

Aircastle LTD
Form 10-Q
August 04, 2016

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
X 1934

For the quarterly period ended June 30, 2016

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.)
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c/o Aircastle Advisor LLC 300 First Stamford Place, 5 th 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 NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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As of July 29, 2016, there were 78,634,132 outstanding shares of the registrant's common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries
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PART I. — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Aircastle Limited and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	\$493,233	\$ 155,904
Accounts receivable	4,500	8,566
Restricted cash and cash equivalents	51,418	98,137
Restricted liquidity facility collateral	—	65,000
Flight equipment held for lease, net of accumulated depreciation of \$1,207,844 and \$1,306,024, respectively	5,875,935	5,867,062
Net investment in finance and sales-type leases	291,903	201,211
Unconsolidated equity method investment	64,357	50,377
Other assets	164,529	123,707
Total assets	\$6,945,875	\$ 6,569,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs	\$1,078,823	\$ 1,146,238
Borrowings from unsecured financings, net of debt issuance costs	3,283,971	2,894,918
Accounts payable, accrued expenses and other liabilities	135,363	131,058
Lease rentals received in advance	57,178	67,327
Liquidity facility	—	65,000
Security deposits	123,533	115,642
Maintenance payments	490,521	370,281
Total liabilities	5,169,389	4,790,464
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, 78,777,771 shares issued and outstanding at June 30, 2016; and 80,232,260 shares issued and outstanding at December 31, 2015	788	802
Additional paid-in capital	1,520,507	1,550,337
Retained earnings	260,036	241,574
Accumulated other comprehensive loss	(4,845) (13,213)
Total shareholders' equity	1,776,486	1,779,500
Total liabilities and shareholders' equity	\$6,945,875	\$ 6,569,964

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Lease rental revenue	\$176,125	\$184,839	\$355,695	\$361,985
Finance and sales-type lease revenue	4,174	1,877	7,672	3,484
Amortization of net lease discounts and lease incentives	(3,828)	(4,351)	(4,898)	(8,175)
Maintenance revenue	12,514	21,349	13,774	39,422
Total lease revenue	188,985	203,714	372,243	396,716
Other revenue	1,003	851	1,410	2,145
Total revenues	189,988	204,565	373,653	398,861
Operating expenses:				
Depreciation	75,070	77,368	151,717	152,214
Interest, net	62,452	61,551	126,693	123,682
Selling, general and administrative (including non-cash share based payment expense of \$2,094 and \$1,387 for the three months ended and \$3,737 and \$2,557 for the six months ended June 30, 2016 and 2015, respectively)	15,406	14,699	30,898	28,631
Impairment of aircraft	16,723	23,955	16,723	23,955
Maintenance and other costs	2,267	3,663	3,670	6,606
Total expenses	171,918	181,236	329,701	335,088
Other income:				
Gain on sale of flight equipment	2,172	21,102	15,005	27,355
Other	147	277	74	271
Total other income	2,319	21,379	15,079	27,626
Income from continuing operations before income taxes and earnings of unconsolidated equity method investment	20,389	44,708	59,031	91,399
Income tax provision	2,385	4,465	6,324	9,328
Earnings of unconsolidated equity method investment, net of tax	2,026	1,565	3,585	3,006
Net income	\$20,030	\$41,808	\$56,292	\$85,077
Earnings per common share — Basic:				
Net income per share	\$0.25	\$0.51	\$0.71	\$1.05
Earnings per common share — Diluted:				
Net income per share	\$0.25	\$0.51	\$0.71	\$1.05
Dividends declared per share	\$0.24	\$0.22	\$0.48	\$0.44

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$20,030	\$41,808	\$56,292	\$85,077
Other comprehensive income, net of tax:				
Net change in fair value of derivatives, net of tax expense of \$0 and \$26 for the three months ended and tax expense of \$0 and \$23 for the six months ended June 30, 2016 and 2015, respectively	—	564	(1) 436
Net derivative loss reclassified into earnings	2,997	6,110	8,369	14,343
Other comprehensive income	2,997	6,674	8,368	14,779
Total comprehensive income	\$23,027	\$48,482	\$64,660	\$99,856

