Aircastle LTD
Form 10-Q
August 06, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 300 First Stamford Place, 5th Floor, Stamford, CT (Address of principal executive offices)	06902 (Zip Code)
Registrant's telephone number, including area code	(203) 504-1020

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO ¨

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

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

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

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

As of July 31, 2015, there were 81,181,495 outstanding shares of the registrant's common shares, par value $0.01 per share.

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

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$242,941	$169,656
Accounts receivable	4,996	3,334
Restricted cash and cash equivalents	161,854	98,884
Restricted liquidity facility collateral	65,000	65,000
Flight equipment held for lease, net of accumulated depreciation of $1,361,420 and $1,294,063	5,953,555	5,579,718
Net investment in finance leases	122,855	106,651
Unconsolidated equity method investment	48,712	46,453
Other assets	203,762	157,317
Total assets	$6,803,675	$6,227,013
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings	$1,427,374	$1,396,454
Borrowings from unsecured financings	2,850,000	2,400,000
Accounts payable, accrued expenses and other liabilities	156,045	140,863
Lease rentals received in advance	56,785	53,216
Liquidity facility	65,000	65,000
Security deposits	111,765	117,689
Maintenance payments	351,148	333,456
Total liabilities	5,018,117	4,506,678
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, $.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, $.01 par value, 250,000,000 shares authorized, 81,181,495 shares issued and outstanding at June 30, 2015; and 80,983,249 shares issued and outstanding at December 31, 2014	812	810
Additional paid-in capital	1,566,268	1,565,180
Retained earnings	242,159	192,805
Accumulated other comprehensive loss	(23,681)	(38,460)
Total shareholders' equity	1,785,558	1,720,335
Total liabilities and shareholders' equity	$6,803,675	$6,227,013

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Lease rental revenue	$184,839	$183,231	$361,985	$357,566
Finance lease revenue	1,877	3,897	3,484	7,884
Amortization of lease premiums, discounts and lease incentives	(4,351)	414	(8,175)	(6,177)
Maintenance revenue	21,349	36,182	39,422	39,224
Total lease revenue	203,714	223,724	396,716	398,497
Other revenue	851	2,422	2,145	4,252
Total revenues	204,565	226,146	398,861	402,749
Operating expenses:				
Depreciation	77,368	75,784	152,214	149,711
Interest, net	61,551	60,494	123,682	124,757
Selling, general and administrative (including non-cash share based payment expense of $1,387 and $1,228 for the three months ended and $2,557 and $2,218 for the six months ended June 30, 2015 and 2014, respectively)	14,699	14,057	28,631	28,001
Impairment of Aircraft	23,955	28,306	23,955	46,569
Maintenance and other costs	3,663	2,646	6,606	4,509
Total expenses	181,236	181,287	335,088	353,547
Other income (expense):				
Gain on sale of flight equipment	21,102	884	27,355	1,994
Loss on extinguishment of debt	—	(36,570)	—	(36,570)
Other	277	—	271	757
Total other income (expense)	21,379	(35,686)	27,626	(33,819)
Income from continuing operations before income taxes	44,708	9,173	91,399	15,383
Income tax provision	4,465	6,558	9,328	7,441
Earnings of unconsolidated equity method investment, net of tax	1,565	521	3,006	971
Net income	$41,808	$3,136	$85,077	$8,913
Earnings per common share — Basic:				
Net income per share	$0.51	$0.04	$1.05	$0.11
Earnings per common share — Diluted:				
Net income per share	$0.51	$0.04	$1.05	$0.11
Dividends declared per share	$0.22	$0.20	$0.44	$0.40

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$41,808	$3,136	$85,077	$8,913
Other comprehensive income, net of tax:				
Net change in fair value of derivatives, net of tax expense of $26 and $0 for the three months ended and tax expense of $23 and $804 for the six months ended June 30, 2015 and 2014, respectively	564	12	436	382
Net derivative loss reclassified into earnings	6,110	8,854	14,343	18,181
Other comprehensive income	6,674	8,866	14,779	18,563
Total comprehensive income	$48,482	$12,002	$99,856	$27,476

