,629	$92,629	$ —	$ —	Market
Restricted cash and cash equivalents	15,579	15,579	—	—	Market
Derivative assets	2,806	—	2,806	—	Market
Total	$111,014	$108,208	$ 2,806	$ —	

		Fair Value Measurements at December 31, 2018 Using Fair Value Hierarchy			
	Fair Value as of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	$152,719	$152,719	$ —	$ —	Market
Restricted cash and cash equivalents	15,134	15,134	—	—	Market
Derivative assets	4,886	—	4,886	—	Market
Total	$172,739	$167,853	$ 4,886	$ —	

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. Our derivative assets included in Level 2 consist of United States dollar-denominated interest rate caps, and the fair value is based on market comparisons for similar instruments. We also considered the credit rating and risk of the counterparty providing the interest rate cap based on quantitative and qualitative factors.

For the three months ended March 31, 2019 and the year ended December 31, 2018, we had no transfers into or out of Level 3.

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include our investments in unconsolidated joint ventures and aircraft. We account for our investments in unconsolidated joint ventures under the equity method of accounting and record impairment when its fair value is less than its carrying value and the Company determines that the decline is other than temporary. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on an income approach which uses Level 3 inputs, which include the Company’s assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

On April 10, 2019, the Company early terminated the leases for seven Boeing 737NG aircraft on lease to Jet Airways (India) Limited due to lessee default. As a result of these lease terminations, the Company will recognize net maintenance revenue of $17,554 and impairment charges of $7,404 in the second quarter of 2019.

Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 2019

cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

The fair value of our senior notes is estimated using quoted market prices. The fair values of all our other financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019		December 31, 2018	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	$375,000	$375,000	$425,000	$425,000
Unsecured Term Loan	335,000	335,000	120,000	120,000
ECA Financings	179,254	181,267	189,080	190,216
Bank Financings	603,409	608,259	619,715	623,604
Senior Notes	3,450,000	3,546,930	3,450,000	3,446,826

All of our financial instruments are classified as Level 2 with the exception of our Senior Notes, which are classified as Level 1.

Note 3. Lease Rental Revenues and Flight Equipment Held for Lease

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at March 31, 2019 were as follows:

Year Ending December 31,	Amount
Remainder of 2019	$557,469
2020	654,781
2021	541,707
2022	450,275
2023	378,534
Thereafter	592,311
Total	$3,175,077

Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

	Three Months Ended March 31,	
Region	2019	2018
Asia and Pacific	42 %	35 %
Europe	28 %	29 %
Middle East and Africa	11 %	11 %
North America	8 %	8 %
South America	11 %	17 %
Total	100%	100%

The classification of regions in the table above and in the tables and discussion below is determined based on the principal location of the lessee of each aircraft.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 2019

The following table shows the number of lessees with lease rental revenue of at least 5% of total lease rental revenue and their combined total percentage of lease rental revenue for the periods indicated:

	Three Months Ended March 31,			
	2019		2018	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	4	27%	3	19%

At March 31, 2019 and December 31, 2018, no country represented at least 10% of total revenue based on each counterparty's principal place of business.

Geographic concentration of net book value of flight equipment (including flight equipment held for lease and net investment in direct financing and sales-type leases, or "net book value") was as follows:

	March 31, 2019			December 31, 2018		
Region	Number of Aircraft	Net Book Value %		Number of Aircraft	Net Book Value %	
Asia and Pacific	85	37	%	78	36	%
Europe	94	29	%	87	27	%
Middle East and Africa	17	8	%	17	8	%
North America	35	9	%	35	10	%
South America	16	10	%	16	10	%
Off-lease	12 (1)	7	%	15 (2)	9	%
Total	259	100	%	248	100	%

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(1) Consisted of ten Airbus A320-200 aircraft, which are subject to lease commitments, and two Airbus A330-200 aircraft, which we are marketing for lease or sale.

(2) Consisted of eleven Airbus A320-200 aircraft and two Airbus A330-200 aircraft, which we are marketing for lease or sale, and one Boeing B737-800 along with one Boeing B777-300ER aircraft, which were delivered on lease to customers during the first quarter of 2019.

The following table sets forth net book value of flight equipment (includes net book value of flight equipment held for lease and net investment in direct financing leases) attributable to individual countries representing at least 10% of net book value of flight equipment based on each lessee's principal place of business as of:

	March 31, 2019			December 31, 2018		
Region	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
India	$928,334	12%	5	$865,046	12%	4

At March 31, 2019 and December 31, 2018, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were $15,038 and $15,636, respectively.