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,	
	2016	2015
Cash flows from operating activities:		
Net income	\$56,292	\$85,077
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	151,717	152,214
Amortization of deferred financing costs	9,470	7,465
Amortization of net lease discounts and lease incentives	4,898	8,175
Deferred income taxes	2,243	(1,363)
Non-cash share based payment expense	3,737	2,557
Cash flow hedges reclassified into earnings	8,369	14,343
Security deposits and maintenance payments included in earnings	(5,651)	(22,382)
Gain on sale of flight equipment	(15,005)	(27,355)
Impairment of aircraft	16,723	23,955
Other	(2,843)	108
Changes in certain assets and liabilities:		
Accounts receivable	3,262	(1,697)
Other assets	(85)	(2,155)
Accounts payable, accrued expenses and other liabilities	4,284	7,018
Lease rentals received in advance	(2,714)	3,646
Net cash provided by operating activities	234,697	249,606
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(478,026)	(797,136)
Proceeds from sale of flight equipment	339,507	231,842
Restricted cash and cash equivalents related to sale of flight equipment	17,000	(76,433)
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	(9,801)	(3,461)
Net investment in finance leases	(78,365)	(24,000)
Collections on finance and sales-type leases	7,833	4,795
Unconsolidated equity method investment and associated costs	(11,688)	—
Other	(509)	(256)
Net cash used in investing activities	(214,049)	(664,649)
Cash flows from financing activities:		
Repurchase of shares	(33,854)	(1,960)
Proceeds from secured and unsecured debt financings	787,310	800,000
Repayments of secured and unsecured debt financings	(459,021)	(319,994)
Deferred financing costs	(16,121)	(11,658)
Restricted secured liquidity facility collateral	65,000	—
Liquidity facility	(65,000)	—
Restricted cash and cash equivalents related to financing activities	29,719	13,463
Security deposits and maintenance payments received	72,572	71,536
Security deposits and maintenance payments returned	(26,094)	(27,336)
Dividends paid	(37,830)	(35,723)
Net cash provided by financing activities	316,681	488,328
Net increase in cash and cash equivalents	337,329	73,285

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Cash and cash equivalents at beginning of period	155,904	169,656
Cash and cash equivalents at end of period	\$493,233	\$242,941

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

	Six Months Ended June 30,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$104,534	\$89,639
Cash paid for income taxes	\$2,809	\$3,918
Supplemental disclosures of non-cash investing activities:		
Advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	\$105,801	\$7,841
Advance lease rentals, security deposits, and maintenance payments settled in sale of flight equipment	\$21,159	\$40,199
Transfers from Flight equipment held for lease to Net investment in finance and sales-type leases and Other assets	\$86,267	\$18,851

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)
June 30, 2016

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 (“U.S. GAAP”). The company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our chief executive officer is the chief operating decision maker.

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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, 2016 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Effective January 1, 2016, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-02, Consolidation - Amendments to the Consolidation Analysis (Topic 810). The update amended the guidelines for determining whether certain legal entities should be consolidated and reduced the number of consolidation models. This new standard affected reporting entities that are required to evaluate whether they should consolidate certain legal entities. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Principles of Consolidation

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2016

Use of Estimates

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

Recent Accounting Pronouncements

On February 25, 2016, the FASB issued Accounting Standards Codification (“ASC”) 842 (“ASC 842”), “Leases,” which replaced the existing guidance in ASC 840, Leases. The accounting for leases by lessors basically remained unchanged from the concepts that existed in ASC 840 accounting. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming revenue recognition standard, which evaluates whether a sale has occurred from the customer’s perspective. The standard will be effective for public entities beginning after December 15, 2018. The standard is applied on a “modified retrospective” basis. We are evaluating the impact that ASC 842 will have on our consolidated financial statements and related disclosures. We do not believe that the adoption of the standard will significantly impact our existing or potential lessees’ economic decisions to lease aircraft.

