

SUPPLEMENT NO. 1 TO
CONFIDENTIAL OUT-OF-COURT EXCHANGE OFFERING MEMORANDUM AND SOLICITATION OF CONSENTS, AND
DISCLOSURE STATEMENT AND SOLICITATION OF VOTES RELATED TO AN IN-COURT IRISH SCHEME OF ARRANGEMENT
AND VOTES RELATED TO AN IN-COURT PREPACKAGED CHAPTER 11 PLAN OF REORGANIZATION



Voyager Aviation Holdings, LLC

hereby supplements its:

- (1) Offer to exchange any and all of the \$415,337,000 outstanding principal amount of 8.500% Senior Notes due 2021 (CUSIP Nos. 46122X AG8 and U4609F AD2) (the “*Existing Unsecured Notes*”) issued by Voyager Aviation Holdings, LLC (f/k/a Intrepid Aviation Group Holdings, LLC) (the “*Company*”) and Voyager Finance Co. (f/k/a Intrepid Finance Co.) (“*Voyager Finance*”), including any accrued and unpaid interest on the Existing Unsecured Notes from the most recent date on which interest was paid on the Existing Unsecured Notes until the date on which the exchange was completed, for (a) 100% of the pro forma common equity of the Company (the “*New Equity*”), (b) up to \$150,003,000 in aggregate principal amount of new 8.500% Senior Secured Notes due 2026 (“*New Notes*”) to be co-issued by the Company and Voyager Finance, and solicitation of consents in respect of the Existing Unsecured Notes, and (c) up to \$200,001,000 in liquidation preference of preferred equity (the “*Preferred Units*” and, together with the New Equity and the New Notes, the “*New Securities*”) of Cayenne Aviation LLC, a wholly owned subsidiary of the Company (the “*Exchange Offer*”);
- (2) Collection of instructions to vote to accept a Scheme of Arrangement in Ireland pursuant to Part 9 of the Companies Act 2014 of the Republic of Ireland (as amended), which may be implemented if the Company is unable to obtain requisite support for the Out-of-Court Restructuring, subject to certain conditions; and
- (3) Solicitation of votes on an in-court prepackaged chapter 11 plan of reorganization, which may be implemented if the Company is unable to obtain requisite support for the Out-of-Court Restructuring, subject to certain conditions.

* * *

This document (this “Supplement No. 1”) supplements the Confidential Out-of-Court Exchange Offering Memorandum and Solicitation of Consents and Disclosure Statement and Solicitation of Votes Related to an In-Court Irish Scheme of Arrangement or Votes Related to an In-Court Prepackaged Chapter 11 Plan of Reorganization, dated March 30, 2021 (as may be further amended or supplemented from time to time, the “*Offering Memorandum and Disclosure Statement*”).

The Company is providing this Supplement No. 1 to the Offering Memorandum and Disclosure Statement solely for the purpose of furnishing its audited consolidated financial statements and accompanying management’s discussion and analysis of financial condition and results of operations for the year ended December 31, 2020, which are attached as **Exhibit A** hereto (the “*2020 Financial Statements*”).

The 2020 Financial Statements supersede in their entirety (i) the Management’s Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements for the nine months ended September 30, 2020, included as Appendix F to the Offering Memorandum and Disclosure Statement and (ii) the preliminary financial information for the year ended December 31, 2020 included in the Offering Memorandum and Disclosure Statement under the section entitled “Summary—Recent Developments—Preliminary Financial Information for the Year Ended December 31, 2020”, and, in each case, any other information included in the Offering Memorandum and Disclosure Statement derived therefrom.

The terms and conditions of the Exchange Offer, Consent Solicitation, the Scheme Vote and Plan Vote described in the Offering Memorandum and Disclosure Statement are not affected by these updates and remain unchanged.

Terms used herein but not defined herein shall have the respective meanings as set forth in the Offering Memorandum and Disclosure Statement.

* * *

The New Securities offered hereby have not been registered under the Securities Act or any state securities laws. The New Securities may not be offered or sold in the United States or to any U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions” in the Offering

Memorandum and Disclosure Statement. The New Securities, which have not been and will not be registered under the Securities Act, are being offered and issued only (a) in the United States, to holders of Existing Unsecured Notes who are or are reasonably believed to be “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) or institutional “accredited investors” within the meaning of Rule 501(a)(1), (2), (3), (7), (8), (9), (12) or (13) of Regulation D under the Securities Act and (b) outside the United States, to holders of Existing Unsecured Notes who are not “U.S. persons” (as defined in Rule 902 under the Securities Act), in reliance on Section 4(a)(2) of the Securities Act or Regulation S of the Securities Act, as applicable. Only holders of Existing Unsecured Notes who are or are reasonably believed to be (i) QIBS, (ii) Accredited Investors or (iii) Non-U.S. Persons, whom we refer to as “Eligible Holders,” are authorized to participate in the Exchange Offer.

