

**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, 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
(State or other jurisdiction of
incorporation or organization)

98-0444035
(IRS Employer
Identification No.)

**c/o Aircastle Advisor LLC
201 Tresser Boulevard, Suite 400
Stamford
Connecticut
06901**

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(203) 504-1020**

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

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, 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"/>
		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 ☒

As of November 1, 2019, there were 74,635,330 outstanding shares of the registrant's common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries
Form 10-Q
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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)

	September 30, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 254,440	\$ 152,719
Restricted cash and cash equivalents	15,894	15,134
Accounts receivable	18,090	15,091
Flight equipment held for lease, net of accumulated depreciation of \$1,439,216 and \$1,221,985, respectively	7,240,553	6,935,585
Net investment in direct financing and sales-type leases	494,629	469,180
Unconsolidated equity method investments	69,027	69,111
Other assets	228,046	214,361
Total assets	<u>\$ 8,320,679</u>	<u>\$ 7,871,181</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs and discounts	\$ 1,183,487	\$ 798,457
Borrowings from unsecured financings, net of debt issuance costs and discounts	4,004,876	3,962,896
Accounts payable, accrued expenses and other liabilities	163,894	153,341
Lease rentals received in advance	101,775	87,772
Security deposits	124,373	120,962
Maintenance payments	703,945	739,072
Total liabilities	<u>6,282,350</u>	<u>5,862,500</u>
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, 74,635,330 shares issued and outstanding at September 30, 2019; and 75,454,511 shares issued and outstanding at December 31, 2018	746	754
Additional paid-in capital	1,456,438	1,468,779
Retained earnings	581,145	539,332
Accumulated other comprehensive loss	—	(184)
Total shareholders' equity	<u>2,038,329</u>	<u>2,008,681</u>
Total liabilities and shareholders' equity	<u>\$ 8,320,679</u>	<u>\$ 7,871,181</u>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Lease rental revenue	\$ 203,005	\$ 182,043	\$ 577,062	\$ 538,012
Direct financing and sales-type lease revenue	8,229	8,793	24,993	27,103
Amortization of lease premiums, discounts and incentives	(5,895)	(4,044)	(16,951)	(10,706)
Maintenance revenue	11,095	—	54,063	11,991
Total lease revenue	216,434	186,792	639,167	566,400
Gain on sale of flight equipment	13,083	2,954	25,431	28,586
Other revenue	7,348	1,083	9,610	2,799
Total revenues	236,865	190,829	674,208	597,785
Operating expenses:				
Depreciation	90,997	78,059	265,310	229,242
Interest, net	65,261	57,131	195,101	171,637
Selling, general and administrative (including non-cash share-based payment expense of \$3,300 and \$2,798 for the three months ended and \$9,203 and \$8,252 for the nine months ended September 30, 2019 and 2018, respectively)	17,956	18,306	54,273	54,724
Impairment of flight equipment	—	—	7,404	—
Maintenance and other costs	7,250	2,179	19,867	4,728
Total operating expenses	181,464	155,675	541,955	460,331
Other income (expense):				
Loss on extinguishment of debt	(7,577)	—	(7,577)	—
Other	(258)	368	(4,229)	4,443
Total other income (expense)	(7,835)	368	(11,806)	4,443
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	47,566	35,522	120,447	141,897
Income tax provision	5,505	1,236	14,595	3,524
Earnings of unconsolidated equity method investments, net of tax	1,274	2,046	3,405	5,709
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Earnings per common share — Basic:				
Net income per share	\$ 0.58	\$ 0.47	\$ 1.46	\$ 1.84
Earnings per common share — Diluted:				
Net income per share	\$ 0.57	\$ 0.46	\$ 1.44	\$ 1.83
Dividends declared per share	\$ 0.30	\$ 0.28	\$ 0.90	\$ 0.84

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)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Other comprehensive income, net of tax:				
Net derivative loss reclassified into earnings	—	288	184	883
Other comprehensive income	—	288	184	883
Total comprehensive income	<u>\$ 43,335</u>	<u>\$ 36,620</u>	<u>\$ 109,441</u>	<u>\$ 144,965</u>

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)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 109,257	\$ 144,082
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:		
Depreciation	265,310	229,242
Amortization of deferred financing costs	10,778	10,802
Amortization of lease premiums, discounts and incentives	16,951	10,706
Deferred income taxes	10,513	3,850
Non-cash share-based payment expense	9,203	8,252
Cash flow hedges reclassified into earnings	184	883
Collections on direct financing and sales-type leases	17,260	22,645
Security deposits and maintenance payments included in earnings	(37,281)	821
Gain on sale of flight equipment	(25,431)	(28,586)
Loss on extinguishment of debt	7,577	—
Impairment of flight equipment	7,404	—
Other	641	(11,377)
Changes in certain assets and liabilities:		
Accounts receivable	(11,994)	(9,731)
Other assets	2,437	1,541
Accounts payable, accrued expenses and other liabilities	(2,118)	6,476
Lease rentals received in advance	12,398	26,336
Net cash and restricted cash provided by operating activities	393,089	415,942
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(892,186)	(626,022)
Proceeds from sale of flight equipment	229,061	276,165
Net investment in direct financing and sales-type leases	—	(15,783)
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	15,829	(9,544)
Unconsolidated equity method investments and associated costs	(15,176)	—
Other	3,539	3,880
Net cash and restricted cash used in investing activities	(658,933)	(371,304)
Cash flows from financing activities:		
Repurchase of shares	(21,297)	(36,955)
Proceeds from secured and unsecured debt financings	2,066,848	873,902
Repayments of secured and unsecured debt financings	(1,637,269)	(535,808)
Debt extinguishment costs	(7,183)	—
Deferred financing costs	(13,711)	(6,628)
Security deposits and maintenance payments received	147,490	155,567
Security deposits and maintenance payments returned	(99,109)	(52,513)
Dividends paid	(67,444)	(65,863)
Net cash and restricted cash provided by financing activities	368,325	331,702
Net increase in cash and restricted cash:	102,481	376,340
Cash and restricted cash at beginning of period	167,853	233,857
Cash and restricted cash at end of period	\$ 270,334	\$ 610,197

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

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

	Nine Months Ended September 30,	
	2019	2018
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	\$ 254,440	\$ 593,922
Restricted cash and cash equivalents	15,894	16,275
Unrestricted and restricted cash and cash equivalents	<u>\$ 270,334</u>	<u>\$ 610,197</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	<u>\$ 181,332</u>	<u>\$ 144,844</u>
Cash (received) paid for income taxes	<u>\$ (497)</u>	<u>\$ 5,971</u>
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	<u>\$ 28,709</u>	<u>\$ 13,909</u>
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	<u>\$ 37,375</u>	<u>\$ 59,577</u>
Transfers from flight equipment held for lease to Net investment in direct financing and sales-type leases and Other assets	<u>\$ 104,838</u>	<u>\$ 40,198</u>

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

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

Nine Month Period Ending September 30, 2019

	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
Issuance of common shares to directors and employees	35,000	—	—	—	—	—
Repurchase of common shares from stockholders, directors and employees	(129,524)	(1)	(2,863)	—	—	(2,864)
Amortization of share-based payments	—	—	2,833	—	—	2,833
Dividends declared	—	—	—	(22,536)	—	(22,536)
Net income	—	—	—	31,112	—	31,112
Balance, June 30, 2019	74,983,114	\$ 750	\$ 1,460,534	\$ 560,200	\$ —	\$ 2,021,484
Repurchase of common shares from stockholders, directors and employees	(347,784)	(4)	(7,005)	—	—	(7,009)
Amortization of share-based payments	—	—	2,909	—	—	2,909
Dividends declared	—	—	—	(22,390)	—	(22,390)
Net income	—	—	—	43,335	—	43,335
Balance, September 30, 2019	74,635,330	\$ 746	\$ 1,456,438	\$ 581,145	\$ —	\$ 2,038,329

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

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

Nine Month Period Ending September 30, 2018

	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
Repurchase of common shares from stockholders, directors and employees	(295,153)	(3)	(5,571)	—	—	(5,574)
Amortization of share-based payments	—	—	2,750	—	—	2,750
Reclassification of prior year director stock award liability	—	—	187	—	—	187
Dividends declared	—	—	—	(21,908)	—	(21,908)
Net income	—	—	—	50,203	—	50,203
Net derivative loss reclassified into earnings	—	—	—	—	294	294
Balance, June 30, 2018	78,244,038	\$ 782	\$ 1,519,479	\$ 443,900	\$ (755)	\$ 1,963,406
Repurchase of common shares from stockholders, directors and employees	(1,064,175)	(10)	(21,958)	—	—	(21,968)
Amortization of share-based payments	—	—	2,528	—	—	2,528
Reclassification of prior year director stock award liability	—	—	(19)	—	—	(19)
Dividends declared	—	—	—	(21,870)	—	(21,870)
Net income	—	—	—	36,332	—	36,332
Net derivative loss reclassified into earnings	—	—	—	—	288	288
Balance, September 30, 2018	<u>77,179,863</u>	<u>\$ 772</u>	<u>\$ 1,500,030</u>	<u>\$ 458,362</u>	<u>\$ (467)</u>	<u>\$ 1,958,697</u>

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)
September 30, 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 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 the 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 September 30, 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 nine months ended September 30, 2019. This had previously been included within investing activities. The presentation for the nine months ended September 30, 2018, has also been reclassified to conform to the current period presentation:

	Nine Months Ended September 30, 2018
Net cash and restricted cash provided by operating activities as previously reported	\$ 393,297
Collections on direct financing and sales-type leases	22,645
Net cash and restricted cash provided by operating activities	<u>\$ 415,942</u>

The Company’s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of September 30, 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)
September 30, 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 takes effect for annual periods beginning after December 15, 2019. The Company’s net investments in direct financing and sales-type leases compose the financial assets principally affected by the standard. Operating lease receivables are not within the scope of ASC 326.

Upon the Company’s adoption of ASC 326 in 2020, our net investments in direct finance and sales-type leases will be recorded in the consolidated financial statements net of an allowance for credit losses. This allowance for credit losses will reflect the Company’s estimate of lessee default probabilities and loss given default percentages. This estimate of expected credit losses will consider relevant information about past events, current conditions, and reasonable and supportable forecasts

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2019

that affect the collectability of reported amounts. Additional consideration will be given for potential non-credit losses to unguaranteed residual values. We will adopt the standard using the “modified retrospective” approach with a January 1, 2020 adjustment to the opening balance of retained earnings. The Company does not anticipate that the adoption of the standard will have a material impact on the consolidated financial statements or related disclosures.

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. The Company does not anticipate that the adoption of the standard will have a material impact on the consolidated financial statements or 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. The Company does not anticipate that the adoption of the standard will have a material impact on the consolidated financial statements or 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. The Company does not anticipate that the adoption of the standard will have a material impact on the consolidated financial statements or 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).

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The following tables set forth our financial assets as of September 30, 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.

Fair Value Measurements at September 30, 2019 Using Fair Value Hierarchy					
	Fair Value as of September 30, 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	\$ 254,440	\$ 254,440	\$ —	\$ —	Market
Restricted cash and cash equivalents	15,894	15,894	—	—	Market
Derivative assets	379	—	379	—	Market
Total	\$ 270,713	\$ 270,334	\$ 379	\$ —	

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 consider the credit rating and risk of the counterparty providing the interest rate cap based on quantitative and qualitative factors.

For the three and nine months ended September 30, 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.

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Aircraft Valuation

Transactional Impairments

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

Annual Recoverability Assessment

We completed our annual recoverability assessment of our aircraft in the second quarter this year. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations. Other than the transactional impairment discussed above, no other impairments were recorded as a result of our annual recoverability assessment.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management’s experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

Management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no aircraft were impaired as a consequence of our annual recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the annual recoverability assessment are appropriate, actual results could differ from those estimates.

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 September 30, 2019 and December 31, 2018 were as follows:

	September 30, 2019		December 31, 2018	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	\$ 225,000	\$ 225,000	\$ 425,000	\$ 425,000
Unsecured Term Loan	215,000	215,000	120,000	120,000
ECA Financings	159,360	163,183	189,080	190,216
Bank Financings	1,037,166	1,057,020	619,715	623,604
Senior Notes	3,600,000	3,763,964	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.