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 impact of the ASU on our consolidated financial statements and related disclosures.

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 do not believe the standard will have a material impact on our consolidated financial statements and related disclosures when adopted.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). The update amends the guidelines for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is permitted. We are evaluating the impact of the ASU on our consolidated financial statements and related disclosures.

Note 2. Fair Value Measurements

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

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 June 30, 2016

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

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

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

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

The following tables set forth our financial assets and liabilities as of June 30, 2016 and December 31, 2015 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, 2016 Using Fair Value Hierarchy					
Quoted Prices					
Fair Value as of June 30, 2016	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	\$ 493,233	\$ 493,233	\$ —	—	Market
Restricted cash and cash equivalents	51,418	51,418	—	—	Market
Total	\$ 544,651	\$ 544,651	\$ —	—	
Liabilities:					
Derivative liabilities	\$ —	\$ —	\$ —	—	Income

Fair Value Measurements at December 31, 2015 Using Fair Value Hierarchy					
Quoted Prices					
Fair Value as of December 31, 2015	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	\$ 155,904	\$ 155,904	\$ —	\$ —	Market

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Restricted cash and cash equivalents	98,137	98,137	—	—	Market
Total	\$ 254,041	\$ 254,041	\$ —	\$ —	—
Liabilities:					
Derivative liabilities	\$ 1,283	\$ —	\$ 1,283	\$ —	—Income

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2016

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, 2016 and the year ended December 31, 2015, 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 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 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

Recoverability Assessment

We completed our annual recoverability assessment of wide-body and freighter aircraft in the second quarter this year given weaker market dynamics for these aircraft. We intend to complete the recoverability assessment for our narrow-body aircraft fleet during the third quarter. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations.

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.

In our 2016 assessment, we reduced forecasted cash flows for older Airbus A330 aircraft to reflect lower rental expectations given weak demand and increased competition from newer units. As a result, during the three months ended June 30, 2016, we recorded impairment charges totaling \$11,670 and maintenance revenue of \$4,000 relating to one sixteen year old Airbus A330-200 approaching lease expiry.

Other Impairments

During the six months ended June 30, 2016, we entered into an agreement to sell two older Boeing 747-400 freighter aircraft to the lessee resulting in an impairment of \$5,053. These two aircraft are held for sale at June 30, 2016 in other assets. These aircraft were sold in July 2016.

During the six months ended June 30, 2015, we impaired two McDonnell Douglas MD-11 freighter aircraft and one Boeing 737-800 aircraft and recorded impairment charges totaling \$23,955 and maintenance revenue of \$18,234. Other than the aircraft discussed above, management believes that the net book value of each of our wide-body and freighter aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by

that aircraft, and accordingly, no other aircraft were impaired as a consequence of this recoverability assessment. However, if

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2016

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 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 values of our ECA Financings (as described in Note 6 - Variable Interest Entities below) 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, 2016 and December 31, 2015 are as follows:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	of Liability	of Liability	of Liability	of Liability
Securitizations	\$ —	\$ —	\$125,366	\$123,696
Credit Facilities	120,000	120,000	225,000	225,000
ECA Financings	326,004	317,409	404,491	422,640
Bank Financings	774,903	794,875	636,970	653,699
Senior Notes	3,200,000	3,060,390	2,700,000	2,832,125

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

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

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at June 30, 2016 were as follows:

Year Ending December 31, Amount	Amount
Remainder of 2016	\$360,019
2017	647,844
2018	573,162
2019	499,783
2020	413,445
Thereafter	1,153,821
Total	\$3,648,074

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 June 30, 2016

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

Region	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Asia and Pacific	39 %	42 %	40 %	42 %
Europe	24 %	28 %	25 %	29 %
South America	19 %	15 %	19 %	14 %
Middle East and Africa	12 %	9 %	11 %	9 %
North America	6 %	6 %	5 %	6 %
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.

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

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	4	25%	3	17%	4	25%	3	18%

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

Country	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Indonesia ⁽¹⁾	\$19,906	11%	\$—	—%	\$39,450	11%	\$—	—%

(1) Total revenue attributable to Indonesia was less than 10% for the three and six months ended June 30, 2015.