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)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$85,077	$8,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	152,214	149,711
Amortization of deferred financing costs	7,465	6,987
Amortization of net lease discounts and lease incentives	8,175	6,177
Deferred income taxes	(1,363)	3,999
Non-cash share based payment expense	2,557	2,218
Cash flow hedges reclassified into earnings	14,343	18,181
Security deposits and maintenance payments included in earnings	(22,382)	(40,006)
Gain on sale of flight equipment	(27,355)	(1,994)
Loss on extinguishment of debt	—	36,570
Impairment of aircraft	23,955	46,569
Other	108	(91)
Changes in certain assets and liabilities:		
Accounts receivable	(1,697)	(3,619)
Other assets	(2,155)	(1,914)
Accounts payable, accrued expenses and other liabilities	7,018	(20,438)
Lease rentals received in advance	3,646	2,742
Net cash provided by operating activities	249,606	214,005
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(797,136)	(834,467)
Proceeds from sale of flight equipment	231,842	246,037
Restricted cash and cash equivalents related to sale of flight equipment	(76,433)	(7,600)
Aircraft purchase deposits and progress payments	(3,461)	(3,785)
Net investment in finance leases	(24,000)	(14,258)
Collections on finance leases	4,795	6,219
Other	(256)	87
Net cash used in investing activities	(664,649)	(607,767)
Cash flows from financing activities:		
Issuance of shares net of repurchases	(1,960)	(2,091)
Proceeds from notes and term debt financings	800,000	803,200
Securitization and term debt financing repayments	(319,994)	(827,512)
Debt extinguishment costs	—	(32,835)
Deferred financing costs	(11,658)	(15,834)
Restricted liquidity facility collateral	—	42,000
Liquidity facility	—	(42,000)
Restricted cash and cash equivalents related to financing activities	13,463	29,015
Security deposits and maintenance payments received	71,536	83,144
Security deposits and maintenance payments returned	(27,336)	(44,577)
Payments for terminated cash flow hedges	—	(33,427)
Dividends paid	(35,723)	(32,402)
Net cash provided by (used in) financing activities	488,328	(73,319)

Net increase (decrease) in cash and cash equivalents	73,285	(467,081)
Cash and cash equivalents at beginning of period	169,656	654,613
Cash and cash equivalents at end of period	$242,941	$187,532
Supplemental disclosures of cash flow information:		
Cash paid for interest	$89,639	$112,386
Cash paid for income taxes	$3,918	$3,630
Supplemental disclosures of non-cash investing activities:		
Purchase deposits, advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	$7,841	$18,522
Term debt financings assumed in asset acquisitions	$—	$39,061
Advance lease rentals, security deposits, and maintenance payments settled in sale of flight equipment	$40,199	$17,533

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

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2015

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 investing in aviation assets, including acquiring, leasing, managing and selling high utility 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 ("US GAAP"). We operate in one segment.

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 US GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of June 30, 2015 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates seven 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 US 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.

Proposed Accounting Pronouncements

In May 2013, the Financial Accounting Standards Board ("FASB") issued re-exposure draft, "Leases" (the "Lease Re-ED"), which would replace the existing guidance in the Accounting Standards Codification ("ASC") 840 ("ASC 840"), Leases. In March 2014, the FASB decided that the accounting for leases by lessors would basically remain unchanged from the concepts existing in current ASC 840 accounting. In addition, the FASB decided that a lessor should be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming revenue recognition standard, which evaluates whether a sale has occurred

Aircastle Limited and Subsidiaries
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June 30, 2015

from the customer's perspective. We anticipate that the final standard may have an effective date no earlier than 2018. We believe that when and if the proposed guidance becomes effective, it will not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the FASB and the International Accounting Standards Board (the "IASB") (collectively, the Boards), jointly issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Lease contracts within the scope of ASC 840, Leases, are specifically excluded from ASU No. 2014-09. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The standard is effective for public entities beginning after December 15, 2017. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. The Company is currently evaluating the impacts of adoption and the implementation approach to be used.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The standard requires management of public companies to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management should evaluate whether there are conditions or events, considered in the aggregate, that raises substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). The standard is effective for annual periods ending after December 15, 2016 and interim periods thereafter, and early adoption is permitted. We are currently evaluating the effect of the ASU on our consolidated financial statements and related disclosures.

On April 7, 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements

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.
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The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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June 30, 2015

The following tables set forth our financial assets and liabilities as of June 30, 2015 and December 31, 2014 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities 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 June 30, 2015 Using Fair Value Hierarchy			
	Fair Value as of June 30, 2015	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	$242,941	$242,941	$—	$—	Market
Restricted cash and cash equivalents	161,854	161,854	—	—	Market
Total	$404,795	$404,795	$—	$—	
Liabilities:					
Derivative liabilities	$2,548	$—	$2,548	$—	Income

		Fair Value Measurements at December 31, 2014 Using Fair Value Hierarchy			
	Fair Value as of December 31, 2014	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	$169,656	$169,656	$—	$—	Market
Restricted cash and cash equivalents	98,884	98,884	—	—	Market
Total	$268,540	$268,540	$—	$—	
Liabilities:					
Derivative liabilities	$2,879	$—	$2,879	$—	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. Our interest rate derivatives included in Level 2 consist of United States dollar-denominated interest rate derivatives, and their fair values are determined by applying standard modeling techniques under the income approach to relevant market interest rates (cash rates, futures rates, swap rates) in effect at the period close to determine appropriate reset and discount rates and incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities.