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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 September 30, 2019 were as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
Remainder of 2019	\$ 197,966
2020	738,272
2021	658,360
2022	575,462
2023	495,994
Thereafter	921,965
Total	<u>\$ 3,588,019</u>

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

<u>Region</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Asia and Pacific	44%	34%	43%	35%
Europe	26%	27%	27%	28%
Middle East and Africa	9%	11%	10%	11%
North America	9%	11%	9%	9%
South America	12%	17%	11%	17%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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.

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:

	<u>Three Months Ended September 30,</u>				<u>Nine Months Ended September 30,</u>			
	<u>2019</u>		<u>2018</u>		<u>2019</u>		<u>2018</u>	
	<u>Number of Lessees</u>	<u>Combined % of Lease Rental Revenue</u>	<u>Number of Lessees</u>	<u>Combined % of Lease Rental Revenue</u>	<u>Number of Lessees</u>	<u>Combined % of Lease Rental Revenue</u>	<u>Number of Lessees</u>	<u>Combined % of Lease Rental Revenue</u>
Largest lessees by lease rental revenue	3	22%	3	19%	3	21%	3	19%

The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue (including maintenance revenue) based on each lessee's principal place of business for the periods indicated:

<u>Country</u>	<u>Three Months Ended September 30,</u>				<u>Nine Months Ended September 30,</u>			
	<u>2019</u>		<u>2018</u>		<u>2019</u>		<u>2018</u>	
	<u>Revenue</u>	<u>% of Total Revenue</u>	<u>Revenue</u>	<u>% of Total Revenue</u>	<u>Revenue</u>	<u>% of Total Revenue</u>	<u>Revenue</u>	<u>% of Total Revenue</u>
India ⁽¹⁾	\$ 26,700	11%	\$ —	—%	\$ 88,253	13%	\$ —	—%

(1) For the nine months ended September 30, 2019, total revenue attributable to India included maintenance revenue of \$15,374. For the three and nine months ended September 30, 2018, total revenue attributable to India was less than 10%.

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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:

<u>Region</u>	September 30, 2019		December 31, 2018	
	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Asia and Pacific	96	39%	78	36%
Europe	90	26%	87	27%
Middle East and Africa	16	7%	17	8%
North America	38	12%	35	10%
South America	26	15%	16	10%
Off-lease	2 ⁽¹⁾	1%	15 ⁽²⁾	9%
Total	268	100%	248	100%

(1) Consisted of one Airbus A320-200 aircraft, which is scheduled to be delivered to a lessee in Europe during the fourth quarter of 2019, and one Airbus A330-200 aircraft, which we are marketing for lease or sale.

(2) Consisted of ten Airbus A320-200 aircraft, one Airbus A330-200 aircraft, one Boeing 737-800 aircraft and one Boeing 777-300ER aircraft, all of which delivered on lease to customers during the first nine months of 2019, one Airbus A330-200 aircraft, which we are marketing for lease or sale and one Airbus A320-200 aircraft, which was sold 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:

<u>Country</u>	September 30, 2019			December 31, 2018		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
India	\$ 949,596	12%	4	\$ 865,046	12%	4

At September 30, 2019 and December 31, 2018, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were \$11,562 and \$15,636, respectively.

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

At September 30, 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 September 30, 2019:

	Amount
Total lease payments to be received	\$ 239,540
Less: Unearned income	(113,034)
Estimated residual values of leased flight equipment (unguaranteed)	368,123
Net investment in direct financing and sales-type leases	\$ 494,629

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At September 30, 2019, minimum future lease payments on direct financing and sales-type leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
Remainder of 2019	\$ 20,343
2020	67,035
2021	52,596
2022	42,100
2023	33,093
Thereafter	24,373
Total lease payments to be received	<u>\$ 239,540</u>

Note 5. Unconsolidated Equity Method Investments

We have joint ventures with an affiliate of Ontario Teachers' Pension Plan ("Teachers") and with Mizuho Leasing, the leasing arm of Mizuho Financial Group.

	<u>Amount</u>
Investment in joint ventures at December 31, 2018	\$ 69,111
Investment in joint ventures	15,176
Earnings from joint ventures, net of tax	3,405
Guarantee liabilities	(18,665)
Investment in joint ventures at September 30, 2019	<u>\$ 69,027</u>

As of September 30, 2019, the sale of all eight aircraft held by the joint venture with Teachers' to a single buyer was completed. Guarantee liabilities in Maintenance payments and Security deposits have been offset against the investment in joint venture, as we have no further obligations due to the sale of the joint venture's aircraft. Teachers', as majority shareholder, has chosen to liquidate the joint venture.

In March of 2019, we sold two aircraft to IBJ Air, in which we hold a 25% equity interest. The Company sold an additional two aircraft to IBJ Air in August of 2019. These transactions were approved by our Audit Committee as arm's length transactions under our related party policy.

At September 30, 2019, the net book value of the IBJ Air joint venture's nine aircraft was \$331,208.

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

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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 net investments in direct financing and sales-type leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of September 30, 2019 of \$381,164, 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 September 30, 2019 is \$156,816.

Note 7. Secured and Unsecured Debt Financings

The outstanding amounts of our secured and unsecured term debt financings are as follows:

<u>Debt Obligation</u>	At September 30, 2019				At December 31, 2018
	Outstanding Borrowings	Number of Aircraft	Interest Rate	Final Stated Maturity	Outstanding Borrowings
Secured Debt Financings:					
ECA Financings ⁽¹⁾	\$ 159,360	6	3.02% to 3.96%	12/03/21 to 11/30/24	\$ 189,080
Bank Financings ⁽²⁾	1,037,166	36	3.13% to 4.63%	06/17/23 to 01/19/26	619,715
Less: Debt issuance costs and discounts	(13,039)	—			(10,338)
Total secured debt financings, net of debt issuance costs and discounts	1,183,487	42			798,457
Unsecured Debt Financings:					
Senior Notes due 2019 ⁽³⁾	—		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
Senior Notes due 2026	650,000		4.250%	06/15/26	—
Unsecured Term Loans	215,000		3.61%	03/07/22 to 03/07/24	120,000
Revolving Credit Facilities	225,000		3.56% to 3.84%	12/27/21 to 06/27/22	425,000
Less: Debt issuance costs and discounts	(35,124)				(32,104)
Total unsecured debt financings, net of debt issuance costs and discounts	4,004,876				3,962,896
Total secured and unsecured debt financings, net of debt issuance costs and discounts	\$ 5,188,363				\$ 4,761,353

(1) The borrowings under these financings at September 30, 2019 have a weighted-average rate of interest of 3.57%.

(2) The borrowings under these financings at September 30, 2019 have a weighted-average fixed rate of interest of 3.89%.

(3) Repaid on July 15, 2019.

Secured Debt Financing:

Bank Financings

On May 1, 2019, we entered into a full recourse \$320,000 secured bank financing with BNP Paribas and Société Générale in relation to eight Airbus A320-200neo aircraft on lease with a customer in Asia. This financing bears interest at

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a fixed rate of 3.61% and matures in September 2024. In addition, on May 1, 2019, we entered into a full recourse \$120,000 secured bank financing with Crédit Agricole in relation to three Airbus A320-200neo aircraft on lease with a customer in Asia. This financing bears interest at a fixed rate of 3.13% and matures in March 2025.

On June 26, 2019, we amended and restated the original loan agreement, dated October 11, 2018, with National Bank of Australia to include an additional \$40,000 in financing for two Boeing 737-800 aircraft on lease with a customer in North America. The financing for these two aircraft bears interest at a fixed rate of 3.14% and matures in December 2024.

Unsecured Debt Financings:

Senior Notes due 2026

On June 13, 2019, Aircastle issued \$650,000 aggregate principal amount of Senior Notes due 2026 (the “Senior Notes due 2026”) at an issue price of 99.515%. The Senior Notes due 2026 will mature on June 15, 2026 and bear interest at the rate of 4.250% per annum, payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2019. Interest accrues on the Senior Notes due 2026 from June 13, 2019.

Prior to April 15, 2026, we may redeem all or part of the aggregate principal amount of the Senior Notes due 2026 at any time at a redemption price equal to the greater of (a) 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date and (b) the sum of the present values of 100% of the principal amount of the notes redeemed and the remaining scheduled payments of interest on the notes from the redemption date through April 15, 2026 (computed using a discount rate equal to the Treasury Rate (as defined in the indenture governing the Senior Notes due 2026) as of such redemption date plus 0.35%, plus accrued and unpaid interest thereon to, but not including, the redemption date). In addition, on or after April 15, 2026, we may redeem all or part of the aggregate principal amount of the Senior Notes due 2026 at a redemption price equal to 100%, plus accrued and unpaid interest thereon to, but not including, the redemption date. If the Company undergoes a change of control (as defined in the indenture governing the Senior Notes due 2026) and, as a result of the change of control, the rating of the Senior Notes due 2026 is downgraded to below an investment grade rating by certain rating agencies in the manner specified in the indenture governing the Senior Notes due 2026, it must offer to repurchase the Senior Notes due 2026 at a price of 101% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the purchase date. The Senior Notes due 2026 are not guaranteed by any of the Company's subsidiaries or any third-party.

The net proceeds from the issuance were used to repay amounts drawn under our existing revolving credit facility and to redeem the balance of our 6.25% Senior Notes due 2019, including accrued interest of \$3,733 and call premium of \$7,183, on July 15, 2019.

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 replaced 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. On June 20, 2019, we further increased the facility by \$20,000 to \$300,000. The facility bears interest at a rate of LIBOR plus 1.50% and matures in December 2021. The facility contains provisions similar to our existing credit facility, including a \$750,000 minimum net worth covenant.

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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 September 30, 2019, we had \$225,000 amounts outstanding under our revolving credit facilities and had \$875,000 available for borrowing.

As of September 30, 2019, we were in compliance with all applicable covenants in our financings.

Note 8. Shareholders' Equity and Share-Based Payment

During the nine months ended September 30, 2019, the Company granted 303,331 restricted common shares and granted 320,944 performance share units ("PSUs"). These awards were made under the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan. We repurchased 157,576 shares totaling \$2,915 from our employees and directors to settle tax obligations related to share vesting and canceled shares.

During the nine months ended September 30, 2019, the Company incurred share-based compensation expense of \$4,104 related to restricted common shares and \$5,099 related to PSUs.

As of September 30, 2019, there was \$6,380 of unrecognized compensation cost related to unvested restricted common share-based payments and \$7,942 of unrecognized compensation cost related to unvested PSU share-based payments that are expected to be recognized over a weighted-average remaining period of 1.78 years.

On May 21, 2019, our Board of Directors increased the authorization to repurchase the Company's common shares to \$100,000 from the \$76,019 that was remaining under the previous authorization. During the nine months ended September 30, 2019, we repurchased 973,528 common shares at an aggregate cost of \$18,382, including commissions. At September 30, 2019, the remaining dollar value of common shares that may be purchased under the repurchase program is \$90,351.

Note 9. Dividends

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

<u>Declaration Date</u>	<u>Dividend per Common Share</u>	<u>Aggregate Dividend Amount</u>	<u>Record Date</u>	<u>Payment Date</u>
August 2, 2019	\$ 0.30	\$ 22,390	August 30, 2019	September 16, 2019
April 30, 2019	\$ 0.30	\$ 22,536	May 31, 2019	June 14, 2019
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

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

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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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average shares:				
Common shares outstanding	74,331,990	77,599,803	74,561,525	77,956,159
Restricted common shares	518,545	488,771	492,777	472,999
Total weighted-average shares	<u>74,850,535</u>	<u>78,088,574</u>	<u>75,054,302</u>	<u>78,429,158</u>
Percentage of weighted-average shares:				
Common shares outstanding	99.31%	99.37%	99.34%	99.40%
Restricted common shares	0.69%	0.63%	0.66%	0.60%
Total percentage of weighted-average shares	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings per share – Basic:				
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(300)	(227)	(717)	(869)
Earnings available to common shareholders – Basic	<u>\$ 43,035</u>	<u>\$ 36,105</u>	<u>\$ 108,540</u>	<u>\$ 143,213</u>
Weighted-average common shares outstanding – Basic	<u>74,331,990</u>	<u>77,599,803</u>	<u>74,561,525</u>	<u>77,956,159</u>
Earnings per common share – Basic	<u>\$ 0.58</u>	<u>\$ 0.47</u>	<u>\$ 1.46</u>	<u>\$ 1.84</u>
Earnings per share – Diluted:				
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(300)	(227)	(717)	(869)
Earnings available to common shareholders – Diluted	<u>\$ 43,035</u>	<u>\$ 36,105</u>	<u>\$ 108,540</u>	<u>\$ 143,213</u>
Weighted-average common shares outstanding – Basic	74,331,990	77,599,803	74,561,525	77,956,159
Effect of dilutive shares ⁽²⁾	935,047	295,671	765,354	287,136
Weighted-average common shares outstanding – Diluted	<u>75,267,037</u>	<u>77,895,474</u>	<u>75,326,879</u>	<u>78,243,295</u>
Earnings per common share – Diluted	<u>\$ 0.57</u>	<u>\$ 0.46</u>	<u>\$ 1.44</u>	<u>\$ 1.83</u>

(1) For the three months ended September 30, 2019 and 2018, distributed and undistributed earnings to restricted shares were 0.69% and 0.63%, respectively, of net income. For the nine months ended September 30, 2019 and 2018, distributed and undistributed earnings to restricted shares were 0.66% and 0.60%, respectively, of net income. The amount of restricted share forfeitures for all periods presented are immaterial to the allocation of distributed and undistributed earnings.