This Supplement No. 1 to the Offering Memorandum and Disclosure Statement is submitted to Eligible Holders for informational use solely in connection with their consideration of the Exchange Offer, Consent Solicitation, the Scheme Vote and Plan Vote described in the Offering Memorandum and Disclosure Statement. Its use for any other purpose is not authorized.

This Supplement No. 1 to the Offering Memorandum and Disclosure Statement may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents be disclosed to anyone other than the holder to whom it is submitted. Each Eligible Holder agrees to the foregoing restrictions by accepting delivery of this Supplement No. 1 to the Offering Memorandum and Disclosure Statement.

THIS SUPPLEMENT NO. 1 FORMS A PART OF THE OFFERING MEMORANDUM AND DISCLOSURE STATEMENT AND SHOULD BE READ IN CONJUNCTION WITH THE OFFERING MEMORANDUM AND DISCLOSURE STATEMENT.

Dealer Manager

Moelis & Company

The date of this Supplement No. 1 to the Offering Memorandum and Disclosure Statement is April 8, 2021

Exhibit A

**Consolidated Financial Statements with Independent Auditors' Report and
Accompanying Management's Discussion and Analysis
for the Year Ended December 31, 2020**

See attached.

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Financial Statements with Independent Auditors' Report and

Accompanying Management's Discussion and Analysis

December 31, 2020

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Financial Statements and Accompanying Management's Discussion and Analysis

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KPMG LLP
677 Washington Boulevard
Stamford, CT 06901

Independent Auditors' Report

The Board of Managers
Voyager Aviation Holdings, LLC

We have audited the accompanying consolidated financial statements of Voyager Aviation Holdings, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has \$415 million of unsecured notes maturing in August of 2021 (the "2021 Notes") which it would not be able



to pay unless the 2021 Notes are refinanced or restructured and, in accordance with ASC 205-40, *Presentation of Financial Statements – Going Concern*, has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 15 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

KPMG LLP

Stamford, Connecticut
April 8, 2021

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollars in thousands)

	December 31, 2020	December 31, 2019
<u>ASSETS</u>		
Current assets:		
Cash	\$ 38,024	\$ 38,007
Accounts receivable, net	28,399	5,026
Prepaid and other current assets	3,640	7,431
Total current assets	70,063	50,464
Investment in finance lease, net	101,988	—
Property and equipment, net	1,623,574	1,849,475
Other assets:		
Aircraft deposits	4,476	4,476
Restricted cash	105,671	67,922
Other assets	19,225	22,755
Total other assets	129,372	95,153
Total assets	<u>\$ 1,924,997</u>	<u>\$ 1,995,092</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 1,660	\$ 837
Accrued expenses and other current liabilities	23,162	19,182
Unearned rental revenue	8,633	9,761
Current maturities of long-term debt	550,723	155,061
Accrued compensation and related liabilities	1,381	829
Total current liabilities	585,559	185,670
Long-term liabilities:		
Security deposits	12,060	2,000
Aircraft maintenance reserves	71,683	33,314
Long-term debt	849,597	1,348,652
Other liabilities	31,858	24,855
Total long-term liabilities	965,198	1,408,821
Total liabilities	1,550,757	1,594,491
Members' equity:		
Contributed capital	427,770	427,770
Accumulated deficit	(53,530)	(27,169)
Total members' equity	374,240	400,601
Total liabilities and members' equity	<u>\$ 1,924,997</u>	<u>\$ 1,995,092</u>

(See Notes to Consolidated Financial Statements)

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Operations

(Dollars in thousands)

	Year Ended December 31,	
	2020	2019
Revenues:		
Rental income	\$ 185,839	\$ 218,364
Interest income	201	-
Aircraft sales and trading, net	(2,015)	(26,968)
Total revenues	184,025	191,396
Operating expenses:		
Selling, general and administrative expenses	11,622	13,490
Management fee	8,949	5,608
Depreciation	75,810	84,064
Asset impairment	-	18,244
Other operating expenses	8,310	3,588
Total operating expenses	104,691	124,994
Operating income	79,334	66,402
Other income (expenses):		
Interest expense	(90,233)	(116,238)
Loss on derivative financial instruments	(15,698)	(15,635)
Other income	1,515	620
Total other expenses	(104,416)	(131,253)
Loss before income taxes	(25,082)	(64,851)
Income tax expense	1,279	2,100
Net Loss	<u>\$ (26,361)</u>	<u>\$ (66,951)</u>