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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:

Region	June 30, 2016			December 31, 2015		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Asia and Pacific	49	37	%	49	39	%
Europe	59	24	%	64	26	%
South America	22	18	%	22	19	%
Middle East and Africa	13	11	%	9	10	%
North America	23	8	%	17	6	%
Off-lease	3 ⁽¹⁾	2	%	1 ⁽²⁾	—	%
Total	169	100	%	162	100	%

(1) Consists of two Boeing 737-800 aircraft, for which we have signed lease agreements with customers in Asia, and one Airbus A330-200 aircraft, for which we have a signed lease agreement with a customer in South America.

(2) Consisted of one Boeing 777-200ER aircraft that was sold during the second quarter of 2016.

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 finance 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:

Region	June 30, 2016			December 31, 2015		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
Indonesia	\$647,022	11%	3	\$661,178	11%	3

At June 30, 2016 and December 31, 2015, the amounts of lease incentive liabilities recorded in maintenance payments on our Consolidated Balance Sheets were \$18,045 and \$21,432, respectively.

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

At June 30, 2016, our net investment in finance and sales-type leases represents fourteen aircraft: eight aircraft leased to two customers in the United States, two aircraft leased to a customer in the Netherlands, three aircraft leased to two customers in Germany and one aircraft leased to a customer in Spain. The following table lists the components of our net investment in finance and sales-type leases at June 30, 2016:

Total lease payments to be received	Amount
	\$229,766
Less: Unearned income	(97,315)
Estimated residual values of leased flight equipment (unguaranteed)	159,452
Net investment in finance and sales-type leases	\$291,903

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At June 30, 2016, minimum future lease payments on finance and sales-type leases are as follows:

Year Ending December 31,	Amount
Remainder of 2016	\$21,774
2017	39,718
2018	32,189
2019	32,018
2020	30,938
Thereafter	73,129
Total lease payments to be received	\$229,766

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 ("Lancaster"), in which we hold a 30% equity interest, to invest in leased aircraft. Teachers' holds 10.0% of our outstanding common shares. In March 2016, we sold four Airbus A320-200 aircraft for approximately \$100,000 to Lancaster; these transactions were approved by our Audit Committee as arm's length related party transactions under our related party policy. The assets and liabilities of Lancaster are off our Consolidated Balance Sheet and we record our net investment under the equity method of accounting.

On February 23, 2016, through the Company's relationship with Marubeni Corporation, we established a new joint venture ("IBJ Air") with the leasing arm of the Industrial Bank of Japan, Limited ("IBJL"). This new venture is targeted at new narrow-body aircraft leased to premier airlines providing Aircastle with increased access to this market sector and to these customers. In June 2016, we sold one Airbus A320-200 aircraft to IBJ Air, in which we hold a 25% equity interest.

We source and service investments for Lancaster and IBJ Air and provide marketing, asset management and administrative services to them. We are paid market-based fees for those services, which are recorded in Other revenue in our Consolidated Statements of Income. The Company has recorded in its Consolidated Balance Sheet a \$7,705 guarantee liability in Maintenance payments and a \$5,100 guarantee liability in Security deposits representing its share of the respective exposures.

At June 30, 2016, the net book value of our joint ventures' ten aircraft was approximately \$612 million.

	Amount
Investment in joint ventures at December 31, 2015	\$50,377
Investment in joint ventures	12,424
Earnings from joint ventures, net of tax	3,585
Distributions	(2,029)
Investment in joint ventures at June 30, 2016	\$64,357

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Note 6. Variable Interest Entities

Aircastle consolidates five 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 seven aircraft discussed below.

Securitization No. 2

In May 2016, we repaid the outstanding amount plus accrued interest and fees due under Securitization No. 2, and ACS Aircraft Finance Ireland 2 Limited became a wholly owned subsidiary of Aircastle.