For the three and six months ended June 30, 2015 and 2014, 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 US 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 investment in an unconsolidated joint venture and aircraft. We account for our investment in an unconsolidated joint venture under the equity method of accounting and record impairment when its fair value is less than its carrying value. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on an income approach

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which uses Level 3 inputs, which include the Company's assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

Aircraft Valuation
During the six months ended June 30, 2015, we impaired two MD-11 freighter aircraft and one 737-800 aircraft and recorded impairment charges totaling $23,955 and recorded maintenance revenue of $18,234.
During the six months ended June 30, 2014, we impaired three 747-400 converted freighter aircraft one Boeing 737-400 aircraft and recorded impairment charges totaling $46,570. For these aircraft, we recorded maintenance revenue of $23,678 and other revenue of $91 and reversed lease incentives of $3,626.

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 Securitization No. 2, which contains a third party credit enhancement, is estimated using a discounted cash flow analysis, based on our current incremental borrowing rates of borrowing arrangements that do not contain third party credit enhancements. The fair values of our ECA term financings and bank financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes is estimated using quoted market prices.
The carrying amounts and fair values of our financial instruments at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015		December 31, 2014	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Securitization No. 2	$(334,073)	$(328,611)	$(391,680)	$(376,752)
Credit Facilities	(150,000)	(150,000)	(200,000)	(200,000)
ECA term financings	(427,378)	(447,838)	(449,886)	(471,918)
Bank financings	(665,923)	(684,772)	(554,888)	(560,285)
Senior Notes	(2,700,000)	(2,851,293)	(2,200,000)	(2,300,615)

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2015

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 June 30, 2015 were as follows:

Year Ending December 31,	Amount
Remainder of 2015	$370,427
2016	690,925
2017	596,994
2018	513,158
2019	445,429
Thereafter	1,348,048
Total	$3,964,981

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

	Three Months Ended June 30,				Six Months Ended June 30,			
Region	2015		2014		2015		2014	
Asia and Pacific	42	%	38	%	42	%	40	%
Europe	28	%	28	%	29	%	29	%
South America	15	%	15	%	14	%	12	%
Middle East and Africa	9	%	9	%	9	%	9	%
North America	6	%	10	%	6	%	10	%
Total	100	%	100	%	100	%	100	%

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

For the three months ended June 30, 2015, three customers accounted for 17% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the three months ended June 30, 2014, three customers accounted for 20% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

For the six months ended June 30, 2015, three customers accounted for 18% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenue. For the six months ended June 30, 2014, three customers accounted for 16% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue based on each lessee's principal place of business for the three months ended June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,							
	2015				2014			
Country	Revenue	Percent of Total Revenue		Number of Lessees	Revenue	Percent of Total Revenue		Number of Lessees
India[1][2]	$—	—	%	—	$25,707	11	%	1
United States[1][3]	—	—	%	—	24,390	11	%	5

(1) Total revenue was less than 10% for the three months ended June 30, 2015

(2) Total revenue for the three months ended June 30, 2014 includes $19,582 of maintenance revenue related to scheduled lease terminations.
(3) Total revenue for the three months ended June 30, 2014 includes $5,986 of maintenance revenue related to a scheduled lease termination.

Aircastle Limited and Subsidiaries
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June 30, 2015

For the six months ended June 30, 2015 and 2014, respectively, no country represented at least 10% of total revenue based on each lessee's principal place of business.
Geographic concentration of net book value of flight equipment (includes net book value of flight equipment held for lease and net investment in finance leases) was as follows:

	June 30, 2015		December 31, 2014	
Region	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Asia and Pacific	55	41 %	46	40 %
Europe	67	28 %	65	29 %
South America	18	17 %	13	14 %
Middle East and Africa	6	9 %	6	10 %
North America	15	5 %	17	7 %
Off-lease	—	— %	1 (1)	— %
Total	161	100 %	148	100 %

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(1) Consisted of one Airbus A320-200 aircraft which was subject to a commitment to lease and was delivered to our customer in February 2015.