(See Notes to Consolidated Financial Statements)

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Members' Equity

(Dollars in thousands)

	Contributed capital	Accumulated deficit	Total members' equity
Balance at December 31, 2019	\$ 427,770	\$ (27,169)	\$ 400,601
Net loss	—	(26,361)	(26,361)
Distribution to members	—	—	—
Balance at December 31, 2020	<u>\$ 427,770</u>	<u>\$ (53,530)</u>	<u>\$ 374,240</u>

	Contributed capital	Retained earnings / (deficit)	Total members' equity
Balance at December 31, 2018	\$ 483,137	\$ 39,782	\$ 522,919
Net loss	—	(66,951)	(66,951)
Distribution to members	(55,367)	—	(55,367)
Balance at December 31, 2019	<u>\$ 427,770</u>	<u>\$ (27,169)</u>	<u>\$ 400,601</u>

(See Notes to Consolidated Financial Statements)

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,	
	2020	2019
Cash flows provided from operating activities:		
Net loss	\$ (26,361)	\$ (66,951)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Depreciation	75,810	84,064
Asset impairment	—	18,244
Amortization of deferred financing costs	8,758	11,429
Change in deferred taxes	1,239	2,092
Net change in unrealized appreciation (depreciation) on derivatives	9,412	13,360
Net change in available for sale securities	1,638	589
Aircraft sales and trading, net	2,015	26,968
Other	68	84
Changes in assets and liabilities:		
Accounts receivable	(22,706)	(4,938)
Investment in finance lease	575	—
Prepaid, other current assets, and other assets	4,451	(4,359)
Accounts payable, accrued expenses and other current liabilities, and other liabilities	1,877	3,928
Unearned rental revenue	(1,128)	(386)
Accrued compensation and related liabilities	552	(1,473)
Net cash provided from operating activities	56,200	82,651
Cash flows provided from investing activities:		
Net proceeds from aircraft sales and trading	—	301,218
Payment of aircraft deposits	—	(1,825)
Purchase of equity securities	—	(2,918)
Redemption of equity securities	459	—
Funding of financing receivables	—	(6,420)
Receipts from financing receivables	45,922	67
Net cash provided from investing activities	46,381	290,122
Cash flows used by financing activities:		
Dividends paid	—	(55,367)
Proceeds from debt financing	64,367	50,000
Repayments of debt financings	(175,445)	(451,425)
Payment of financing costs	(1,073)	—
Security deposits and maintenance payments returned	(3,600)	(25,308)
Security deposits and maintenance payments received	50,936	8,283
Net cash used by financing activities	(64,815)	(473,817)
Net increase / (decrease) in cash and restricted cash	37,766	(101,044)
Cash and restricted cash at the beginning of the period	105,929	206,973
Cash and restricted cash at the end of the period	\$ 143,695	\$ 105,929
Supplemental cash flow information:		
Interest payments, inclusive of capitalized interest	\$ 76,900	\$ 104,092
Conversion of aircraft to finance lease	\$ 101,988	\$ —
Income taxes paid, net of refunds received	\$ 97	\$ —

(See Notes to Consolidated Financial Statements)

VOYAGER AVIATION HOLDINGS, LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Dollars in thousands, unless otherwise noted)

Note 1. Organization

Voyager Aviation Holdings, LLC is organized as a Delaware limited liability company. Unless the context otherwise requires, (i) references to “Voyager”, “the Company”, “we”, or “our” are to Voyager Aviation Holdings, LLC and its subsidiaries, and (ii) references to “Voyager Holdings” are to Voyager Aviation Holdings, LLC and not to any of its subsidiaries. We are a full-service global aircraft leasing platform. We have demonstrated capabilities in aircraft leasing, marketing and re-marketing, aircraft sales and trading, original equipment manufacturer (“OEM”) order and supply chain management, technical management, and aircraft finance. These services are provided through our wholly-owned subsidiaries and affiliated entities in which we have a controlling financial interest.

Note 2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. While we believe the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results may differ from those estimates. All material intercompany transactions by and among Voyager have been eliminated in consolidation.