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 seven different twelve-year term loans, which are supported by guarantees from Compagnie Française d'Assurance pour le Commerce Extérieur, (“COFACE”), the French government sponsored export credit agency (“ECA”). We refer to these COFACE-supported financings as “ECA Financings.”

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

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of June 30, 2016 of \$526,343, 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 June 30, 2016 is \$315,731.

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Note 7. Secured and Unsecured Debt Financings

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

Debt Obligation	At June 30, 2016			Final Stated Maturity	At
	Outstanding Borrowings	Number of Aircraft	Interest Rate ⁽¹⁾		December 31, 2015
Secured Debt Financings:					
Securitization No. 2	\$—	—	—%	—	\$125,366
ECA Financings ⁽²⁾	326,004	7	3.02% to 3.96%	12/3/21 to 11/30/24	404,491
Bank Financings ⁽³⁾	774,903	20	1.44% to 5.09%	10/26/17 to 01/19/26	636,970
Less: Debt Issuance Costs	(22,084) —			(20,589)
Total secured debt financings, net of debt issuance costs	1,078,823	27			1,146,238
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	500,000
Senior Notes due 2023	500,000		5.00%	04/01/23	—
DBJ Term Loan	120,000		2.653%	04/28/19	—
Revolving Credit Facility	—		N/A	05/13/20	225,000
Less: Debt Issuance Costs	(36,029)			(30,082)
Total unsecured debt financings, net of debt issuance costs	3,283,971				2,894,918
Total secured and unsecured debt financings, net of debt issuance costs	\$4,362,794				\$4,041,156

(1) Reflects the floating rate in effect at the applicable reset date plus the margin for our DBJ Term Loan, six of our Bank Financings and our Revolving Credit Facility. All other financings have a fixed rate.

(2) The borrowings under these financings at June 30, 2016 have a weighted-average rate of interest of 3.53%.

(3) The borrowings under these financings at June 30, 2016 have a weighted-average fixed rate of interest of 3.21%.

Secured Debt Financings:
 Securitization No. 2

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On May 9, 2016, we prepaid the outstanding principal balance plus accrued interest and fees due under Securitization No. 2 and terminated the related interest rate derivatives for a total of \$66,262. Upon prepayment of Securitization No. 2, our liquidity facility commitment with HSH Nordbank AG ended and all drawn cash was returned.

Bank Financings

On June 17, 2016, we entered into a full recourse \$400,450 floating rate financing with BNP Paribas, Credit Agricole Corporate and Investment Bank and certain other banks for seventeen aircraft initially, with the possibility of adding two

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incremental aircraft for an additional \$67,550. As of June 30, 2016, we have funded seven aircraft for \$167,310 under this facility, which matures in June of 2023.

Unsecured Debt Financings:

DBJ Term Loan

In March 2016, we entered into a \$120,000 floating rate three year term loan commitment with Development Bank of Japan Inc. and certain other banks (the "DBJ Term Loan"). This loan was funded in April 2016.

Senior Notes due 2023

On March 21, 2016, Aircastle issued \$500,000 aggregate principal amount of Senior Notes due 2023 (the "Senior Notes due 2023") at par. The Senior Notes due 2023 will mature on April 1, 2023 and bear interest at the rate of 5.00% per annum, payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2016.

Interest accrues on the Senior Notes due 2023 from March 24, 2016.

We may redeem the Senior Notes due 2023 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, prior to April 1, 2019, we may redeem up to 40% of the aggregate principal amount of the notes issued under the indenture at a redemption price equal to 105% 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 2023 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2023 are not guaranteed by any of the Company's subsidiaries or any third-party.

Revolving Credit Facility

On March 29, 2016, we increased the size of our unsecured Revolving Credit Facility from \$600,000 to \$675,000 and extended its maturity by one year to May 2020. At June 30, 2016, we had no amounts outstanding under this facility. As of June 30, 2016, we are in compliance with all applicable covenants in all of our financings.