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Note 4. Net Investment in Direct Financing and Sales-Type Leases

At March 31, 2019, our net investment in direct financing and sales-type leases consisted of 31 aircraft. The following table lists the components of our net investment in direct financing and sales-type leases at March 31, 2019:

	Amount
Total lease payments to be received	$267,426
Less: Unearned income	(129,585)
Estimated residual values of leased flight equipment (unguaranteed)	368,123
Net investment in direct financing and sales-type leases	$505,964

At March 31, 2019, minimum future lease payments on direct financing and sales-type leases are as follows:

Year Ending December 31,	Amount
Remainder of 2019	$48,228
2020	67,035
2021	52,597
2022	42,100
2023	33,093
Thereafter	24,373
Total lease payments to be received	$267,426

Note 5. Unconsolidated Equity Method Investments

We have joint ventures with an affiliate of Ontario Teachers' Pension Plan ("Teachers'") and with the leasing arm of the Industrial Bank of Japan, Limited ("IBJ Air").

At March 31, 2019, the net book value of both joint ventures' fifteen aircraft was $685,554.

	Amount
Investment in joint ventures at December 31, 2018	$69,111
Investment in joint ventures	7,551
Loss from joint ventures, net of tax	(356)
Investment in joint ventures at March 31, 2019	$76,306

Per the partnership agreement with Teachers', the Company has recorded in its Consolidated Balance Sheet a $13,565 guarantee liability in Maintenance payments and a $5,100 guarantee liability in Security deposits representing its share of the respective exposures. We recognized our share of the undistributed loss in our joint venture with Teachers' of $740 during the three months ended March 31, 2019, the loss of which is attributable to a fair value impairment recorded by the joint venture as a result of a confirmed letter of intent to sell its aircraft to a third party buyer.

In March of 2019, we sold two aircraft to IBJ Air, in which we hold a 25% equity interest. This transaction was approved by our Audit Committee as an arm's length transaction under our related party policy.

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Note 6. Variable Interest Entities

Aircastle consolidates four VIEs of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the six aircraft discussed below.

ECA Financings

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the “Air Knight VIEs”), has entered into six different twelve-year term loans, which are supported by guarantees from Compagnie Française d'Assurance pour le Commerce Extérieur, (“COFACE”), the French government sponsored export credit agency (“ECA”). We refer to these COFACE-supported financings as “ECA Financings.”

Aircastle is the primary beneficiary of the Air Knight VIEs, as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through our net investment in direct financing and sales-type leases. The activity that most significantly impacts the economic performance is the leasing of aircraft of which our wholly owned subsidiary is the servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of March 31, 2019 of $390,233, were included in our flight equipment held for lease. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of March 31, 2019 is $175,963.

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Note 7. Secured and Unsecured Debt Financings
The outstanding amounts of our secured and unsecured term debt financings are as follows:

	At March 31, 2019				At December 31, 2018
Debt Obligation	Outstanding Borrowings	Number of Aircraft	Interest Rate	Final Stated Maturity	Outstanding Borrowings
Secured Debt Financings:					
ECA Financings[(1)]	$179,254	6	3.02% to 3.96%	12/03/21 to 11/30/24	$189,080
Bank Financings[(2)]	603,409	25	2.27% to 5.30%	06/12/19 to 01/19/26	619,715
Less: Debt issuance costs and discounts	(9,510)	—			(10,338)
Total secured debt financings, net of debt issuance costs and discounts	773,153	31			798,457
Unsecured Debt Financings:					
Senior Notes due 2019	500,000		6.25%	12/01/19	500,000
Senior Notes due 2020	300,000		7.625%	04/15/20	300,000
Senior Notes due 2021	500,000		5.125%	03/15/21	500,000
Senior Notes due 2022	500,000		5.50%	02/15/22	500,000
Senior 5.00% Notes due 2023	500,000		5.00%	04/01/23	500,000
Senior 4.40% Notes due 2023	650,000		4.40%	09/25/23	650,000
Senior Notes due 2024	500,000		4.125%	05/01/24	500,000
Unsecured Term Loans	335,000		4.08% to 4.51%	04/28/19 to 03/07/24	120,000
Revolving Credit Facilities	375,000		3.99%	12/27/21 to 06/27/22	425,000
Less: Debt issuance costs and discounts	(31,509)				(32,104)
Total unsecured debt financings, net of debt issuance costs and discounts	4,128,491				3,962,896
Total secured and unsecured debt financings, net of debt issuance costs and discounts	$4,901,644				$4,761,353

(1) The borrowings under these financings at March 31, 2019 have a weighted-average rate of interest of 3.58%.
(2) The borrowings under these financings at March 31, 2019 have a weighted-average fixed rate of interest of 4.64%.