(2) For all periods presented, dilutive shares represented contingently issuable shares.

Note 11. Income Taxes

Income taxes have been provided based on the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes

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relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland and the United States.

The sources of income from continuing operations before income taxes and earnings of our unconsolidated equity method investments for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
U.S. operations	\$ 2,603	\$ 3,033	\$ 6,478	\$ 4,504
Non-U.S. operations	44,963	32,489	113,969	137,393
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	<u>\$ 47,566</u>	<u>\$ 35,522</u>	<u>\$ 120,447</u>	<u>\$ 141,897</u>

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. are subject to tax in those respective jurisdictions.

We have a U.S. based subsidiary which provides management services to our subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The consolidated income tax expense for the three and nine months ended September 30, 2019 and 2018 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2019 and 2018, respectively.

The Company's effective tax rate ("ETR") for the three and nine months ended September 30, 2019 was 11.6% and 12.1%, respectively, compared to 3.5% and 2.5%, respectively, for the three and nine months ended September 30, 2018. The second quarter of 2019 included a non-cash tax expense of \$2,845 related to a fair value adjustment on an intercompany asset transfer, which was treated as a discrete item. The first quarter of 2018 included a \$2,779 tax benefit related to the Singapore rate reduction from 10% to 8%, which was treated as a discrete item. Excluding these discrete items, the ETR for the nine months ended September 30, 2019 would have been 9.8% compared to 4.5% for the nine months ended September 30, 2018. Movements in the ETR are generally caused by changes in the proportion of the Company's pre-tax earnings in taxable and non-tax jurisdictions. During the three and nine months ended September 30, 2019, we reported a significant decrease in Bermuda income primarily relating to Avianca Brazil and an increase in Ireland income primarily related to Jet Airways.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Notional U.S. federal income tax expense at the statutory rate	\$ 9,989	\$ 7,459	\$ 25,294	\$ 29,798
U.S. state and local income tax, net	221	188	611	291
Non-U.S. operations:				
Bermuda	(3,194)	(5,501)	(11,242)	(19,896)
Ireland	(1,102)	(100)	1,500	(1,228)
Singapore	(14)	(2)	(18)	(2,826)
Other low tax jurisdictions	(630)	(835)	(2,354)	(2,478)
Non-deductible expenses in the U.S.	235	27	804	(137)
Income tax provision	<u>\$ 5,505</u>	<u>\$ 1,236</u>	<u>\$ 14,595</u>	<u>\$ 3,524</u>

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2019

Note 12. Interest, Net

The following table shows the components of interest, net:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest on borrowings and other liabilities ⁽¹⁾	\$ 62,204	\$ 53,683	\$ 186,122	\$ 161,640
Amortization of deferred losses related to interest rate derivatives	—	288	184	883
Amortization of deferred financing fees and debt discount ⁽²⁾	3,820	3,760	10,778	10,802
Interest expense	66,024	57,731	197,084	173,325
Less: Interest income	(763)	(365)	(1,983)	(1,355)
Less: Capitalized interest	—	(235)	—	(333)
Interest, net	<u>\$ 65,261</u>	<u>\$ 57,131</u>	<u>\$ 195,101</u>	<u>\$ 171,637</u>

(1) Includes a loan termination gain of \$838 related to the sale of aircraft during both the three and nine months ended September 30, 2018.

(2) Includes \$300 in deferred financing fees written off related to the sale of aircraft during both the three and nine months ended September 30, 2018.

Note 13. Commitments and Contingencies

Rent expense, primarily for the corporate offices and sales and marketing offices, was \$420 and \$570 for the three months ended and \$1,190 and \$1,700 for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut; Dublin, Ireland; and Singapore for future minimum lease payments as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
Remainder of 2019	\$ 660
2020	1,857
2021	1,888
2022	1,800
2023	1,690
Thereafter	7,823
Total	<u>\$ 15,718</u>

At September 30, 2019, we had commitments to acquire 32 aircraft for \$1,147,244, including 25 Embraer E-Jet E2 aircraft.

Commitments, including \$133,955 of remaining progress payments, contractual price escalations and other adjustments for these aircraft, at September 30, 2019, net of amounts already paid, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
Remainder of 2019	\$ 210,144
2020	142,588
2021	728,830
2022	65,682
Total	<u>\$ 1,147,244</u>

As of November 1, 2019, we had commitments to acquire 28 aircraft for \$1,033,344.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2019

Note 14. Other Assets

The following table describes the principal components of other assets on our Consolidated Balance Sheets as of:

	September 30, 2019	December 31, 2018
Deferred income tax asset	\$ 2,213	\$ 912
Lease incentives and lease premiums, net of amortization of \$68,924 and \$47,304, respectively	112,388	99,079
Flight equipment held for sale	45,987	11,707
Aircraft purchase deposits and progress payments ⁽¹⁾	19,035	39,948
Fair value of interest rate cap	379	4,886
Note receivable ⁽²⁾	712	4,292
Right-of-use asset ⁽³⁾	9,598	—
Other assets	37,734	53,537
Total other assets	\$ 228,046	\$ 214,361

(1) Includes progress payments for Embraer E2 aircraft order.

(2) Related to the sale of aircraft during the year ended December 31, 2017.

(3) Net of lease incentives and tenant allowances.

Note 15. Accounts Payable, Accrued Expenses and Other Liabilities

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded on our Consolidated Balance Sheets as of:

	September 30, 2019	December 31, 2018
Accounts payable, accrued expenses and other liabilities	\$ 39,709	\$ 57,220
Deferred income tax liability	58,132	43,720
Accrued interest payable	49,689	45,277
Lease liability	13,059	—
Lease discounts, net of amortization of \$44,109 and \$43,935, respectively	3,305	7,124
Total accounts payable, accrued expenses and other liabilities	\$ 163,894	\$ 153,341

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

This management’s discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under “Risk Factors” and included in our Annual Report on Form 10-K for the year ended December 31, 2018 and in our Form 10-Q for the quarterly period ended June 30, 2019, filed with the Securities and Exchange Commission (the “SEC”). Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with U.S. GAAP. Unless otherwise indicated, all references to “dollars” and “\$” in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q (this “report”), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “may,” “will,” “would,” “could,” “should,” “seeks,” “estimates” and variations on these words and similar expressions are intended to identify such forward-looking statements. These statements are based on our historical performance and that of our subsidiaries and on our current plans, estimates and expectations and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle’s filings with the SEC and previously disclosed under “Risk Factors” in Part I - Item 1A of Aircastle’s 2018 Annual Report on Form 10-K and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

WEBSITE AND ACCESS TO THE COMPANY’S REPORTS

The Company’s Internet website can be found at www.aircastle.com. Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available free of charge through our website under “Investors — Financial Information — SEC Filings” as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

Statements and information concerning our status as a Passive Foreign Investment Company (“PFIC”) for U.S. taxpayers are also available free of charge through our website under “Investors — Tax Information (PFIC).”

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under “Investors — Corporate Governance.” In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 201 Tresser Boulevard, Suite 400, Stamford, Connecticut 06901.

The information on the Company’s Internet website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

OVERVIEW

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of September 30, 2019, we owned and managed on behalf of our joint ventures 277 aircraft leased to 87 lessees located in 48 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs. In many cases we are, however, obligated to pay a specified portion of maintenance or modification costs. As of September 30, 2019, the net book value (including flight equipment held for lease and net investment in direct financing and sales-type leases, or “net book value”) was \$7.74 billion compared to \$7.40 billion at December 31, 2018. Our revenues and net income for the three and nine months ended September 30, 2019 were \$236.9 million and \$674.2 million, and \$43.3 million and \$109.3 million, respectively.

Growth in commercial air traffic is broadly correlated with world economic activity. In recent years, commercial air traffic growth has expanded at a rate 1.5 to 2 times that of global GDP growth. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently approximately 22,100 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at a three to four percent average annual rate over the next twenty years. Aircraft leasing companies own approximately 44% of the world’s commercial jet aircraft.

2019 continues to show strong growth in air traffic. According to the International Air Transport Association, during the first eight months of 2019, global passenger traffic increased 4.5% compared to the same period in 2018. Demand for air travel varies by region. Emerging market economies have generally been experiencing greater increases in air traffic, driven by rising levels of per capita income leading to an increased propensity to fly. Mature markets, such as North America and Western Europe, have been growing more slowly in tandem with their economies. Air traffic growth is also being driven by the proliferation of low cost carriers, which have stimulated demand through lower prices. The outlook for airlines operating in areas with political instability or weakening economies is more uncertain. On balance, we believe air travel will increase over time and, as a result, we expect demand for modern aircraft will continue to remain strong over the long-term.

Notwithstanding the sector’s long-term growth, the aviation market is subject to economic variability due to changes in macroeconomic variables, such as interest rates, fuel price levels and foreign exchange rates. The aviation industry is also susceptible to external shocks, such as regional conflicts and terrorist events. Mitigating this risk is the portability of the assets, allowing aircraft to be redeployed to locations where there is demand.

Fuel prices and interest rates have had a substantial effect on our industry. After dropping to a low of \$36 per barrel in December 2015, the price of fuel has risen to an average of \$60 per barrel during 2019. While still below historic highs, higher fuel prices have impacted airline profitability. The prolonged low interest rate environment and the strong overall performance of the aircraft financing sector attracted significant new capital, increasing competition for new investments and putting pressure on margins and returns. After the Federal Reserve increased interest rates in the U.S. during 2018, the Federal Reserve cut the Funds rate by 25 basis points three times during the first ten months of 2019, its first interest rate cuts since December 2008. Future cuts to the interest rate by the Federal Reserve are possible depending upon domestic and global economic conditions at such time.

Capital availability for aircraft has varied over time, and we consider this variability to be a basic characteristic of our business. If pursued properly, this represents an important source of investment opportunity. Strong U.S. debt capital market conditions benefit borrowers by permitting access to financing at historic lows. Commercial bank debt also continues to play a critical role for aircraft finance. While financial market conditions remain attractive, geopolitical issues may increase capital costs and limit availability going forward.

We believe capital market developments should generate attractive additional investment and trading opportunities for which we are well placed to capitalize given our access to different financing sources, our limited capital commitments and our reputation as a reliable trading partner. Our investment grade credit ratings from Moody’s, Standard & Poor’s and Fitch allowed us to reduce our borrowing costs for our two most recent bond deals and will enable us to more reliably access debt capital throughout the business cycle.

Our business approach is differentiated from those of other large leasing companies. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so the nature and volume of assets we buy will vary over time with market conditions. We plan to grow our business and profits over the long-term while maintaining a conservative, flexible capital structure. We prefer to have capital resources available to capture investment opportunities

that arise in the context of changing market circumstances. As such, we limit large, long-term capital commitments and are therefore less reliant on orders for new aircraft from aircraft manufacturers as a source of new investments than many of our competitors.