Note 8. Shareholders' Equity and Share Based Payment

Performance Stock Units

During the six months ended June 30, 2016, the Company issued performance share units ("PSUs") to certain employees. These awards were made under the Aircastle Limited 2014 Omnibus Incentive Plan. The PSUs are denominated in share units without dividend rights, each of which is equivalent to one common share, and are subject to performance conditions and time vesting.

The PSUs vest at the end of a three year period, which runs from January 1, 2016 through December 31, 2018. Half of the PSUs vest on achieving relative total stockholder return goals (the "TSR PSUs") while the other half vest on attaining annual Adjusted Return on Equity goals (the "AROE PSUs"). The table below shows the PSU awards granted during the six months ended June 30, 2016, including the number of common shares underlying the awards at the time of grant:

	Minimum	Target	Maximum
TSR PSUs	—	133,957	267,914
AROE PSUs	—	133,953	267,906
Total	—	267,910	535,820

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The fair value of the time based TSR PSUs was determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model were certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk-free interest rate and dividend yield. To appropriately value the award, the risk-free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities were estimated based on a historical time frame equal to the time from the valuation date until the end date of the performance period. The number of TSR PSUs that will ultimately vest is based on the percentile ranking of the Company's TSR among the S&P 400 Index. The number of shares that will ultimately vest will range from 0% to 200% of the target TSR PSUs.

The number of shares vesting from the AROE PSUs at the end of the three-year performance period will depend on the Company's Adjusted Return on Equity as measured against the targets set by the Compensation Committee annually during the performance period, consistent with the business plan approved by the Board. The maximum number of AROE PSUs for 2016 is 89,302. The fair value of the 2016 AROE PSUs was determined based on the closing market price of the Company's common shares on the date of grant reduced by the present value of expected dividends to be paid. The number of shares that will ultimately vest will range from 0% to 200% of the target AROE PSUs.

During the six months ended June 30, 2016, the Company granted a target of 178,608 PSUs of which 133,957 are TSR PSUs and 44,651 are AROE PSUs. The remaining 89,302 of target AROE PSUs will be considered granted upon the Compensation Committee's setting the target AROE for the respective period. The following table summarizes the activities for our unvested PSUs for the six months ended June 30, 2016:

	Unvested Performance Stock Units			
	Target Number of Shares of TSR PSUs	Target Number of Shares of AROE PSUs	TSR PSUs Weighted Fair Value at Grant Date Using a Monte Carlo Simulation Model (\$)	AROE PSUs Fair Value Equal to Adjusted Closing Stock Price on Date of Grant (\$)
Unvested at December 31, 2015	—	—	\$ —	\$ —
Granted	133,957	44,651	25.20	19.17
Unvested as of June 30, 2016	133,957	44,651	\$ 25.20	\$ 19.17
Expected to vest after June 30, 2016	133,957	44,651	\$ 25.20	\$ 19.17

The Company incurred share based compensation expense related to PSUs of \$452 for the six months ended June 30, 2016. As of June 30, 2016, there was \$3,780 of unrecognized compensation cost related to unvested stock-based payments granted to certain employees that is expected to be recognized over a weighted-average remaining period of 2.5 years.

During the first six months of 2016, we repurchased 1,683,713 common shares at an aggregate cost of \$31,704, including commissions. As of June 30, 2016, the remaining dollar value of common shares that may be repurchased under the repurchase program approved by the Company's Board of Directors on February 9, 2016, is \$99,375.

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Note 9. Dividends

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

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
May 2, 2016	\$ 0.24	\$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016	\$ 0.24	\$ 18,915	February 29, 2016	March 15, 2016
October 30, 2015	\$ 0.24	\$ 19,377	November 30, 2015	December 15, 2015
August 4, 2015	\$ 0.22	\$ 17,860	August 31, 2015	September 15, 2015
May 4, 2015	\$ 0.22	\$ 17,863	May 29, 2015	June 15, 2015

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.