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) assuming the Company will continue as a going concern. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has \$415 million of unsecured notes maturing in August of 2021 (the “2021 Notes”), which it would not be able to pay unless the 2021 Notes are refinanced or restructured. As further discussed in Note 15, *Subsequent Events*, the Company has executed a Restructuring Support Agreement and commenced an exchange offer pursuant to an Offering Memorandum and Disclosure Statement for the exchange of the 2021 Notes. However, there can be no assurance, as of the issuance of these financial statements, that the Company will be able to restructure the debt. As such, in accordance with ASC 205-40, *Presentation of Financial Statements - Going Concern*, substantial doubt exists about the Company’s ability to continue as a going concern within one year of the date of issuance of these financial statements. Refer to Note 15, *Subsequent Events*, for further information.

(b) Revenues

We primarily lease aircraft to third parties under operating leases. Rental income consists primarily of lease rental income derived from leasing passenger aircraft and, to a lesser extent, freighter aircraft, to various commercial airlines around the world. We record lease rental income on a straight-line basis over the life of the lease, as it is earned in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 840, *Leases*. Monthly lease rentals are generally paid in advance and a cash security deposit or letter of credit is typically maintained during the term of the lease. The unearned portion of rentals received under our leases is deferred and recorded as unearned rental revenue on our Consolidated Balance Sheets.

Revenues recognized from the Company’s only finance lease are presented within interest income on the Consolidated Statements of Operations and are recognized using the interest method to produce a constant yield over the life of the finance lease.

From time to time, we may choose to sell one or more of our owned aircraft. Buyers of the aircraft may include aircraft lessors, financial institutions, and airlines. The net gain or loss resulting from our aircraft sales and trading activities is recorded as a separate component of total revenues.

(c) Cash and Restricted Cash

We consider cash on hand and deposits in banks to be cash. Restricted cash consists primarily of aircraft maintenance reserves, security deposits, and rental collections that are held on deposit in segregated accounts as contractually required by a lender or per the terms of our aircraft lease agreements.

(d) *Income Taxes*

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in the tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. We evaluate deferred tax assets quarterly and annually by considering available positive and negative evidence to determine if valuation allowances are required. Changes in recognition or measurement are reflected in the period in which the change in recoverability occurs.

We recognize the effect of income tax positions, if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. Changes in recognition or measurement are reflected in the period in which a change in the evaluation of the more likely than not threshold occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

(e) *Deferred Financing Costs*

Direct and incremental costs related to the issuance of debt, in addition to upfront fees paid to the lender, are presented in the Consolidated Balance Sheets as a direct deduction from the carrying amount of the related debt liability. These costs are amortized over the term of the debt using the effective interest rate method and included in interest expense in the Consolidated Statements of Operations.

(f) *Aircraft Deposits and Acquisition Costs*

Progress (pre-delivery) payments made pursuant to aircraft purchase agreements are capitalized upon payment as aircraft deposits on the Consolidated Balance Sheets. We also capitalize costs incurred to bring acquired aircraft to the condition and location necessary for their intended use, including the cost of buyer-furnished equipment (“BFE”) and interest costs incurred to finance the aircraft purchase. Upon delivery, aircraft deposits and acquisition costs are capitalized into the cost of the aircraft and are depreciated over 25 to 30 years.

(g) *Investment in Finance Lease, Net*

If a lease meets the appropriate criteria at origination or at a point of modification, we recognize the lease as an investment in finance lease, net on our Consolidated Balance Sheets. The net investment in finance leases consists of future lease receivables offset by unearned income associated with the finance lease. Unearned income related to the finance lease is recognized over the life of the lease as interest income in our Consolidated Statements of Operations.

The collectability of finance leases is evaluated on an on-going basis. This evaluation considers the creditworthiness of our customers as well as the value of the underlying aircraft associated with the finance lease.

(h) *Property and Equipment, Net*

Property and equipment, net includes purchased aircraft, leasehold improvements, and other, which are stated at original cost (net of manufacturer incentives) less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives. Property and equipment, net also includes non-depreciable maintenance right assets associated with our historical acquisitions of used aircraft with in-place leases. Leasehold improvements that extend the useful life of an asset are capitalized and depreciated over the remaining life of the asset or lease term, if shorter. In the future, we may incur maintenance and repair expenses for off-lease aircraft. For planned major maintenance activities for off-lease aircraft, we capitalize the maintenance costs of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required (exclusive of maintenance right assets reclassified into aircraft, net).