Our business strategy entails the following elements:

- **Pursuing a disciplined and differentiated investment strategy.** In our view, the relative values of different aircraft change over time. We continually evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices as market conditions and relative investment values change. We believe our team's experience with a wide range of asset types and the financing flexibility offered through unsecured debt provides us with a competitive advantage. We view orders from equipment manufacturers to be part of our investment opportunity set, but choose to keep our long term capital commitments limited.
- **Originating investments from many different sources across the globe.** Our strategy is to seek out worthwhile investments by leveraging our team's wide range of contacts. We utilize a multi-channel approach to sourcing acquisitions and have purchased aircraft from a large number of airlines, lessors, original equipment manufacturers, lenders and other aircraft owners. Since our formation in 2004, we have acquired aircraft from 94 different sellers.
- **Selling assets when attractive opportunities arise.** We sell assets with the aim of realizing profits and reinvesting proceeds. We also use asset sales for portfolio management purposes, such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types. Since our formation, we have sold aircraft to 69 buyers.
- **Maintaining efficient access to capital from a wide set of sources and leveraging our recent investment grade credit rating.** We believe the aircraft investment market is influenced by the business cycle. Our strategy is to increase our purchase activity when prices are low and to emphasize asset sales when prices are high. To implement this approach, we believe it is important to maintain access to a wide variety of financing sources. During 2018, we achieved our objective of improving our corporate credit ratings to an investment grade level by maintaining strong portfolio and capital structure metrics while achieving a critical size through accretive growth. We believe our improved credit rating will not only reduce our borrowing costs, but also facilitate more reliable access to both unsecured and secured debt capital throughout the business cycle.
- **Leveraging our strategic relationships.** We intend to capture the benefits provided through the extensive global contacts and relationships maintained by Marubeni Corporation ("Marubeni"), which is our largest shareholder and is one of the largest Japanese trading companies. Marubeni has enabled greater access to Japanese-based financing and helped source and develop our joint venture with the leasing arm of the Industrial Bank of Japan, Limited.
- **Capturing the value of our efficient operating platform and strong operating track record.** We believe our team's capabilities in the global aircraft leasing market places us in a favorable position to source and manage new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.
- **Intending to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels.** Aircastle has paid dividends each quarter since our initial public offering in 2006. On August 2, 2019, our Board of Directors declared a regular quarterly dividend of \$0.30 per common share, or an aggregate of \$22.4 million for the three months ended September 30, 2019, which was paid on September 16, 2019, to holders of record on August 30, 2019. These dividends may not be indicative of the amount of any future dividends. Our ability to pay quarterly dividends will depend upon many factors, including those as described in Item 1A. "Risk Factors" and elsewhere in our 2018 Annual Report on Form 10-K.

Recent Developments

In October 2019, the Company entered into lease agreements with an affiliate of a top-tier European flag carrier for eleven Embraer E195-E2 aircraft with delivery dates between 2021 and 2024. As a result of these leases, the Company amended its purchase agreement with Embraer to reflect these new delivery dates and the related purchase commitments.

On November 5, 2019, Aircastle entered into an Agreement and Plan of Merger (the "Merger Agreement"), with MM Air Limited, a Bermuda exempted company ("Parent"), and MM Air Merger Sub Limited, a Bermuda exempted company and wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, among other things, Merger Sub will merge with and into Aircastle, with Aircastle surviving as a wholly owned subsidiary of Parent (the "Merger"). Parent and Merger Sub

are newly-formed entities controlled by affiliates of Marubeni Corporation (“Marubeni”) and Mizuho Leasing Company, Limited. Pursuant to the Merger Agreement, subject to certain conditions set forth therein, at the effective time of the Merger, each issued and outstanding common share of Aircastle (other than (i) shares to be canceled or converted into shares of the surviving company pursuant to the Merger Agreement and (ii) restricted shares to be canceled and exchanged pursuant to the Merger Agreement), shall be converted into the right to receive \$32.00 in cash, without interest.

The Merger is subject to customary closing conditions, including approval by Aircastle’s shareholders and receipt of certain regulatory approvals. Marubeni has agreed to vote the common shares of Aircastle that Marubeni and its affiliates beneficially own in favor of the transaction, subject to certain customary exceptions.

Revenues

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease, revenue from retained maintenance payments related to lease expirations, lease termination payments, lease incentive amortization, interest recognized from direct financing and sales-type leases and gains from aircraft sales.

Typically, our aircraft are subject to net leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs arising during the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the creditworthiness of our lessees and the occurrence of restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we generally do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at or near the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Many of our leases contain provisions which may require us to pay a portion of the lessee’s costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

2019 Lease Expirations and Lease Placements

At September 30, 2019, the Company had two off-lease aircraft and nine aircraft with scheduled lease expirations in 2019. As of November 1, 2019, of these eleven aircraft, we have only one aircraft, which accounts for less than 1% of our net book value at September 30, 2019, still to be placed or sold.

2020-2023 Lease Expirations and Lease Placements

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2020-2023, representing the percentage of our net book value of flight equipment (including flight equipment held for lease and net investment in direct financing and sales-type leases) at September 30, 2019, specified below:

- 2020: 15 aircraft, representing 5%;
- 2021: 22 aircraft, representing 6%;
- 2022: 32 aircraft, representing 9%; and
- 2023: 37 aircraft, representing 11%.

Operating Expenses

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, aircraft impairment charges and maintenance and other costs. Because our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of maintenance and other costs relating to aircraft reflected in our statement of income primarily relates to expenses for scheduled transitions and unscheduled lease terminations.

Income Tax Provision

We obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. are subject to tax in those respective jurisdictions.

We have a U.S. based subsidiary which provides management services to our subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

Acquisitions and Sales

During the first nine months of 2019, we acquired 33 aircraft for \$998.4 million. As of November 1, 2019, we have acquired six additional aircraft. At September 30, 2019, we had commitments to acquire 32 additional aircraft for \$1.15 billion, including the acquisition of 25 new E-Jet E2 aircraft from Embraer, with delivery beginning in the third quarter of 2020. Of this amount, approximately \$210.1 million represents commitments for the remainder of 2019. As of November 1, 2019, we have commitments to acquire 28 aircraft for \$1.03 billion.

During the first nine months of 2019, we sold twelve aircraft for net proceeds of \$229.1 million, and recognized net gains on sales of \$25.4 million, comprised of \$21.7 million from the sale of these aircraft and \$3.7 million resulting from the transition of two aircraft from operating to net investment in direct financing and sales-type leases. As of November 1,

2019, we have sold four additional aircraft. As of September 30, 2019, all eight aircraft were sold from the Company's joint venture with an affiliate of Ontario Teachers' Pension Plan.

The following table sets forth certain information with respect to the aircraft owned by us as of September 30, 2019:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

	As of September 30, 2019 ⁽¹⁾	As of September 30, 2018 ⁽¹⁾
<u>Owned Aircraft</u>		
Net Book Value of Flight Equipment	\$ 7,735	\$ 6,839
Net Book Value of Unencumbered Flight Equipment	\$ 5,873	\$ 5,606
Number of Aircraft	268	234
Number of Unencumbered Aircraft	226	207
Number of Lessees	87	85
Number of Countries	48	46
Weighted Average Age (years) ⁽²⁾	9.8	9.6
Weighted Average Remaining Lease Term (years) ⁽²⁾	4.8	4.5
Weighted Average Fleet Utilization during the three months ended September 30, 2019 and 2018 ⁽³⁾	98.8%	100.0%
Weighted Average Fleet Utilization during the nine months ended September 30, 2019 and 2018 ⁽³⁾	95.5%	99.6%
Portfolio Yield for the three months ended September 30, 2019 and 2018 ⁽⁴⁾	11.1%	11.8%
Portfolio Yield for the nine months ended September 30, 2019 and 2018 ⁽⁴⁾	10.8%	11.6%
<u>Managed Aircraft on behalf of Joint Ventures</u>		
Net Book Value of Flight Equipment	\$ 331	\$ 621
Number of Aircraft	9	12

(1) Calculated using net book value at period end.

(2) Weighted by net book value.

(3) Aircraft on-lease days as a percent of total days in period weighted by net book value. The decrease from our historical utilization rate was due to the early termination of the leases for eleven aircraft from Avianca Brazil and seven aircraft from Jet Airways.

(4) Lease rental revenue, interest income and cash collections on our net investment in direct financing and sales-type leases for the period as a percent of the average net book value for the period; quarterly information is annualized. The decrease from our historical portfolio yield was due to the early termination of the leases for eleven aircraft from Avianca Brazil and seven aircraft from Jet Airways. The calculation of portfolio yield includes our net investment in direct financing and sales-type leases in the average net book value, and the interest income and cash collections from our net investment in direct financing and sales-type leases in lease rentals.

Our owned aircraft portfolio as of September 30, 2019 is listed in Exhibit 99.1 to this report.

PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of September 30, 2019		Owned Aircraft as of September 30, 2018	
	Number of Aircraft	% of Net Book Value ⁽¹⁾	Number of Aircraft	% of Net Book Value ⁽¹⁾
Aircraft Type				
Passenger:				
Narrow-body	238	74%	203	69%
Wide-body	26	22%	27	27%
Total Passenger	264	96%	230	96%
Freighter	4	4%	4	4%
Total	268	100%	234	100%
Manufacturer				
Airbus	171	61%	142	57%
Boeing	92	38%	87	41%
Embraer	5	1%	5	2%
Total	268	100%	234	100%
Regional Diversification				
Asia and Pacific	96	39%	65	32%
Europe	90	26%	89	30%
Middle East and Africa	16	7%	17	9%
North America	38	12%	37	11%
South America	26	15%	26	18%
Off-lease	2 ⁽²⁾	1%	—	—%
Total	268	100%	234	100%

(1) Calculated using net book value at period end.

(2) Consisted of one Airbus A320-200 aircraft, which is scheduled to be delivered to a lessee in Europe during the fourth quarter of 2019, and one Airbus A330-200 aircraft, which we are marketing for lease or sale.

Our largest single customer represents approximately 9% of the net book value at September 30, 2019. Our top fifteen customers with respect to aircraft we owned as of September 30, 2019, representing 130 aircraft and 53% of the net book value, are as follows:

Percent of Net Book Value	Customer	Country	Number of Aircraft
Greater than 6% per customer	LATAM	Chile	13
	IndiGo	India	17
3% to 6% per customer	Iberia	Spain	15
	South African Airways	South Africa	4
	easyJet	United Kingdom	20
Less than 3% per customer	Air Canada	Canada	5
	Aerolineas Argentinas	Argentina	5
	Interjet	Mexico	11
	American Airlines	United States	7
	Lion Air ⁽¹⁾	Indonesia	7
	SpiceJet	India	9
	AirBridgeCargo ⁽²⁾	Russia	2
	Jeju Air	South Korea	7
	Asiana Airlines	South Korea	6
	Thai Airways	Thailand	2
	Total top fifteen customers		130
	All other customers		138
	Total all customers		268

(1) If combined with four aircraft on lease to an affiliate, would represent over 4% of net book value.

(2) Guaranteed by Volga-Dnepr Airlines. We have one additional aircraft on lease with an affiliate.

Finance

We believe that cash on hand, payments received from lessees and other funds generated from operations, secured borrowings for aircraft, borrowings under our revolving credit facilities and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Liquidity and Capital Resources” below.

RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2019 to the three months ended September 30, 2018:

	Three Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 203,005	\$ 182,043
Direct financing and sales-type lease revenue	8,229	8,793
Amortization of lease premiums, discounts and incentives	(5,895)	(4,044)
Maintenance revenue	11,095	—
Total lease revenue	216,434	186,792
Gain on sale of flight equipment	13,083	2,954
Other revenue	7,348	1,083
Total revenues	236,865	190,829
Operating expenses:		
Depreciation	90,997	78,059
Interest, net	65,261	57,131
Selling, general and administrative	17,956	18,306
Maintenance and other costs	7,250	2,179
Total operating expenses	181,464	155,675
Other income (expense):		
Loss on extinguishment of debt	(7,577)	—
Other	(258)	368
Total other income (expense)	(7,835)	368
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	47,566	35,522
Income tax provision	5,505	1,236
Earnings of unconsolidated equity method investments, net of tax	1,274	2,046
Net income	\$ 43,335	\$ 36,332

Revenues

Total revenues increased by \$46.0 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018.

Lease rental revenue. The increase in lease rental revenue of \$21.0 million for the three months ended September 30, 2019, as compared to the same period in 2018, was primarily the result of a \$45.0 million increase in revenue, reflecting the partial period impact of 32 aircraft purchased in 2019 and the full period impact due to the acquisition of 24 aircraft since July 1, 2018. This increase was partially offset by:

- a \$17.2 million decrease due to lease extensions, amendments, transitions and other changes (\$8.3 million of which is attributable to aircraft previously on lease to Avianca Brazil and Jet Airways which we have since transitioned to new lessees); and
- a \$6.8 million decrease due to the sale of thirteen aircraft since July 1, 2018.

