

Edgar Filing: Aircastle LTD - Form 10-Q

Aircastle LTD  
Form 10-Q  
May 03, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 001-32959

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AIRCASTLE LIMITED

(Exact name of registrant as specified in its charter)

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

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c/o Aircastle Advisor LLC	06901
201 Tresser Boulevard, Suite 400, Stamford, CT	(Zip Code)
(Address of principal executive offices)	
Registrant's telephone number, including area code	(203) 504-1020

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES  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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging growth company	<input type="checkbox"/>

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

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As of April 27, 2018, there were 78,388,985 outstanding shares of the registrant's common shares, par value \$0.01 per share.

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Aircastle Limited and Subsidiaries  
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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, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$210,815	\$ 211,922
Restricted cash and cash equivalents	21,524	21,935
Accounts receivable	7,818	12,815
Flight equipment held for lease, net of accumulated depreciation of \$1,109,182 and \$1,125,594, respectively	6,143,695	6,188,469
Net investment in finance and sales-type leases	533,373	545,750
Unconsolidated equity method investments	78,220	76,982
Other assets	173,654	141,210
Total assets	\$7,169,099	\$ 7,199,083
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings from secured financings, net of debt issuance costs	\$824,189	\$ 849,874
Borrowings from unsecured financings, net of debt issuance costs	3,391,224	3,463,732
Accounts payable, accrued expenses and other liabilities	139,961	140,221
Lease rentals received in advance	66,350	57,630
Security deposits	130,350	130,628
Maintenance payments	679,571	649,434
Total liabilities	5,231,645	5,291,519
Commitments and Contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
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, 78,539,191 shares issued and outstanding at March 31, 2018; and 78,707,963 shares issued and outstanding at December 31, 2017	785	787
Additional paid-in capital	1,522,113	1,527,796
Retained earnings	415,605	380,331
Accumulated other comprehensive loss	(1,049	) (1,350
Total shareholders' equity	1,937,454	1,907,564
Total liabilities and shareholders' equity	\$7,169,099	\$ 7,199,083

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

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Lease rental revenue	\$177,483	\$190,586
Finance and sales-type lease revenue	9,442	4,073
Amortization of lease premiums, discounts and incentives	(3,128 )	(3,112 )
Maintenance revenue	11,991	12,287
Total lease revenue	195,788	203,834
Gain on sale of flight equipment	5,768	759
Other revenue	1,124	439
Total revenues	202,680	205,032
Operating expenses:		
Depreciation	75,002	79,174
Interest, net	57,108	63,068
Selling, general and administrative (including non-cash share-based payment expense of \$2,378 and \$2,102 for the three months ended March 31, 2018 and 2017, respectively)	17,835	16,167
Impairment of flight equipment	—	500
Maintenance and other costs	988	2,931
Total expenses	150,933	161,840
Total other income (expense)	3,174	(1,149 )
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	54,921	42,043
Income tax (benefit) provision	(844 )	1,846
Earnings of unconsolidated equity method investments, net of tax	1,782	2,242
Net income	\$57,547	\$42,439
Earnings per common share — Basic:		
Net income per share	\$0.73	\$0.54
Earnings per common share — Diluted:		
Net income per share	\$0.73	\$0.54
Dividends declared per share	\$0.28	\$0.26

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

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$57,547	\$42,439
Other comprehensive income, net of tax:		
Net derivative loss reclassified into earnings	301	581
Other comprehensive income	301	581
Total comprehensive income	\$57,848	\$43,020