At June 30, 2015 and December 31, 2014, no country represented at least 10% of net book value of flight equipment based on each lessee's principal place of business.
At June 30, 2015 and December 31, 2014, the amounts of lease incentive liabilities recorded in maintenance payments on the consolidated balance sheets were $29,553 and $22,833, respectively.

Note 4. Net Investment in Finance Leases
At June 30, 2015, our net investment in finance leases represents six aircraft leased to two customers in the United States, one aircraft leased to a customer in Canada, and one aircraft leased to a customer in Germany. The following table lists the components of our net investment in finance leases at June 30, 2015:

	Amount
Total lease payments to be received	$97,817
Less: Unearned income	(39,095)
Estimated residual values of leased flight equipment (unguaranteed)	64,133
Net investment in finance leases	$122,855

At June 30, 2015, minimum future lease payments on finance leases are as follows:

Year Ending December 31,	Amount
Remainder of 2015	$7,683
2016	15,365
2017	14,843
2018	9,715
2019	9,695
Thereafter	40,516

Total	$97,817

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2015

Note 5. Unconsolidated Equity Method Investment

On December 19, 2013, the Company and an affiliate of Ontario Teachers' Pension Plan ("Teachers'") formed a joint venture (the "JV"), in which we hold a 30% equity interest, to invest in leased aircraft. Teachers' holds more than 9.7% of our outstanding common shares.

The Company recorded a $5,650 guarantee liability, which is reflected in Maintenance payments on the balance sheet and a $5,400 guarantee liability, which is reflected in Security deposits on the balance sheet.

Investment in joint venture at December 31, 2014	$46,453
Investment in joint venture	2,375
Earnings from joint venture, net of tax	3,006
Distributions	(3,122)
Investment in joint venture at June 30, 2015	$48,712

Note 6. Variable Interest Entities

Aircastle consolidates seven 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 12 aircraft discussed below.

Securitization

Aircastle is the primary beneficiary of ACS Ireland 2, as we have both the power to direct the activities of the VIE that most significantly impacts the economic performance of such VIE and we bear the significant risk of loss and participate in gains through Class E-1 Securities. Although Aircastle has not guaranteed the ACS Ireland 2 debt, Aircastle wholly owns ACS Bermuda 2, which has fully and unconditionally guaranteed the ACS Ireland 2 VIE obligations. The activity that most significantly impacts the economic performance is the leasing of aircraft. Aircastle Advisor (Ireland) Limited (Aircastle's wholly owned subsidiary) is the remarketing servicer and is responsible for the leasing of the aircraft. An Irish charitable trust owns 95% of the common shares of ACS Ireland 2. The Irish charitable trust's risk is limited to its annual dividend of $2. At June 30, 2015, the assets of ACS Ireland 2 include four aircraft transferred into the VIE at historical cost basis in connection with Securitization No. 2.

The assets of the ACS Ireland 2 as of June 30, 2015 are $170,278. The liabilities of the ACS Ireland 2, net of $40,351 Class E-1 Securities held by the Company, which is eliminated in consolidation, as of June 30, 2015 are $117,264.

ECA Term Financings

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

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

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements and deferred financing costs. The related aircraft, with a net book value as of June 30, 2015 of $631,831 were included in our flight equipment held for lease. The consolidated debt outstanding of the Air Knight VIEs as of June 30, 2015 is $427,378.

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

	At June 30, 2015				At December 31, 2014
Debt Obligation	Outstanding Borrowings	Number of Aircraft	Interest Rate[1]	Final Stated Maturity[2]	Outstanding Borrowings
Secured Debt Financings:					
Securitization No. 2	$334,073	30	0.49%	06/14/37	$391,680
ECA Term Financings	427,378	8	3.02% to 3.96%	12/3/21 to 11/30/24	449,886
Bank Financings	665,923	13	1.19% to 5.09%	10/26/17 to 01/19/26	554,888
Total secured debt financings	1,427,374	51			1,396,454
Unsecured Debt Financings:					
Senior Notes due 2017	500,000		6.75%	04/15/17	500,000
Senior Notes due 2018	400,000		4.625%	12/05/18	400,000
Senior Notes due 2019	500,000		6.250%	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	—
Revolving Credit Facility	150,000		2.44%	05/13/19	200,000
Total unsecured debt financings	2,850,000				2,400,000
Total secured and unsecured debt financings	$4,277,374				$3,796,454

(1) Reflects the floating rate in effect at the applicable reset date plus the margin for Securitization No. 2, five of our Bank Financings, and our Revolving Credit Facility. All other financings have a fixed rate.
(2) For Securitization No. 2, all cash flows available after expenses and interest are applied to debt amortization.