Direct financing and sales-type lease revenue. For the three months ended September 30, 2019, \$8.2 million of interest income from direct financing and sales-type leases was recognized, as compared to \$8.8 million recorded for the same period in 2018, attributable to a lower average net investment due to lease payments and the termination of one lease, partially offset by the reclassification of two aircraft from operating to direct financing and sales-type leases.

Amortization of lease premiums, discounts and lease incentives consisted of the following:

	Three Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Amortization of lease premiums	\$ (4,304)	\$ (3,137)
Amortization of lease discounts	986	2,003
Amortization of lease incentives	(2,577)	(2,910)
Amortization of lease premiums, discounts and incentives	<u>\$ (5,895)</u>	<u>\$ (4,044)</u>

The increase in amortization of lease premiums of \$1.2 million for the three months ended September 30, 2019, as compared to the same period in 2018, was due to a net increase in amortization resulting from aircraft acquisitions.

The decrease in amortization of lease discounts of \$1.0 million for the three months ended September 30, 2019, as compared to the same period in 2018, was primarily due to fully amortized lease discounts for aircraft that transitioned to new lessees or extended.

Maintenance revenue. For the three months ended September 30, 2019, we recorded \$11.1 million of maintenance revenue, primarily due to lease expirations and the transition of one narrow-body and two wide-body aircraft. For the same period in 2018, we recorded no maintenance revenue.

Gain on sale of flight equipment increased by \$10.1 million to \$13.1 million for the three months ended September 30, 2019, as compared to gains of \$3.0 million for the same period in 2018. During the third quarter of 2019, eight aircraft were sold as compared to three aircraft sold during the third quarter of 2018.

Other revenue increased by \$6.3 million to \$7.3 million for the three months ended September 30, 2019, as compared to \$1.1 million for the same period in 2018, primarily due to \$5.4 million of fees earned in relation to the sale of all eight aircraft in our Lancaster joint venture and \$1.0 million in fees earned from the sale of two aircraft to our IBJ Air joint venture.

Operating expenses

Total operating expenses increased by \$25.8 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018.

Depreciation expense increased by \$12.9 million for the three months ended September 30, 2019 as compared to the same period in 2018. The increase is primarily the result of higher depreciation of \$16.5 million due to the effect of 56 aircraft acquired since July 1, 2018. These increases were partially offset by a decrease of \$3.9 million in depreciation due to the sale of thirteen aircraft.

Interest, net consisted of the following:

	Three Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Interest on borrowings and other liabilities ⁽¹⁾	\$ 62,204	\$ 53,683
Amortization of deferred losses related to interest rate derivatives	—	288
Amortization of deferred financing fees and debt discount ⁽²⁾	3,820	3,760
Interest expense	66,024	57,731
Less: Interest income	(763)	(365)
Less: Capitalized interest	—	(235)
Interest, net	<u>\$ 65,261</u>	<u>\$ 57,131</u>

(1) Includes a loan termination gain of \$0.8 million related to the sale of aircraft during the three months ended September 30, 2018.

(2) Includes \$0.3 million in deferred financing fees written off related to the sale of aircraft during the three months ended September 30, 2018.

Interest, net increased by \$8.1 million as compared to the three months ended September 30, 2018. This increase was primarily the result of higher weighted average debt outstanding, partially offset by lower weighted average interest rates.

Selling, general and administrative expenses for the three months ended September 30, 2019 were flat as compared to the same period in 2018.

Maintenance and other costs were \$7.3 million for the three months ended September 30, 2019, an increase of \$5.1 million compared to the same period in 2018. The net increase is primarily attributable to unscheduled transitions due to early lease terminations related to Avianca Brazil and Jet Airways for the three months ended September 30, 2019 versus the same period in 2018.

Other income (expense)

Total other income (expense) decreased by \$8.2 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The net decrease in other income was primarily attributable to a \$7.6 million dollar loss on extinguishment of debt related to the early retirement of our 6.25% Senior Notes due 2019.

Income tax provision

Our *provision for income taxes* for the three months ended September 30, 2019 and 2018 was \$5.5 million and \$1.2 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of \$4.3 million for the three months ended September 30, 2019, as compared to the same period in 2018, was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions.

RESULTS OF OPERATIONS

Comparison of the nine months ended September 30, 2019 to the nine months ended September 30, 2018:

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 577,062	\$ 538,012
Direct financing and sales-type lease revenue	24,993	27,103
Amortization of lease premiums, discounts and incentives	(16,951)	(10,706)
Maintenance revenue	54,063	11,991
Total lease revenue	639,167	566,400
Gain on sale of flight equipment	25,431	28,586
Other revenue	9,610	2,799
Total revenues	674,208	597,785
Operating expenses:		
Depreciation	265,310	229,242
Interest, net	195,101	171,637
Selling, general and administrative	54,273	54,724
Impairment of flight equipment	7,404	—
Maintenance and other costs	19,867	4,728
Total operating expenses	541,955	460,331
Other income (expense):		
Loss on extinguishment of debt	(7,577)	—
Other	(4,229)	4,443
Total other income (expense)	(11,806)	4,443
Income from continuing operations before income taxes and earnings of unconsolidated equity method investments	120,447	141,897
Income tax provision	14,595	3,524
Earnings of unconsolidated equity method investments, net of tax	3,405	5,709
Net income	\$ 109,257	\$ 144,082

Revenues

Total revenues increased by \$76.4 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018.

Lease rental revenue. The increase in lease rental revenue of \$39.1 million for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily the result of increases in revenue of \$128.8 million, reflecting the partial period impact of 32 aircraft purchased in 2019, and the full period impact due to the acquisition of 37 aircraft since January 1, 2018. This increase was offset by:

- a \$64.4 million decrease due to lease extensions, amendments, transitions and other changes (\$39.4 million of which is attributable to aircraft previously on lease to Avianca Brazil and Jet Airways which we have since transitioned to new lessees); and
- a \$25.4 million decrease due to the sale of twenty aircraft since January 1, 2018.

Direct financing and sales-type lease revenue. For the nine months ended September 30, 2019, \$25.0 million of interest income from direct financing and sales-type leases was recognized, as compared to \$27.1 million for the same period in 2018, primarily attributable to a lower average net investment due to lease payments and the termination of one lease, partially offset by the reclassification of two aircraft from operating to direct financing and sales-type leases since January 1, 2018.

Amortization of lease premiums, discounts and lease incentives consisted of the following:

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Amortization of lease premiums	\$ (12,602)	\$ (8,188)
Amortization of lease discounts	3,820	5,998
Amortization of lease incentives	(8,169)	(8,516)
Amortization of lease premiums, discounts and incentives	\$ (16,951)	\$ (10,706)

The increase in amortization of lease premiums of \$4.4 million for the nine months ended September 30, 2019, as compared to the same period in 2018, was due to a net increase in amortization resulting from net aircraft acquisitions.

The decrease in amortization of lease discounts of \$2.2 million for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily due to fully amortized lease discounts for aircraft that transitioned to new lessees or extended.

Maintenance revenue. For the nine months ended September 30, 2019, we recorded \$54.1 million of maintenance revenue, due to lease expirations and the transition of 22 narrow-body aircraft and six wide-body aircraft, including cash maintenance revenue received for ten narrow-body aircraft from Avianca Brazil and \$17.6 million related to the early lease terminations with Jet Airways. See “Summary of Recoverability Assessment and Other Impairments” below. For the same period in 2018, we recorded \$12.0 million of maintenance revenue primarily due to the transition of one freighter aircraft.

Gain on sale of flight equipment decreased by \$3.2 million to \$25.4 million for the nine months ended September 30, 2019, as compared to gains of \$28.6 million for the same period in 2018. During the nine months ended September 30, 2019, we sold twelve aircraft, as compared to the sale of eleven aircraft during the same period in 2018. Gain on sale of flight equipment for the nine months ended September 30, 2019, includes \$3.7 million resulting from the transition of two aircraft from operating to net investment in direct financing and sales-type leases.

Other revenue increased by \$6.8 million to \$9.6 million for the nine months ended September 30, 2019, as compared to \$2.8 million for the same period in 2018, primarily due to \$5.4 million of fees earned in relation to the sale of all eight aircraft in our Lancaster joint venture and \$2.0 million in fees earned from the sale of four aircraft to our IJB Air joint venture.

Operating expenses

Total operating expenses increased by \$81.6 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018.

Depreciation expense increased by \$36.1 million for the nine months ended September 30, 2019, as compared to the same period in 2018. The increase is primarily the result of:

- \$47.5 million due to the effect of 69 aircraft acquired since January 1, 2018; and
- \$2.0 million due to changes in asset lives, residual values and other changes.

These increases were partially offset by a decrease of \$13.6 million in depreciation due to the sale of twenty aircraft.

Interest, net consisted of the following:

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Interest on borrowings and other liabilities ⁽¹⁾	\$ 186,122	\$ 161,640
Amortization of deferred losses related to interest rate derivatives	184	883
Amortization of deferred financing fees and debt discount ⁽²⁾	10,778	10,802
Interest expense	197,084	173,325
Less: Interest income	(1,983)	(1,355)
Less: Capitalized interest	—	(333)
Interest, net	\$ 195,101	\$ 171,637

(1) Includes a loan termination gain of \$0.8 million related to the sale of aircraft during the nine months ended September 30, 2018.

(2) Includes \$0.3 million in deferred financing fees written off related to the sale of aircraft during the nine months ended September 30, 2018.

Interest, net increased by \$23.5 million, as compared to the nine months ended September 30, 2018. This increase was the result of higher weighted average debt outstanding, partially offset by lower weighted average interest rates.

Selling, general and administrative expenses for the nine months ended September 30, 2019 were flat as compared to the same period in 2018.

Impairment of Flight Equipment. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of impairment charges related to certain aircraft.

Maintenance and other costs were \$19.9 million for the nine months ended September 30, 2019, an increase of \$15.1 million compared to the same period in 2018. The net increase is primarily attributable to scheduled and the eighteen unscheduled transitions due to early lease terminations related to Avianca Brazil and Jet Airways for the nine months ended September 30, 2019 versus the same period in 2018 and higher than projected lessor contributions towards the cost of maintenance events for aircraft acquired with attached leases of \$4.7 million.

Other income (expense)

Total other income (expense) decreased by \$16.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The net decrease in other income was attributable to a \$7.6 million dollar loss on extinguishment of debt related to the early retirement of our 6.25% Senior Notes due 2019 and to unfavorable mark-to-market adjustments on our interest rate caps of \$8.9 million.

Income tax provision

Our *income tax provision* for the nine months ended September 30, 2019 and 2018 was \$14.6 million and \$3.5 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of \$11.1 million for the nine months ended September 30, 2019, as compared to the same period in 2018, was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions, and the recording of a \$2.8 million non-cash tax expense related to a fair value adjustment on an intercompany asset transfer, which was treated as a discrete item. Pre-tax earnings for the nine months ended September 30, 2018 included the recording of a \$2.8 million tax benefit related to the Singapore rate reduction from 10% to 8%, which was treated as a discrete item. Excluding these discrete items, the income tax provision for the nine months ended September 30, 2019 and 2018 would have been \$11.7 million and \$6.3 million, respectively.

Summary of Recoverability Assessment and Other Impairments

Transactional Impairments

On April 10, 2019, the Company early terminated the leases for seven Boeing 737NG aircraft on lease to Jet Airways due to lessee default. As a result of these lease terminations, the Company recognized net maintenance revenue of \$17.6 million and impairment charges of \$7.4 million in the second quarter of 2019 related to these aircraft.

Annual Recoverability Assessment

We completed our annual recoverability assessment of our aircraft in the second quarter this year. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations. Other than the transactional impairment discussed above, no other impairments were recorded as a result of our annual recoverability assessment.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

Management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no aircraft were impaired as a consequence of our annual recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the annual recoverability assessment are appropriate, actual results could differ from those estimates.

Aircraft Monitoring List

At September 30, 2019, no aircraft were on our monitoring list. We monitor our fleet for aircraft that are more susceptible to failing our recoverability assessments within one year due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 - “Summary of Significant Accounting Policies – Organization and Basis of Presentation” in the Notes to Unaudited Consolidated Financial Statements above.

RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 - “Summary of Significant Accounting Policies – Recent Accounting Pronouncements” in the Notes to Unaudited Consolidated Financial Statements above.