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

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$57,547	\$42,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	75,002	79,174
Amortization of deferred financing costs	3,533	4,155
Amortization of lease premiums, discounts and incentives	3,128	3,112
Deferred income taxes	1,306	1,309
Non-cash share-based payment expense	2,378	2,102
Cash flow hedges reclassified into earnings	301	581
Security deposits and maintenance payments included in earnings	(665)	(10,524)
Gain on sale of flight equipment	(5,768)	(759)
Impairment of flight equipment	—	500
Other	(4,501)	112
Changes in certain assets and liabilities:		
Accounts receivable	4,320	(1,407)
Other assets	(2,666)	(1,000)
Accounts payable, accrued expenses and other liabilities	(57)	14,334
Lease rentals received in advance	8,554	(2,552)
Net cash and restricted cash provided by operating activities	142,412	131,576
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(82,493)	(142,053)
Proceeds from sale of flight equipment	43,917	16,819
Net investment in finance and sales-type leases	(16,256)	(35,785)
Collections on finance and sales-type leases	6,493	5,614
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	2,900	(1,935)
Other	1,320	88
Net cash and restricted cash used in investing activities	(44,119)	(157,252)
Cash flows from financing activities:		
Repurchase of shares	(9,413)	(2,513)
Proceeds from secured and unsecured debt financings	—	500,000
Repayments of secured and unsecured debt financings	(101,725)	(31,178)
Deferred financing costs	—	(8,038)
Security deposits and maintenance payments received	53,674	41,049
Security deposits and maintenance payments returned	(20,262)	(39,383)
Dividends paid	(22,085)	(20,466)
Net cash and restricted cash (used in) provided by financing activities	(99,811)	439,471
Net (decrease) increase in cash and restricted cash	(1,518)	413,795
Cash and restricted cash at beginning of period	233,857	508,817
Cash and restricted cash at end of period	\$232,339	\$922,612





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

	Three Months Ended March 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$36,949	\$37,778
Cash paid for income taxes	\$3,884	\$872
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	\$7,751	\$65
Advance lease rentals, security deposits, and maintenance payments, other liabilities and other assets settled in sale of flight equipment	\$17,951	\$3,373
Transfers from Flight equipment held for lease to Net investment in finance and sales-type leases and Other assets	\$31,430	\$—

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

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 March 31, 2018

#### 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 on 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, 2017.

As part of the Company’s adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), we have reclassified Gain on sale of flight equipment from Other income (expense) to Revenues on our Consolidated Statement of Income as of March 31, 2018.

We believe this better reflects the sale of flight equipment as part of our ordinary activities and conforms our presentation to those of our publicly traded peers. The presentation for the three months ended March 31, 2017 has also been reclassified to conform to the current period presentation:

	Three Months Ended March 31, 2017
Total revenues as previously reported	\$204,273
Gain on sale of flight equipment	759
Total revenues	\$205,032

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, 2018 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Effective January 1, 2018, the Company adopted FASB ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The standard clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The update is applied using a retrospective transition method to each period presented. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and related updates, as noted above. Lease contracts within the scope of Accounting Standards Codification (“ASC”) 840, Leases, are specifically excluded from ASU No. 2014-09. The standard’s core principle is

that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The update is applied using the modified

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Aircastle Limited and Subsidiaries  
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March 31, 2018

retrospective approach. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2018, the Company adopted FASB ASU No. 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. In addition, when applicable, disclosure is required to indicate that compensation expense has not changed. The update is applied using a prospective transition method to each period presented. The standard did not have a material impact on our consolidated financial statements and related disclosures.

#### 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.

#### Recent Accounting Pronouncements

On February 25, 2016, the FASB issued ASC 842, Leases (“ASC 842”) which replaced the existing guidance in ASC 840, Leases (“ASC 840”). The accounting for leases by lessors basically remained unchanged from the concepts that existed in ASC 840 accounting. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance 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 forthcoming revenue recognition standard, which evaluates whether a sale has occurred from the customer’s perspective. The standard will be effective for reporting periods beginning after December 15, 2018. The standard is to be applied on a “modified retrospective” basis with a proposed practical expedient. We plan to adopt the standard on its required effective date of January 1, 2019 and are evaluating the transition method to use. We are also evaluating the impact that ASC 842 will have on our consolidated financial statements and related disclosures. We do not believe that the adoption of the standard will significantly impact our existing or potential lessees’ economic decisions to lease aircraft.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard affects entities holding financial assets and net investment 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 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

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Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
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 March 31, 2018

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.

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, 2018 and December 31, 2017 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.