Depreciation periods for the Company's property and equipment, excluding non-depreciable maintenance right assets, are as follows:

Asset	Depreciation Period
Passenger aircraft	25 years from manufacture date with a residual value of 15% of original cost
Freighter aircraft	30 years from manufacture date with a residual value of 5% of original cost
Leasehold improvements	Lesser of useful life or lease term
Furniture, fixtures and equipment	3 to 5 years

We periodically review the estimated useful lives and residual values of our aircraft based on our knowledge and external factors, coupled with market conditions, to determine if they are appropriate and record adjustments to depreciation prospectively as necessary. Changes in the assumptions concerning useful life or residual value for aircraft could have a significant impact on the Company's financial condition and results of operations.

Upon the sale of aircraft, the aircraft cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain (loss) is recognized in aircraft sales and trading, net within the Consolidated Statements of Operations.

(i) Impairment of Aircraft

Aircraft are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Indicators may include, but are not limited to, a significant change in lease term(s) or lease restructuring, a significant decrease in the market prices of aircraft, a significant change in market conditions, a significant decline in air traffic, or a significant reduction in the useful lives of aircraft.

An assessment is performed on an aircraft-by-aircraft basis whenever events or changes in circumstances indicate that the carrying amount of an aircraft may not be recoverable. The review for recoverability has a level of subjectivity that requires the use of judgment in the assessment of the estimated future cash flows associated with the use of an aircraft and its eventual disposition. Recoverability of an aircraft's carrying amount is measured by comparing the carrying amount of the aircraft to future undiscounted net cash flows expected to be generated by the aircraft. The undiscounted net cash flows consist of cash flows from currently contracted leases, future projected leases, reconfiguration costs, and estimated residual or scrap values for each aircraft. We develop assumptions used in the recoverability analysis based on our knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type, and historical experience in the aircraft leasing market and aviation industry, as well as information received from third-party industry sources. The factors considered in estimating the undiscounted cash flows are affected by changes in future periods due to changes in contracted lease rates, economic conditions, technology, and airline demand for a particular aircraft type.

In the event an aircraft does not meet the recoverability test, we determine the estimated fair value of the aircraft through various valuation techniques, including discounted cash flow models and third-party independent appraisals. If the carrying value of the aircraft is not recoverable, an impairment charge is recognized to the extent that the carrying value exceeds the estimated fair value. We identify those aircraft in our fleet that are most susceptible to failing the recoverability test and monitor those aircraft more closely for impairment, which may result in more frequent recoverability assessments. The recoverability of the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates, and residual or scrap values.

(j) Aircraft Maintenance Reserves

Under all of our leases, the lessee is required to return the aircraft in full-life condition at the end of the lease term. The lessee is responsible for maintenance, repairs, and related expenses associated with our aircraft during the term of the lease. Our leases require the lessee to pay cash maintenance reserves periodically, to post letters of credit, or make full-life financial adjustment payments.

In certain of our leases, the lessee is required to make periodic payments of cash maintenance reserves, which we collect based on passage of time or usage of the aircraft, measured by hours flown or cycles operated. Aircraft maintenance reserves are funded by the lessee on a monthly basis, based on the terms of the aircraft lease. Such cash reserves are maintained by us and used on an as-needed basis to fund required maintenance on the associated aircraft. We will make a payment to compensate the lessee for the maintenance cost incurred, up to the amount of aircraft maintenance reserve payments made by the lessee during the lease term, net of previous reimbursements. These payments are made upon the lessee's presentation of invoices evidencing the completion of such maintenance.

Non-refundable maintenance reserves are recognized as additional rental income when they are forfeited by the lessee at the end of the lease. When an aircraft is sold, the portion of the accrued maintenance liability which is not specifically assigned to the buyer is

recognized as a component of the resulting net gain or loss within aircraft sales and trading, net.

In lease contracts not requiring the payment of cash maintenance reserves, the lessee is still required to re-deliver the aircraft in a full-life return condition, that is, fresh from major overhaul (normal wear and tear excepted), with reference to major life-limited components of the aircraft. To the extent the aircraft is re-delivered in a different condition than at acceptance, there is a full-life financial adjustment for the difference at re-delivery. We recognize receipts of full-life financial adjustments as additional rental income when received and payments of full-life financial adjustments as contra-revenue (rental income). Other lease contracts require the lessee to post letters of credit to ensure that we take re-delivery of our aircraft in the condition specified in the lease.