LIQUIDITY AND CAPITAL RESOURCES

Our business is very capital intensive, requiring significant investments in order to expand our fleet and to maintain and improve our existing portfolio. Our operations generate a significant amount of cash, primarily from lease rentals and maintenance collections. We have also met our liquidity and capital resource needs by utilizing several sources over time, including:

- unsecured indebtedness, including our current unsecured revolving credit facilities, term loan and senior notes;
- various forms of borrowing secured by our aircraft, including bank term facilities, limited recourse securitization financings, and ECA-backed financings for new aircraft acquisitions;
- asset sales; and
- sales of common shares.

Going forward, we expect to continue to seek liquidity from these sources and other sources, subject to pricing and conditions we consider satisfactory.

During the first nine months of 2019, we met our liquidity and capital resource needs with \$393.1 million of cash flow from operations, \$2.07 billion in gross proceeds from the issuance of our Senior Notes due 2026, bank debt and our revolving credit facilities and \$229.1 million of cash from aircraft sales.

As of September 30, 2019, the weighted-average maturity of our secured and unsecured debt financings was 3.6 years and we were in compliance with all applicable covenants.

We believe that cash on hand, payments received from lessees and other funds generated from operations, secured borrowings for aircraft, borrowings under our revolving credit facilities and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include payments due under our aircraft purchase obligations, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment reimbursements and lease incentive payments over the next twelve months.

Cash Flows

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$ 393,089	\$ 415,942
Net cash flow used in investing activities	(658,933)	(371,304)
Net cash flow provided by financing activities	368,325	331,702

Operating Activities:

Cash flow provided by operations was \$393.1 million and \$415.9 million for the nine months ended September 30, 2019 and 2018, respectively. The decrease in cash flow provided by operations of \$22.9 million for the nine months ended September 30, 2019 versus the same period in 2018 was primarily a result of a \$36.5 million increase in cash paid for interest and a \$15.1 million increase in cash paid for maintenance.

These outflows were offset by a \$23.0 million increase in cash from lease rentals and direct financing and sales-type leases and a \$6.5 million decrease in cash paid for taxes.

Investing Activities:

Cash flow used in investing activities was \$658.9 million and \$371.3 million for the nine months ended September 30, 2019 and 2018, respectively. The increase in cash flow used in investing activities of \$287.6 million for the nine months ended September 30, 2019 versus the same period in 2018 was primarily a result of a \$250.4 million net increase in the acquisition and improvement of flight equipment and net investments in direct financing and sales-type leases and a \$15.2 million increase in unconsolidated equity method investments and associated costs.

These outflows were offset by a \$47.1 million decrease in aircraft proceeds from the sale of flight equipment and a \$25.4 million decrease in aircraft purchase deposits and progress payments, net of returned deposits.

Financing Activities:

Cash flow provided by financing activities was \$368.3 million and \$331.7 million for the nine months ended September 30, 2019 and 2018, respectively. The increase in cash flow provided by financing activities of \$36.6 million for the nine months ended September 30, 2019 versus the same period in 2018 was primarily a result of a \$1.2 billion increase in proceeds from secured and unsecured financings.

These inflows were offset by a \$1.1 billion increase in secured and unsecured debt financing repayments and a \$54.7 million net increase in net maintenance payments and security deposits returned.

Debt Obligations

For complete information on our debt obligations, please refer to Note 7 - “Secured and Unsecured Debt Financings” in the Notes to Unaudited Consolidated Financial Statements above.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on debt, other aircraft acquisition agreements and rent payments related to our office leases. Total contractual obligations increased to \$7.27 billion at September 30, 2019 from \$6.95 billion at December 31, 2018, due primarily to an increase in borrowings, partially offset by a decrease in aircraft purchase obligations.

The following table presents our actual contractual obligations and their payment due dates as of September 30, 2019:

Contractual Obligations	Payments Due by Period as of September 30, 2019				
	Total	1 year or less	2-3 years	4-5 years	More than 5 years
(Dollars in thousands)					
Principal payments:					
Senior Notes due 2020 - 2026	\$ 3,600,000	\$ 300,000	\$ 1,000,000	\$ 1,650,000	\$ 650,000
Unsecured Term Loans	215,000	—	60,000	155,000	—
Revolving Credit Facilities	225,000	—	225,000	—	—
ECA Financings	159,360	40,873	80,475	35,978	2,034
Bank Financings	1,037,166	91,294	187,924	537,735	220,213
Total principal payments	5,236,526	432,167	1,553,399	2,378,713	872,247
Interest payments on debt obligations ⁽¹⁾	866,620	241,417	361,849	203,645	59,709
Office leases ⁽²⁾	15,718	2,041	3,744	3,395	6,538
Purchase obligations ⁽³⁾	1,147,244	305,771	841,473	—	—
Total	\$ 7,266,108	\$ 981,396	\$ 2,760,465	\$ 2,585,753	\$ 938,494

(1) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at September 30, 2019.

(2) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.

(3) At September 30, 2019, we had commitments to acquire 32 aircraft for \$1.15 billion, including 25 new E-Jet E2 aircraft from Embraer S.A. These amounts include estimates for pre-delivery deposits, contractual price escalation and other adjustments. As of November 1, 2019, we have commitments to acquire 28 aircraft for \$1.03 billion.

Capital Expenditures

From time to time, we make capital expenditures to maintain or improve our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the nine months ended September 30, 2019 and 2018, we incurred a total of \$24.0 million and \$7.7 million, respectively, of capital expenditures (including lease incentives) related to the improvement of aircraft.

As of September 30, 2019, the weighted average age by net book value of our aircraft was approximately 9.8 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Our lease agreements call for the lessee to be primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft, such as lessee default, or a lessee fails to meet its maintenance obligations under the lease agreement. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. “Risk Factors - Risks Related to Our Business - Risks related to our leases - If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease” in our 2018 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We entered into two joint venture arrangements in order to help expand our base of new business opportunities. Neither of these joint ventures qualifies for consolidated accounting treatment. The assets and liabilities of these entities are not included in our Consolidated Balance Sheets and we record our net investment under the equity method of accounting. See Note 5 - “Unconsolidated Equity Method Investments” in the Notes to Unaudited Consolidated Financial Statements above.

We hold a 30% equity interest in our joint venture with Teachers’ and a 25% equity interest in our IBJ Air joint venture. At September 30, 2019, the net book value of IBJ Air’s nine aircraft was \$331.2 million. As of September 30, 2019, the sale of all eight aircraft held by the joint venture with Teachers’ to a single buyer was completed. Teachers’, as majority shareholder, has chosen to liquidate the joint venture.

In March of 2019, we sold two aircraft to IBJ Air and an additional two aircraft in August of 2019. These transactions were approved by our Audit Committee as arm’s length transactions under our related party policy.

Foreign Currency Risk and Foreign Operations

At September 30, 2019, all of our leases are payable to us in U.S. dollars. However, we incur Euro and Singapore dollar-denominated expenses in connection with our subsidiaries in Ireland and Singapore. For the nine months ended September 30, 2019, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$11.7 million in U.S. dollar equivalents and represented approximately 21% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, our international operations and our exposure to foreign currency risk will likely increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases, we may enter into hedging transactions in the future to mitigate this risk. For the nine months ended September 30, 2019 and 2018, we incurred insignificant net gains and losses on foreign currency transactions.

Management’s Use of EBITDA and Adjusted EBITDA

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance.

This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals, as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Depreciation	90,997	78,059	265,310	229,242
Amortization of lease premiums, discounts and incentives	5,895	4,044	16,951	10,706
Interest, net	65,261	57,131	195,101	171,637
Income tax provision	5,505	1,236	14,595	3,524
EBITDA	210,993	176,802	601,214	559,191
Adjustments:				
Impairment of flight equipment	—	—	7,404	—
Equity share of joint venture impairment	—	—	2,724	—
Loss on extinguishment of debt	7,577	—	7,577	—
Non-cash share-based payment expense	3,300	2,798	9,203	8,252
Loss (gain) on mark-to-market of interest rate derivative contracts	513	(367)	4,508	(4,442)
Adjusted EBITDA	\$ 222,383	\$ 179,233	\$ 632,630	\$ 563,001

Management's Use of Adjusted Net Income ("ANI")

Management believes that ANI, when viewed in conjunction with the Company's results under U.S. GAAP and the below reconciliation, provides useful information about operating and period-over-period performance and additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting, changes related to refinancing activity and non-cash share-based payment expense.

The table below shows the reconciliation of net income to ANI for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Net income	\$ 43,335	\$ 36,332	\$ 109,257	\$ 144,082
Loss on extinguishment of debt ⁽¹⁾	7,577	—	7,577	—
Loan termination gain ⁽²⁾	—	(838)	—	(838)
Loss (gain) on mark-to-market of interest rate derivative contracts ⁽¹⁾	513	(367)	4,508	(4,442)
Write-off of deferred financing fees ⁽²⁾	—	300	—	300
Non-cash share-based payment expense ⁽³⁾	3,300	2,798	9,203	8,252
Adjusted net income	\$ 54,725	\$ 38,225	\$ 130,545	\$ 147,354

(1) Included in Other income (expense).

(2) Included in Interest, net.

(3) Included in Selling, general and administrative expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Weighted-average shares:	2019	2018	2019	2018
Common shares outstanding	74,331,990	77,599,803	74,561,525	77,956,159
Restricted common shares	518,545	488,771	492,777	472,999
Total weighted-average shares	74,850,535	78,088,574	75,054,302	78,429,158

	Three Months Ended September 30,		Nine Months Ended September 30,	
Percentage of weighted-average shares:	2019	2018	2019	2018
Common shares outstanding	99.31%	99.37%	99.34%	99.40%
Restricted common shares ⁽¹⁾	0.69%	0.63%	0.66%	0.60%
Total percentage of weighted-average shares	100.00%	100.00%	100.00%	100.00%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average common shares outstanding – Basic	74,331,990	77,599,803	74,561,525	77,956,159
Effect of dilutive shares ⁽²⁾	935,047	295,671	765,354	287,136
Weighted average common shares outstanding – Diluted	75,267,037	77,895,474	75,326,879	78,243,295

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(Dollars in thousands, except per share amounts)				

Adjusted net income allocation:				
Adjusted net income	\$ 54,725	\$ 38,225	\$ 130,545	\$ 147,354
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽²⁾	(379)	(239)	(857)	(889)
Adjusted net income allocable to common shares – Basic and Diluted	\$ 54,346	\$ 37,986	\$ 129,688	\$ 146,465
Adjusted net income per common share – Basic	\$ 0.73	\$ 0.49	\$ 1.74	\$ 1.88
Adjusted net income per common share – Diluted	\$ 0.72	\$ 0.49	\$ 1.72	\$ 1.87

(1) For the three months ended September 30, 2019 and 2018, distributed and undistributed earnings to restricted shares were 0.69% and 0.63%, respectively, of net income. For the nine months ended September 30, 2019 and 2018, distributed and undistributed earnings to restricted shares were 0.66% and 0.60%, respectively, of net income. The amount of restricted share forfeitures for all periods presented are immaterial to the allocation of distributed and undistributed earnings.

(2) For all periods presented, dilutive shares represent contingently issuable shares.

Limitations of EBITDA, Adjusted EBITDA and ANI

An investor or potential investor may find EBITDA, Adjusted EBITDA and ANI important measures in evaluating our performance, results of operations and financial position. We use these non-U.S. GAAP measures to supplement our U.S. GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA, Adjusted EBITDA and ANI have limitations as analytical tools and should not be viewed in isolation or as substitutes for U.S. GAAP measures of earnings (loss). Material limitations in making the adjustments to our earnings (loss) to calculate EBITDA, Adjusted EBITDA and ANI, and using these non-U.S. GAAP measures as compared to U.S. GAAP net income (loss), income (loss) from continuing operations and cash flows provided by or used in operations, include:

- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;

- the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;
- elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy;
- hedge loss amortization charges; and
- adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes.

EBITDA, Adjusted EBITDA and ANI are not alternatives to net income (loss), income (loss) from operations or cash flows provided by or used in operations as calculated and presented in accordance with U.S. GAAP. You should not rely on these non-U.S. GAAP measures as a substitute for any such U.S. GAAP financial measure. We strongly urge you to review the reconciliations to U.S. GAAP net income (loss), along with our consolidated financial statements included elsewhere in this report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA and ANI are not measures of financial performance under U.S. GAAP and are susceptible to varying calculations, EBITDA, Adjusted EBITDA and ANI as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, floating rate debt obligations and interest rate derivatives. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities.

Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential interest expense impacts on our financial instruments and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

A hypothetical 100-basis point increase/decrease in our variable interest rates would increase/decrease the minimum contracted rentals on our portfolio as of September 30, 2019 by \$4.3 million and \$4.3 million, respectively, over the next twelve months. As of September 30, 2019, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$5.4 million and \$7.0 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months. In September 2016, we purchased an interest rate cap to hedge a portion of our floating rate interest exposure. The interest rate cap is set at 2% and has a current notional balance of \$255.0 million and reduces over time to \$215.0 million. The cap matures in September 2021.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company’s management, including the CEO and CFO, of the effectiveness of the Company’s disclosure controls and procedures as of September 30, 2019. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2019.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material legal or adverse regulatory proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes to the disclosure related to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2018 and in our Form 10-Q for the quarterly period ended June 30, 2019, as filed with the SEC.

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

Issuer Purchases of Equity Securities

On May 21, 2019, our Board of Directors increased the authorization to repurchase the Company's common shares to \$100.0 million from the \$76.0 million that was remaining under the previous authorization. During the third quarter of 2019, we purchased our common shares as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs⁽¹⁾</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾</u>
(Dollars in thousands, except per share amounts)				
July 1 through July 31	31,917	\$ 20.50	31,917	\$ 96,705
August 1 through August 31	315,867	20.12	315,867	90,351
September 1 through September 30	—	—	—	90,351
Total	347,784	\$ 20.15	347,784	\$ 90,351

(1) Under our current repurchase program, we have repurchased an aggregate of 476,608 common shares at an aggregate cost of \$9.6 million, including commissions. The remaining dollar value of common shares that may be repurchased under the program is \$90.4 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
3.1	<u>Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).</u>
3.2	<u>Amended Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on May 2, 2019).</u>
4.1	<u>Specimen Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).</u>
4.2	<u>Indenture, dated as of April 4, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 5, 2012).</u>
4.3	<u>Indenture, dated as of November 30, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on November 30, 2012).</u>
4.4	<u>Amended and Restated Shareholder Agreement, dated as of February 18, 2015, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2015).</u>
4.5	<u>Amendment No. 1 to the Amended and Restated Shareholder Agreement, dated as of September 23, 2016, by and among Aircastle Limited, Marubeni Corporation, and Marubeni Aviation Holding Coöperatief U.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 26, 2016).</u>
4.6	<u>Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee Citigroup Global Markets, Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and RBC Capital Markets, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 6, 2013).</u>
4.7	<u>Second Supplemental Indenture, dated as of March 26, 2014, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 26, 2014).</u>
4.8	<u>Third Supplemental Indenture, dated as of January 15, 2015, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 15, 2015).</u>
4.9	<u>Fourth Supplemental Indenture, dated as of March 24, 2016, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 24, 2016).</u>
4.10	<u>Fifth Supplemental Indenture, dated as of March 20, 2017, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 20, 2017).</u>
4.11	<u>Sixth Supplemental Indenture, dated as of September 25, 2018, between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 25, 2018).</u>
4.12	<u>Seventh Supplemental Indenture, dated as of June 13, 2019, between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 13, 2019).</u>
31.1	<u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *</u>
31.2	<u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
99.1	<u>Owned Aircraft Portfolio at September 30, 2019. *</u>

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2019 and 2018; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018; (v) Consolidated Statements of Changes in Shareholders' Equity for the nine month periods ending September 30, 2019 and 2018; and (vi) Notes to Unaudited Consolidated Financial Statements. *
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

* Filed herewith.

SIGNATURE

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.

Dated: November 6, 2019

AIRCASTLE LIMITED

(Registrant)

By:

/s/ James C. Connelly

James C. Connelly

Chief Accounting Officer and Authorized Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Inglese, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aircastle Limited;
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 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 and I have disclosed, based on my 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 6, 2019

/s/ Michael Inglese

Michael Inglese

Chief Executive Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Dahlke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aircastle Limited;
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 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 and I have disclosed, based on my 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 6, 2019

/s/ Aaron Dahlke

Aaron Dahlke

Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
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 on Form 10-Q of Aircastle Limited (the “Company”) for the three months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Inglese, as Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 Aircastle Limited and will be retained by Aircastle Limited and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Michael Inglese

Name:	Michael Inglese
Title:	Chief Executive Officer
Date:	November 6, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
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 on Form 10-Q of Aircastle Limited (the “Company”) for the three months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aaron Dahlke, as Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 Aircastle Limited and will be retained by Aircastle Limited and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Aaron Dahlke

Name: Aaron Dahlke
Title: Chief Financial Officer
Date: November 6, 2019

Owned Aircraft Portfolio at September 30, 2019 is as follows:

Aircraft Group	Aircraft Type	Engine Type	Manufacturer Serial Number	Date of Manufacture	Financing
Narrow-body Aircraft	A319-100	V2500	1258	Jun-00	Unencumbered
	A319-100	V2500	1261	Jul-00	Unencumbered
	A319-100	V2500	1279	Aug-00	Unencumbered
	A319-100	V2500	1295	Aug-00	Unencumbered
	A319-100	V2500	1329	Oct-00	Unencumbered
	A319-100	CFM56-5B	1673	Feb-02	Unencumbered
	A319-100	CFM56-5B	1742	May-02	Unencumbered
	A319-100	V2500	2098	Feb-04	Unencumbered
	A319-100	CFM56-5B	2495	May-05	Unencumbered
	A319-100	CFM56-5B	2565	Sep-05	Unencumbered
	A319-100	CFM56-5B	2578	Sep-05	Unencumbered
	A319-100	CFM56-5B	2605	Nov-05	Unencumbered
	A319-100	CFM56-5B	2636	Dec-05	Unencumbered
	A319-100	CFM56-5B	2646	Jan-06	Unencumbered
	A319-100	CFM56-5B	2677	Jan-06	Unencumbered
	A319-100	CFM56-5B	2691	Feb-06	Unencumbered
	A319-100	CFM56-5B	2715	Mar-06	Unencumbered
	A319-100	CFM56-5B	2742	Apr-06	Unencumbered
	A319-100	CFM56-5B	2744	Apr-06	Unencumbered
	A319-100	CFM56-5B	2754	Apr-06	Unencumbered
	A319-100	CFM56-5B	2765	Apr-06	Unencumbered
	A319-100	CFM56-5B	2769	Apr-06	Unencumbered
	A319-100	CFM56-5B	2777	May-06	Unencumbered
	A319-100	CFM56-5B	2779	May-06	Unencumbered
	A319-100	CFM56-5B	2782	May-06	Unencumbered
	A319-100	CFM56-5B	2795	May-06	Unencumbered
	A319-100	CFM56-5B	2803	Jun-06	Unencumbered
	A319-100	CFM56-5B	2818	Jun-06	Unencumbered
	A319-100	V2500	3045	Mar-07	Unencumbered
	A319-100	CFM56-5B	3209	Jul-07	Unencumbered
	A319-100	V2500	3421	Mar-08	Unencumbered
	A319-100	CFM56-5B	3443	Mar-08	Unencumbered
	A319-100	V2500	3450	Mar-08	Unencumbered
	A320-200	CFM56-5B	1132	Dec-99	Unencumbered
	A320-200	CFM56-5B	1162	Feb-00	Unencumbered
	A320-200	V2500	1177	Mar-00	Unencumbered
	A320-200	CFM56-5B	1179	Mar-00	Unencumbered
	A320-200	CFM56-5B	1244	Jun-00	Unencumbered
	A320-200	CFM56-5B	1259	Jul-00	Unencumbered
	A320-200	CFM56-5B	1308	Oct-00	Unencumbered
	A320-200	CFM56-5B	1322	Nov-00	Unencumbered

Aircraft Group	Aircraft Type	Engine Type	Manufacturer Serial Number	Date of Manufacture	Financing
Narrow-body Aircraft (Continued)	A320-200	CFM56-5B	1655	Apr-02	Unencumbered
	A320-200	CFM56-5B	1674	Apr-02	Unencumbered
	A320-200	CFM56-5B	1780	May-02	Unencumbered
	A320-200	CFM56-5B	1913	Jan-03	Unencumbered
	A320-200	CFM56-5B	2048	Jul-03	Unencumbered
	A320-200	CFM56-5B	2104	Apr-05	Unencumbered
	A320-200	CFM56-5B	2248	Apr-05	Unencumbered
	A320-200	V2500	2254	Sep-04	Unencumbered
	A320-200	V2500	2310	Nov-04	Unencumbered
	A320-200	CFM56-5B	2347	Apr-05	Unencumbered
	A320-200	CFM56-5B	2391	Apr-05	Unencumbered
	A320-200	V2500	2397	Mar-05	Unencumbered
	A320-200	V2500	2401	Mar-05	Unencumbered
	A320-200	V2500	2524	Sep-05	Unencumbered
	A320-200	V2500	2564	Oct-05	Unencumbered
	A320-200	CFM56-5B	2792	Jun-06	Unencumbered
	A320-200	CFM56-5B	2822	Jul-06	Unencumbered
	A320-200	CFM56-5B	2956	Nov-06	Unencumbered
	A320-200	V2500	2982	Dec-06	Unencumbered
	A320-200	CFM56-5B	2998	Jan-07	Unencumbered
	A320-200	CFM56-5B	3099	Apr-07	Unencumbered
	A320-200	CFM56-5B	3117	Apr-07	Unencumbered
	A320-200	CFM56-5B	3189	Jun-07	Unencumbered
	A320-200	CFM56-5B	3201	Aug-07	Unencumbered
	A320-200	CFM56-5B	3223	Sep-07	Unencumbered
	A320-200	CFM56-5B	3230	Sep-07	Unencumbered
	A320-200	CFM56-5B	3232	Sep-07	Unencumbered
	A320-200	CFM56-5B	3277	Oct-07	Unencumbered
	A320-200	CFM56-5B	3289	Oct-07	Unencumbered
	A320-200	CFM56-5B	3291	Nov-07	Unencumbered
	A320-200	CFM56-5B	3306	Nov-07	Unencumbered
	A320-200	CFM56-5B	3338	Dec-07	Bank Financing
	A320-200	CFM56-5B	3383	Jan-08	Unencumbered
	A320-200	V2500	3423	Mar-08	Unencumbered
	A320-200	V2500	3437	Mar-08	Unencumbered
	A320-200	V2500	3439	Mar-08	Unencumbered
	A320-200	V2500	3483	May-08	Unencumbered
	A320-200	V2500	3524	Jun-08	Unencumbered
	A320-200	V2500	3543	Jul-08	Unencumbered
	A320-200	CFM56-5B	3582	Sep-08	Unencumbered
	A320-200	CFM56-5B	3627	Oct-08	Unencumbered
	A320-200	CFM56-5B	3628	Oct-08	Unencumbered
	A320-200	CFM56-5B	3667	Dec-08	Unencumbered
	A320-200	CFM56-5B	3690	Dec-08	Unencumbered
	A320-200	CFM56-5B	3750	Jan-09	Unencumbered