Fair Value Measurements at March 31, 2018

Using Fair Value Hierarchy

Quoted Prices

	Fair Value as of March 31, 2018	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	\$ 210,815	\$ 210,815	\$ —	\$ —	—Market
Restricted cash and cash equivalents	21,524	21,524	—	—	Market
Derivative assets	6,428	—	6,428	—	Market
Total	\$ 238,767	\$ 232,339	\$ 6,428	\$ —	

Fair Value Measurements at December 31, 2017

Using Fair Value Hierarchy

Quoted Prices

	Fair Value as of December 31, 2017	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	\$ 211,922	\$ 211,922	\$ —	\$ —	—Market
Restricted cash and cash equivalents	21,935	21,935	—	—	Market

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Derivative assets	3,254	—	3,254	—	Market
Total	\$ 237,111	\$ 233,857	\$ 3,254	\$ —	—

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Aircastle Limited and Subsidiaries  
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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 interest rate derivative included in Level 2 consists of United States dollar-denominated interest rate cap, 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, 2018 and the year ended December 31, 2017, 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. 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.

#### 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 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, 2018 and December 31, 2017 were as follows:

	March 31, 2018		December 31, 2017	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	\$ 100,000	\$ 100,000	\$ 175,000	\$ 175,000
Unsecured Term Loan	120,000	120,000	120,000	120,000
ECA Financings	218,006	219,461	227,491	232,030
Bank Financings	617,806	619,245	634,898	634,132
Senior Notes	3,200,000	3,296,195	3,200,000	3,367,245

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



Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 March 31, 2018

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, 2018 were as follows:

Year Ending December 31,	Amount
Remainder of 2018	\$544,676
2019	645,622
2020	526,357
2021	412,130
2022	319,117
Thereafter	668,344
Total	\$3,116,246

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

Region	Three Months Ended March 31,	
	2018	2017
Asia and Pacific	35 %	40 %
Europe	29 %	22 %
Middle East and Africa	11 %	12 %
North America	8 %	7 %
South America	17 %	19 %
Total	100 %	100 %

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

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

	Three Months Ended March 31,		2017	
	2018	2017	2017	2017
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	3	19%	3	19%

At March 31, 2018 and December 31, 2017, no country represented at least 10% of total revenue based on each counterparty's principal place of business.

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

Region	March 31, 2018			December 31, 2017		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Asia and Pacific	62	31	%	59	30	%
Europe	88	31	%	92	32	%
Middle East and Africa	14	8	%	15	9	%
North America	30	10	%	32	10	%
South America	26	19	%	25	19	%
Off-lease	2	<sup>(1)</sup> 1	%	1	<sup>(2)</sup> —	%
Total	222	100	%	224	100	%

(1) Consisted of one Airbus A321-200 aircraft and one Boeing 747-400ERF aircraft, both of which were delivered on lease to customers in the second quarter of 2018.

(2) Consisted of one Airbus A321-200 aircraft, which was delivered on lease to a customer in the second quarter of 2018.

At March 31, 2018 and December 31, 2017, no country represented at least 10% of net book value of flight equipment based on each lessee’s principal place of business.

At March 31, 2018 and December 31, 2017, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were \$13,813 and \$11,496, respectively.

#### Note 4. Net Investment in Finance and Sales-Type Leases

At March 31, 2018, our net investment in finance and sales-type leases consisted of 30 aircraft. The following table lists the components of our net investment in finance and sales-type leases at March 31, 2018:

	Amount
Total lease payments to be received	\$314,311
Less: Unearned income	(162,620 )
Estimated residual values of leased flight equipment (unguaranteed)	381,682
Net investment in finance and sales-type leases	\$533,373

At March 31, 2018, minimum future lease payments on finance and sales-type leases are as follows:

Year Ending December 31,	Amount
Remainder of 2018	\$50,583
2019	66,285
2020	63,840
2021	53,057
2022	42,460
Thereafter	38,086
Total lease payments to be received	\$314,311

Aircastle Limited and Subsidiaries  
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 March 31, 2018

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 ("IBJL").

At March 31, 2018, the net book value of both joint ventures' twelve aircraft was approximately \$634,000.