Unsecured Debt Financings:

Unsecured Term Loan

On February 27, 2019, we entered into an aggregate $215,000 floating rate loan commitment with Development Bank of Japan Inc. and certain other banks (the "Unsecured Term Loan"). This loan is split into two tranches: Tranche A for $60,000 with a three-year term; and Tranche B for $155,000 with a five-year term. The loan contains a $750,000 minimum net worth covenant, along with other customary provisions similar to our revolving credit facilities. This loan was funded in March 2019.

The new Unsecured Term Loan replaces our existing term loan of $120,000 that matured on April 28, 2019.

Revolving Credit Facility

On December 27, 2018, we entered into a $250,000 three-year, unsecured revolving credit facility with a group of banks based in Asia. This new facility can be increased to a maximum of $350,000. On January 25, 2019, we increased the facility by $30,000 to $280,000. The facility bears interest at a rate of LIBOR plus 1.50% and matures in December

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2021. The facility contains provisions similar to our existing credit facilities, including a $750,000 minimum net worth covenant.

As a condition to this new facility, on January 9, 2019, we terminated our existing $135,000 revolving credit facility with a group of banks based in Asia.

At March 31, 2019, we had $375,000 outstanding under our revolving credit facilities and had $705,000 available for borrowing.

As of March 31, 2019, we were in compliance with all applicable covenants in our financings.

Note 8. Shareholders' Equity and Share-Based Payment

During the three months ended March 31, 2019, the Company granted 268,331 restricted common shares and granted 287,342 performance share units ("PSUs"). These awards were made under the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan. We repurchased 156,876 shares totaling $2,915 from our employees and directors to settle tax obligations related to share vesting.

During the three months ended March 31, 2019, the Company incurred share-based compensation expense of $1,257 related to restricted common shares and $1,469 related to PSUs.

As of March 31, 2019, there was $8,690 of unrecognized compensation cost related to unvested restricted common share-based payments and $10,643 of unrecognized compensation cost related to unvested PSU share-based payments that are expected to be recognized over a weighted-average remaining period of 1.94 years.

During the three months ended March 31, 2019, we repurchased 496,920 common shares at an aggregate cost of $8,733, including commissions. At March 31, 2019, the remaining dollar value of common shares that may be purchased under the repurchase program is $76,019.

Note 9. Dividends

The following table sets forth the quarterly dividends declared by our Board of Directors for the periods covered in this report:

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
February 8, 2019	$ 0.30	$ 22,518	February 28, 2019	March 15, 2019
October 30, 2018	$ 0.30	$ 22,867	November 30, 2018	December 14, 2018
August 3, 2018	$ 0.28	$ 21,870	August 31, 2018	September 14, 2018
May 1, 2018	$ 0.28	$ 21,908	May 31, 2018	June 15, 2018
February 9, 2018	$ 0.28	$ 22,085	February 28, 2018	March 15, 2018

Note 10. Earnings per Share

We include all common shares granted under our incentive compensation plan which remain unvested ("restricted common shares") and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ("participating securities"), in the number of shares outstanding in our basic earnings per share calculations using the two-class method. All of our restricted common shares are currently participating securities. Our PSUs are contingently issuable shares which are included in our diluted earnings per share calculations which do not include voting or dividend rights.

Under the two-class method, earnings per common share is computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average

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number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted-average shares outstanding during the period.

	Three Months Ended March 31,	
	2019	2018
Weighted-average shares:		
Common shares outstanding	74,703,791	78,366,588
Restricted common shares	434,531	431,161
Total weighted-average shares	75,138,322	78,797,749
Percentage of weighted-average shares:		
Common shares outstanding	99.42 %	99.45 %
Restricted common shares	0.58 %	0.55 %
Total percentage of weighted-average shares	100.00 %	100.00 %

The calculations of both basic and diluted earnings per share are as follows:

	Three Months Ended March 31,	
	2019	2018
Earnings per share – Basic:		
Net income	$34,810	$57,547
Less: Distributed and undistributed earnings allocated to restricted common shares[1]	(201)	(315)
Earnings available to common shareholders – Basic	$34,609	$57,232
Weighted-average common shares outstanding – Basic	74,703,791	78,366,588
Earnings per common share – Basic	$0.46	$0.73
Earnings per share – Diluted:		
Net income	$34,810	$57,547
Less: Distributed and undistributed earnings allocated to restricted common shares[1]	(201)	(315)
Earnings available to common shareholders – Diluted	$34,609	$57,232