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. Because the holders of the participating restricted common shares were not contractually required to share in the Company’s losses, in applying the two-class method to compute the basic and diluted net loss per common share, no allocation to restricted common shares was made for the three and six months ended June 30, 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted-average shares:				
Common shares outstanding	78,159,280	80,566,400	78,351,369	80,565,425
Restricted common shares	685,918	650,206	629,137	583,213
Total weighted-average shares	78,845,198	81,216,606	78,980,506	81,148,638

Percentage of weighted-average shares:

Common shares outstanding	99.13	% 99.20	% 99.20	% 99.28	%
Restricted common shares	0.87	% 0.80	% 0.80	% 0.72	%
Total percentage of weighted-average shares	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,	
	2016	2015	2016	2015
Earnings per share – Basic:				
Net income	\$20,030	\$41,808	\$56,292	\$85,077
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(174)	(335)	(448)	(611)
Earnings available to common shareholders – Basic	\$19,856	\$41,473	\$55,844	\$84,466
Weighted-average common shares outstanding – Basic	78,159,280	80,566,400	78,351,369	80,565,425
Earnings per common share – Basic	\$0.25	\$0.51	\$0.71	\$1.05
Earnings per share – Diluted:				
Net income	\$20,030	\$41,808	\$56,292	\$85,077
Less: Distributed and undistributed earnings allocated to restricted common shares ⁽¹⁾	(174)	(335)	(448)	(611)
Earnings available to common shareholders – Diluted	\$19,856	\$41,473	\$55,844	\$84,466
Weighted-average common shares outstanding – Basic	78,159,280	80,566,400	78,351,369	80,565,425
Effect of dilutive shares ⁽²⁾	—	—	—	—
Weighted-average common shares outstanding – Diluted	78,159,280	80,566,400	78,351,369	80,565,425
Earnings per common share – Diluted	\$0.25	\$0.51	\$0.71	\$1.05

For the three months ended June 30, 2016 and 2015, distributed and undistributed earnings to restricted shares are 0.87% and 0.80%, respectively, of net income. For the six months ended June 30, 2016 and 2015, distributed and (1) undistributed earnings to restricted shares are 0.80% and 0.72% of net income, respectively. The amount of restricted share forfeitures for all periods present is immaterial to the allocation of distributed and undistributed earnings.

(2) For the three and six months ended June 30, 2016 and 2015, we had no dilutive shares.

Note 11. Income Taxes

Income taxes have been provided for based upon 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 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, Singapore and the United States.

The sources of income from continuing operations before income taxes and earnings of unconsolidated equity method investment for the three and six months ended June 30, 2016 and 2015 were as follows:

Three Months Ended June 30,	Six Months Ended June 30,
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	2016	2015	2016	2015
U.S. operations	\$1,158	\$840	\$1,744	\$1,220
Non-U.S. operations	19,231	43,868	57,287	90,179
Total	\$20,389	\$44,708	\$59,031	\$91,399

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All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S. based subsidiary which provides management services to our non-U.S. 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 six months ended June 30, 2016 and 2015 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2016 and 2015, respectively.

The Company's effective tax rate for the three and six months ended June 30, 2016 was 11.7% and 10.7%, respectively, compared to 10.0% and 10.2% for the three and six months ended June 30, 2015. Movements in the effective tax rates are generally caused by changes in the proportion of the Company's pre-tax earnings in taxable and non-tax jurisdictions.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Notional U.S. federal income tax expense at the statutory rate	\$7,136	\$15,648	\$20,661	\$31,990
U.S. state and local income tax, net	78	68	125	110
Non-U.S. operations:				
Bermuda	(1,570)	(7,368)	(10,662)	(15,895)
Ireland	194	(1,785)	2,073	(2,907)
Singapore	(2,716)	(1,375)	(4,051)	(2,731)
Other	(872)	(901)	(2,083)	(1,579)
Non-deductible expenses in the U.S.	150	191	285	361
Other	(15)	(13)	(24)	(21)
Income tax provision	\$2,385	\$4,465	\$6,324	\$9,328