	Amount
Investment in joint ventures at December 31, 2017	\$76,982
Investment in joint ventures	356
Earnings from joint ventures, net of tax	1,782
Distributions	(900 )
Investment in joint ventures at March 31, 2018	\$78,220

The Company has recorded in its Consolidated Balance Sheet a \$13,200 guarantee liability in Maintenance payments and a \$5,100 guarantee liability in Security deposits representing its share of the respective exposures.

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 a finance lease. 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, 2018 of \$408,370, 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, 2018 is \$212,975.

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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:

Debt Obligation	At March 31, 2018			Final Stated Maturity	At
	Outstanding Borrowings	Number of Aircraft	Interest Rate		December 31, 2017
<b>Secured Debt Financings:</b>					
ECA Financings <sup>(1)</sup>	\$218,006	6	3.02% to 3.96%	12/03/21 to 11/30/24	\$227,491
Bank Financings <sup>(2)</sup>	617,806	23	2.22% to 4.49%	09/11/18 to 01/19/26	634,898
Less: Debt Issuance Costs	(11,623)	—			(12,515)
Total secured debt financings, net of debt issuance costs	824,189	29			849,874
<b>Unsecured Debt Financings:</b>					
Senior Notes due 2018	400,000		4.625%	12/15/18	400,000
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 Notes due 2023	500,000		5.00%	04/01/23	500,000
Senior Notes due 2024	500,000		4.125%	05/01/24	500,000
Unsecured Term Loan	120,000		4.125%	04/28/19	120,000
Revolving Credit Facilities	100,000		3.83%	11/21/19 to 05/13/20	175,000
Less: Debt Issuance Costs	(28,776)				(31,268)
Total unsecured debt financings, net of debt issuance costs	3,391,224				3,463,732
Total secured and unsecured debt financings, net of debt issuance costs	\$4,215,413				\$4,313,606

(1)The borrowings under these financings at March 31, 2018 have a weighted-average rate of interest of 3.58%.

(2)The borrowings under these financings at March 31, 2018 have a weighted-average fixed rate of interest of 4.16%. As of March 31, 2018, 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, 2018, the Company issued 291,876 restricted common shares and issued 306,359 performance share units ("PSUs"). These awards were made under the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan.

During the three months ended March 31, 2018, the Company incurred share-based compensation expense of \$1,504 related to restricted common shares and \$874 related to PSUs.

As of March 31, 2018, there was \$8,888 of unrecognized compensation cost related to unvested restricted common share-based payments and \$9,215 of unrecognized compensation cost related to unvested PSU share-based payments that are expected to be recognized over a weighted-average remaining period of 2.13 years.

During March 2018, we repurchased 354,737 common shares at an aggregate cost of \$6,918, including commissions.



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At March 31, 2018, the remaining dollar value of shares that may be repurchased under the repurchase program approved by our Board of Directors on February 9, 2016 is \$88,970.

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 9, 2018	\$ 0.28	\$ 22,085	February 28, 2018	March 15, 2018
October 31, 2017	\$ 0.28	\$ 22,039	November 30, 2017	December 15, 2017
August 4, 2017	\$ 0.26	\$ 20,464	August 31, 2017	September 15, 2017
May 2, 2017	\$ 0.26	\$ 20,482	May 31, 2017	June 15, 2017
February 9, 2017	\$ 0.26	\$ 20,466	February 28, 2017	March 15, 2017

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 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, 2018	2017
Weighted-average shares:		
Common shares outstanding	78,366,588	78,176,705
Restricted common shares	431,161	503,802
Total weighted-average shares	78,797,749	78,680,507
Percentage of weighted-average shares:		
Common shares outstanding	99.45	% 99.36
Restricted common shares	0.55	% 0.64
Total percentage of weighted-average shares	100.00	% 100.00



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

	Three Months Ended March 31,	
	2018	2017
Earnings per share – Basic:		
Net income	\$57,547	\$ 42,439
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(1)</sup>	(315 )	(272 )
Earnings available to common shareholders – Basic	\$57,232	\$ 42,167
Weighted-average common shares outstanding – Basic	78,366,588	78,176,705
Earnings per common share – Basic	\$0.73	\$ 0.54
Earnings per share – Diluted:		
Net income	\$57,547	\$ 42,439