Aircraft Group	Aircraft Type	Engine Type	Manufacturer Serial Number	Date of Manufacture	Financing
Narrow-body Aircraft (Continued)	A320-200	CFM56-5B	3762	Jan-09	Unencumbered
	A320-200	CFM56-5B	3840	Apr-09	Unencumbered
	A320-200	CFM56-5B	3972	Jul-09	Unencumbered
	A320-200	V2500	4008	Aug-09	Unencumbered
	A320-200	CFM56-5B	4070	Oct-09	Bank Financing
	A320-200	V2500	4077	Nov-09	Bank Financing
	A320-200	CFM56-5B	4088	Nov-09	Bank Financing
	A320-200	V2500	4113	Nov-09	Unencumbered
	A320-200	CFM56-5B	4139	Dec-09	Unencumbered
	A320-200	V2500	4156	Dec-09	Unencumbered
	A320-200	V2500	4216	Feb-10	Unencumbered
	A320-200	V2500	4312	May-10	Unencumbered
	A320-200	CFM56-5B	4386	Aug-10	Unencumbered
	A320-200	CFM56-5B	4390	Aug-10	Unencumbered
	A320-200	CFM56-5B	4694	May-11	Unencumbered
	A320-200	V2500	4968	Jan-12	Unencumbered
	A320-200	CFM56-5B	4969	Dec-11	Unencumbered
	A320-200	V2500	5010	Feb-12	Unencumbered
	A320-200	V2500	5127	May-12	Unencumbered
	A320-200	CFM56-5B	5137	May-12	Unencumbered
	A320-200	V2500	5301	Sep-12	Unencumbered
	A320-200	V2500	5598	Apr-13	Unencumbered
	A320-200	V2500	5796	Oct-13	Unencumbered
	A320-200	V2500	6077	Apr-14	Unencumbered
	A320-200	CFM56-5B	6139	Oct-14	Unencumbered
	A320-200	CFM56-5B	6173	Oct-14	Unencumbered
	A320-200	CFM56-5B	6528	Mar-15	Unencumbered
	A320-200	CFM56-5B	6536	Mar-15	Unencumbered
	A320-200	CFM56-5B	6561	Apr-15	Unencumbered
	A320-200	CFM56-5B	6598	May-15	Unencumbered
	A320-200	CFM56-5B	6634	Jun-15	Unencumbered
	A320-200	CFM56-5B	6800	Oct-15	Bank Financing
	A320-200	CFM56-5B	6806	Nov-15	Bank Financing
	A320-200	CFM56-5B	6813	Nov-15	Bank Financing
	A320-200	CFM56-5B	7050	Apr-16	Bank Financing
	A320-200	CFM56-5B	7223	Jul-16	Bank Financing
	A320-200neo	PW1100G	8206	Dec-18	Bank Financing
	A320-200neo	PW1100G	8455	Oct-18	Bank Financing
	A320-200neo	PW1100G	8459	Oct-18	Bank Financing
	A320-200neo	PW1100G	8460	Sep-18	Bank Financing
	A320-200neo	PW1100G	8465	Sep-18	Bank Financing
	A320-200neo	PW1100G	8540	Oct-18	Bank Financing
	A320-200neo	PW1100G	8541	Nov-18	Bank Financing
	A320-200neo	PW1100G	8630	Dec-18	Bank Financing
	A320-200neo	PW1100G	8771	Apr-19	Bank Financing

Aircraft Group	Aircraft Type	Engine Type	Manufacturer Serial Number	Date of Manufacture	Financing
Narrow-body Aircraft (Continued)	A320-200neo	PW1100G	8789	Mar-19	Bank Financing
	A320-200neo	PW1100G	9031	Jun-19	Bank Financing
	A321-200	CFM56-5B	775	Feb-98	Unencumbered
	A321-200	CFM56-5B	1572	Aug-01	Unencumbered
	A321-200	V2500	1734	May-02	Unencumbered
	A321-200	CFM56-5B	1836	Nov-02	Unencumbered
	A321-200	V2500	2041	Nov-03	Unencumbered
	A321-200	CFM56-5B	2208	Apr-04	Unencumbered
	A321-200	CFM56-5B	2220	May-04	Unencumbered
	A321-200	CFM56-5B	2357	Dec-04	Unencumbered
	A321-200	CFM56-5B	2381	Feb-05	Unencumbered
	A321-200	CFM56-5B	2488	Jun-05	Unencumbered
	A321-200	CFM56-5B	2563	Oct-05	Bank Financing
	A321-200	V2500	2687	Feb-06	Unencumbered
	A321-200	CFM56-5B	2756	May-06	Unencumbered
	A321-200	V2500	3458	Apr-08	Unencumbered
	A321-200	V2500	3637	Jan-09	Unencumbered
	A321-200	V2500	3673	Jan-09	Unencumbered
	A321-200	V2500	6201	Jul-14	Unencumbered
	A321-200	V2500	6253	Sep-14	Unencumbered
	737-700	CFM56-7B	28008	Feb-99	Unencumbered
	737-700	CFM56-7B	28009	Mar-99	Unencumbered
	737-700	CFM56-7B	28010	Oct-99	Unencumbered
	737-700	CFM56-7B	28013	Oct-00	Unencumbered
	737-700	CFM56-7B	28015	Feb-01	Unencumbered
	737-700	CFM56-7B	28498	Mar-01	Unencumbered
	737-700	CFM56-7B	29346	Jan-03	Unencumbered
	737-700	CFM56-7B	29356	Oct-04	Unencumbered
	737-700	CFM56-7B	30687	Apr-07	Unencumbered
	737-700	CFM56-7B	30710	Feb-07	Bank Financing
	737-700	CFM56-7B	32881	Jun-02	Unencumbered
	737-800	CFM56-7B	28381	May-99	Unencumbered
	737-800	CFM56-7B	28623	May-00	Unencumbered
	737-800	CFM56-7B	29037	Jan-99	Unencumbered
	737-800	CFM56-7B	29345	May-02	Unencumbered
	737-800	CFM56-7B	29368	Mar-06	Unencumbered
	737-800	CFM56-7B	29918	Jun-99	Unencumbered
	737-800	CFM56-7B	29920	Sep-99	Unencumbered
	737-800	CFM56-7B	30296	Feb-05	Unencumbered
	737-800	CFM56-7B	30410	Oct-02	Unencumbered
	737-800	CFM56-7B	30640	Dec-01	Unencumbered
	737-800	CFM56-7B	30824	Mar-05	Unencumbered
	737-800	CFM56-7B	31069	Aug-09	Bank Financing
	737-800	CFM56-7B	31073	May-09	Bank Financing
	737-800	CFM56-7B	31107	Oct-10	Bank Financing

<u>Aircraft Group</u>	<u>Aircraft Type</u>	<u>Engine Type</u>	<u>Manufacturer Serial Number</u>	<u>Date of Manufacture</u>	<u>Financing</u>
Narrow-body Aircraft (Continued)	737-800	CFM56-7B	31109	Nov-10	Bank Financing
	737-800	CFM56-7B	32796	Feb-03	Unencumbered
	737-800	CFM56-7B	33030	Jun-06	Unencumbered
	737-800	CFM56-7B	33104	Jun-03	Unencumbered
	737-800	CFM56-7B	33453	Jul-05	Unencumbered
	737-800	CFM56-7B	33597	Sep-06	Unencumbered
	737-800	CFM56-7B	34000	Aug-05	Unencumbered
	737-800	CFM56-7B	34242	Mar-05	Unencumbered
	737-800	CFM56-7B	34409	Apr-06	Unencumbered
	737-800	CFM56-7B	34690	Feb-07	Unencumbered
	737-800	CFM56-7B	34799	Sep-06	Unencumbered
	737-800	CFM56-7B	34800	Oct-06	Unencumbered
	737-800	CFM56-7B	35022	Jan-10	Unencumbered
	737-800	CFM56-7B	35082	Mar-08	Unencumbered
	737-800	CFM56-7B	35093	Feb-07	Unencumbered
	737-800	CFM56-7B	35099	Nov-07	Unencumbered
	737-800	CFM56-7B	35103	Nov-06	Unencumbered
	737-800	CFM56-7B	35106	Mar-08	Unencumbered
	737-800	CFM56-7B	35134	Jan-07	Unencumbered
	737-800	CFM56-7B	35138	Jan-08	Unencumbered
	737-800	CFM56-7B	35149	Feb-09	Unencumbered
	737-800	CFM56-7B	36573	Apr-08	Unencumbered
	737-800	CFM56-7B	36808	Dec-10	Unencumbered
	737-800	CFM56-7B	36814	Sep-09	Unencumbered
	737-800	CFM56-7B	36821	Aug-11	Unencumbered
	737-800	CFM56-7B	36826	Sep-11	Bank Financing
	737-800	CFM56-7B	36829	Oct-11	Bank Financing
	737-800	CFM56-7B	37294	Jun-12	Unencumbered
	737-800	CFM56-7B	37519	Jan-09	Unencumbered
	737-800	CFM56-7B	37532	May-09	Unencumbered
	737-800	CFM56-7B	37540	Jul-09	Unencumbered
	737-800	CFM56-7B	37742	Feb-09	Unencumbered
	737-800	CFM56-7B	37887	Nov-10	Unencumbered
	737-800	CFM56-7B	38019	May-11	Unencumbered
	737-800	CFM56-7B	38494	Jan-10	Unencumbered
	737-800	CFM56-7B	38686	Jan-13	Unencumbered
	737-800	CFM56-7B	39859	Jul-15	Unencumbered
	737-800	CFM56-7B	39864	Sep-15	Bank Financing
	737-800	CFM56-7B	40580	Aug-10	Bank Financing
	737-800	CFM56-7B	40581	Sep-10	Bank Financing
	737-800	CFM56-7B	40584	Dec-10	Bank Financing
	737-800	CFM56-7B	40713	Dec-10	Unencumbered
	737-800	CFM56-7B	40744	May-16	Unencumbered
	737-800	CFM56-7B	40745	Aug-16	Unencumbered
	737-800	CFM56-7B	40910	Dec-10	Unencumbered

Aircraft Group	Aircraft Type	Engine Type	Manufacturer Serial Number	Date of Manufacture	Financing
Narrow-body Aircraft (Continued)	737-800	CFM56-7B	40998	Nov-11	Unencumbered
	737-800	CFM56-7B	41179	Feb-16	Unencumbered
	737-800	CFM56-7B	41398	May-14	Unencumbered
	737-800	CFM56-7B	60499	Jul-17	Unencumbered
	737-800	CFM56-7B	60500	Aug-17	Unencumbered
	737-800	CFM56-7B	60501	Sep-17	Unencumbered
	737-900	CFM56-7B	30412	May-03	Unencumbered
	737-900ER	CFM56-7B	35679	Apr-07	Unencumbered
	737-900ER	CFM56-7B	35680	May-07	Unencumbered
	737-900ER	CFM56-7B	35720	Dec-08	Unencumbered
	737-900ER	CFM56-7B	35721	Feb-09	Unencumbered
	737-900ER	CFM56-7B	38683	Nov-12	Unencumbered
	E195	CF34-10	484	Oct-11	Unencumbered
	E195	CF34-10	575	Sep-12	Unencumbered
	E195	CF34-10	588	Dec-12	Unencumbered
	E195	CF34-10	609	Mar-13	Unencumbered
	E195	CF34-10	628	Jun-13	Unencumbered
Wide-body Aircraft	A330-200	Trent 700	313	Jan-00	Unencumbered
	A330-200	PW4000	324	May-00	Unencumbered
	A330-200	Trent 700	526	Apr-03	Unencumbered
	A330-200	CF6-80E1	587	Apr-04	Unencumbered
	A330-200	CF6-80E1	634	Nov-04	Unencumbered
	A330-200	CF6-80E1	811	Feb-07	Unencumbered
	A330-200	Trent 700	1073	Dec-09	ECA Financing
	A330-200	Trent 700	1191	Feb-11	ECA Financing
	A330-200	Trent 700	1210	Mar-11	ECA Financing
	A330-200	Trent 700	1223	May-11	ECA Financing
	A330-200	Trent 700	1236	Jul-11	ECA Financing
	A330-200	Trent 700	1364	Nov-12	ECA Financing
	A330-200	Trent 700	1492	Oct-14	Unencumbered
	A330-300	Trent 700	997	Mar-09	Unencumbered
	A330-300	Trent 700	1006	Apr-09	Unencumbered
	A330-300	Trent 700	1012	May-09	Unencumbered
	A330-300	Trent 700	1015	May-09	Unencumbered
	A330-300	PW4000	1055	Oct-09	Unencumbered
	A330-300	Trent 700	1411	Apr-13	Bank Financing
	A330-300	Trent 700	1481	Jan-14	Bank Financing
	777-200ER	GE90	32705	Oct-04	Bank Financing
	777-300ER	GE90	35299	Oct-07	Unencumbered
	777-300ER	GE90	38886	Aug-12	Unencumbered
	777-300ER	GE90	38888	Oct-12	Unencumbered
	777-300ER	GE90	38889	Nov-12	Unencumbered
	777-300ER	GE90	41522	Mar-13	Bank Financing

<u>Aircraft Group</u>	<u>Aircraft Type</u>	<u>Engine Type</u>	<u>Manufacturer Serial Number</u>	<u>Date of Manufacture</u>	<u>Financing</u>
Freighter Aircraft	747-400F	CF6-80C2	33749	Oct-04	Unencumbered
	747-400ERF	CF6-80C2	35233	Jan-07	Unencumbered
	747-400ERF	CF6-80C2	35236	Feb-08	Unencumbered
	747-400ERF	CF6-80C2	35237	Apr-08	Unencumbered