Note 12. Interest, Net

The following table shows the components of interest, net:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities ⁽¹⁾	\$55,779	\$51,413	\$109,103	\$101,648
Hedge ineffectiveness losses	—	294	—	294
Amortization of interest rate derivatives related to deferred losses	2,997	6,110	8,369	14,343
Amortization of deferred financing fees and debt discount ⁽²⁾	3,863	3,766	9,470	7,465
Interest expense	62,639	61,583	126,942	123,750
Less interest income	(160)	(32)	(222)	(68)
Less capitalized interest	(27)	—	(27)	—

Interest, net	\$62,452	\$61,551	\$126,693	\$123,682
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- (1) For the three and six months ended June 30, 2016, includes \$0 and \$1,509, respectively, in loan termination fees related to the sale of one aircraft.
- (2) For the three and six months ended June 30, 2016, includes \$0 and \$1,972, respectively, in deferred financing fees written off related to the sale of one aircraft.

Note 13. Commitments and Contingencies

At June 30, 2016, we had commitments to acquire 37 aircraft, including 25 Embraer E-2 aircraft, for \$1,400,540. Commitments, including \$141,957 of progress payments, contractual price escalations and other adjustments for these aircraft, at June 30, 2016, net of amounts already paid, are as follows:

Year Ending December 31,	Amount
Remainder of 2016	\$319,311
2017	170,253
2018	258,179
2019	293,756
2020	216,847
Thereafter	142,194
Total	\$1,400,540

Note 14. Other Assets

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

	June 30, 2016	December 31, 2015
Deferred federal income tax asset	\$791	\$ 1,362
Lease incentives and lease premiums, net of amortization of \$35,151 and \$31,623, respectively	83,109	86,874
Flight equipment held for sale ⁽¹⁾	43,016	12,901
Other assets	37,613	22,570
Total other assets	\$164,529	\$ 123,707

(1) In July 2016, we sold two older Boeing 747-400 freighter aircraft.

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:

	June 30, 2016	December 31, 2015
Accounts payable and accrued expenses	\$36,080	\$ 34,457
Deferred federal income tax liability	36,940	35,269
Accrued interest payable	43,674	37,606
Lease discounts, net of amortization of \$24,213 and \$19,403, respectively	18,669	22,443
Fair value of derivative liabilities	—	1,283
Total accounts payable, accrued expenses and other liabilities	\$135,363	\$ 131,058

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Note 16. Accumulated Other Comprehensive Loss

The following table describes the principal components of accumulated other comprehensive loss recorded on our Consolidated Balance Sheets:

Changes in accumulated other comprehensive loss by component ⁽¹⁾	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance	\$(7,842)	\$(30,355)	\$(13,213)	\$(38,460)
Amounts recognized in other comprehensive loss on derivatives, net of tax expense of \$0 and \$14 for the three months ended and tax expense of \$0 for the six months ended June 30, 2016 and 2015, respectively	(188)	(317)	(690)	(1,395)
Amounts reclassified from accumulated other comprehensive loss into income, net of tax expense of \$0 and \$12 for the three months ended and tax expense of \$0 and \$23 for the six months ended June 30, 2016 and 2015, respectively	3,185	6,991	9,058	16,174
Net current period other comprehensive income	2,997	6,674	8,368	14,779
Ending balance	\$(4,845)	\$(23,681)	\$(4,845)	\$(23,681)

(1) All amounts are net of tax. Amounts in parentheses indicate debits.

Reclassifications from accumulated other comprehensive loss ⁽¹⁾	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amount of effective amortization of net deferred interest rate derivative losses ⁽²⁾	\$2,997	\$6,110	\$8,369	\$14,343
Effective amount of net settlements of interest rate derivatives, net of tax expense of \$0 and \$12 for the three months ended and tax expense of \$0 and \$23 for the six months ended June 30, 2016 and 2015, respectively	188	881	689	1,831
Amount of loss reclassified from accumulated other comprehensive loss into income	\$3,185	\$6,991	\$9,058	\$16,174

(1) All amounts are net of tax.

(2) Included in interest expense.

At June 30, 2016, the amount of deferred net loss expected to be reclassified from OCI into interest expense over the next twelve months related to our terminated interest rate derivatives is \$2,449.