The following Securitization includes a liquidity facility commitment described in the table below:

		Available Liquidity			
Facility	Liquidity Facility Provider	June 30, 2015	December 31, 2014	Unused Fee	Interest Rate on any Advances
Securitization No. 2	HSH Nordbank AG	$65,000	$ 65,000	0.50%	1M Libor + 0.75

Secured Debt Financings:

ECA Term Financings

As described in Note 6 - Variable Interest Entities, we refer to our COFACE-supported financings as “ECA Term Financings.” In addition, Aircastle Limited has guaranteed the repayment of the ECA Term Financings. The borrowings under these financings at June 30, 2015 have a weighted average rate of interest of 3.57%.

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Bank Financings

In May 2015, we entered into two floating rate loans with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Development Bank of Japan Inc. These loans, which total $150,000, are secured by two A330-300 aircraft that we acquired in the fourth quarter of 2014.

Our Bank Financings contain, among other customary provisions, a $500,000 minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender. In addition, Aircastle Limited has guaranteed the repayment of the Bank Financings. The borrowings under these financings at June 30, 2015 have a weighted average fixed rate of interest of 3.12%.

Unsecured Debt Financings:

Senior Notes due 2022

On January 15, 2015, Aircastle Limited issued $500,000 aggregate principal amount of Senior Notes due 2022 (the "2022 Senior Notes") at par. The 2022 Senior Notes will mature on February 15, 2022 and bear interest at the rate of 5.50% per annum, payable semi-annually on February 15 and August 15 of each year, commencing on August 15, 2015. Interest accrues on the 2022 Senior Notes from January 15, 2015.

We may redeem the Senior Notes due 2022 at any time at a redemption price equal to (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 the remaining scheduled payments of principal and interest on the notes from the redemption date through the maturity date of the notes (computed using a discount rate equal to the Treasury Rate (as defined in the indenture governing the notes) as of such redemption date plus 50 basis points). In addition, on or before February 15, 2018, we may redeem up to 35% of the aggregate principal amount of the notes issued under the indenture at a redemption price equal to 105.50% plus accrued and unpaid interest thereon to, but not including, the redemption date, with the net proceeds of certain equity offerings. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2022 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2022 are not guaranteed by any of the Company's subsidiaries or any third party.

Revolving Credit Facility

On January 26, 2015, we increased the size of our Revolving Credit Facility from $450,000 to $600,000. On May 13, 2015, we extended the maturity of our Revolving Credit Facility to May 13, 2019. At June 30, 2015, we had $150,000 drawn on the facility.

As of June 30, 2015, we are in compliance with all applicable covenants in all of our financings.

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Note 8. Dividends
The following table sets forth the quarterly dividends declared by our board of directors for the periods covered in this report:

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
May 4, 2015	$0.220	$17,863	May 29, 2015	June 15, 2015
February 17, 2015	$0.220	$17,860	March 6, 2015	March 13, 2015
October 31, 2014	$0.220	$17,817	November 28, 2014	December 15, 2014
July 28, 2014	$0.200	$16,201	August 29, 2014	September 12, 2014
May 5, 2014	$0.200	$16,202	May 30, 2014	June 13, 2014
February 21, 2014	$0.200	$16,201	March 7, 2014	March 14, 2014

Note 9. 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.
Under the two-class method, earnings per common share is computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Weighted-average shares:								
Common shares outstanding	80,566,400		80,389,996		80,565,425		80,388,691	
Restricted common shares	650,206		643,590		583,213		572,452	
Total weighted-average shares	81,216,606		81,033,586		81,148,638		80,961,143	
Percentage of weighted-average shares:								
Common shares outstanding	99.20	%	99.21	%	99.28	%	99.29	%
Restricted common shares	0.80	%	0.79	%	0.72	%	0.71	%
Total	100.00	%	100.00	%	100.00	%	100.00	%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Earnings per share – Basic:				
Net income	$41,808	$3,136	$85,077	$8,913
Less: Distributed and undistributed earnings allocated to restricted common shares[(a)]	(335)	(25)	(611)	(63)
Earnings available to common shareholders – Basic	$41,473	$3,111	$84,466	$8,850
Weighted-average common shares outstanding – Basic	80,566,400	80,389,996	80,565,425	