We did not recognize any rental income or contra-revenue (rental income) in relation to cash maintenance reserves and full-life financial adjustments for the years ended December 31, 2020 and 2019.

(k) Maintenance Rights

The Company identifies, measures, and accounts for maintenance right assets and liabilities associated with its acquisitions of used aircraft with in-place leases. A maintenance right asset represents the fair value of the Company's contractual right under a lease to receive an aircraft in an improved maintenance condition as compared to the maintenance condition on the acquisition date. A maintenance right liability represents the Company's obligation to the lessee for the difference between the lease-end contractual maintenance condition of the aircraft and the actual maintenance condition of the aircraft on the acquisition date.

The Company's aircraft are typically subject to triple-net leases pursuant to which the lessee is responsible for maintenance, which is accomplished through one of two types of provisions in its leases: (i) periodic maintenance payments ("MR Leases") or (ii) end-of-lease return conditions ("EOL Leases").

MR Leases

Under MR Leases, the lessee is required to make periodic payments to the Company for maintenance based upon usage of the aircraft. When qualified major maintenance is performed during the lease term, the Company is required to reimburse the lessee for the costs associated with such maintenance. At the end of lease, the Company is entitled to retain any cash receipts in excess of the required reimbursements to the lessee.

Maintenance right assets in cash-maintenance reserve-provisioned leases represent the right to receive an aircraft in an improved condition relative to the actual condition on the date of acquisition. The aircraft is improved by the performance of qualified major maintenance paid for by the lessee who is reimbursed by the Company from the periodic cash maintenance payments we receive.

When the Company has recorded a maintenance right asset with respect to cash-maintenance reserve-provisioned leases, the following accounting scenarios exist: (i) the aircraft is returned at the expiration of the lease and no qualified major maintenance has been performed by the lessee since the acquisition date, the maintenance right asset is offset by the amount of the maintenance reserve liability, and any excess amount is recognized as additional rental income; or (ii) the Company has reimbursed the lessee for the performance of qualified major maintenance, the maintenance right asset is relieved, and an aircraft asset improvement is recorded to the extent that it meets the Company's capitalization policy. Any aircraft improvement will be depreciated over a period to the next scheduled maintenance event, in accordance with the Company's policy with respect to major maintenance.

If an aircraft is sold, any maintenance right asset relating to the aircraft and lease is recognized within aircraft sales and trading, net in the Company's Consolidated Statements of Operations.

EOL Leases

Under EOL leases, the lessee is obligated to comply with full-life return conditions which require the lessee to perform lease-end maintenance work or make cash compensation payments at the end of the lease to bring the aircraft back to full life maintenance condition. Maintenance right assets in EOL leases represent the difference in value between the contractual right to receive an aircraft in an improved maintenance condition as compared to the maintenance condition on the date of acquisition. A maintenance right liability exists in EOL leases if, on the date of acquisition, the maintenance condition of the aircraft is greater than the contractual return condition in the lease and the Company is required to pay the lessee in cash for the improved maintenance condition.

When the Company has recorded a maintenance right asset with respect to EOL leases, the following accounting scenarios exist: (i) the aircraft is returned at the expiration of the lease in full-life condition without any cash payment to the Company by the lessee, the maintenance right asset is relieved, and an aircraft improvement is recorded to the extent the improvement is substantiated and deemed to meet the Company's capitalization policy; (ii) the lessee pays the Company cash compensation at lease expiry in excess of the value

of the maintenance right asset, the maintenance right asset is relieved, and any excess is recognized as rental income; or (iii) the lessee pays the Company cash compensation at lease expiry that is less than the value of the maintenance right asset, the cash is applied to the maintenance right asset, and any shortfall is recognized as contra revenue (rental income).

(l) Aircraft Held for Sale

Management evaluates all contemplated aircraft sale transactions to determine whether all the required criteria under ASC 360, *Property, Plant, and Equipment* have been met, before classifying an aircraft as held for sale. Management uses judgment in evaluating these criteria. Due to the significant uncertainties of potential sale transactions, the held for sale criteria generally will not be met unless the aircraft is subject to a signed sale agreement. Aircraft classified as held for sale are recognized at the lower of their carrying amount or estimated fair value less estimated costs to sell. At the time aircraft are classified as held for sale, depreciation expense is no longer recognized.

(m) Equity Securities

We report investments in marketable equity securities at fair value. See Note 12 *Fair Value Measurements* for further information on fair value. Changes in fair value on marketable equity securities are included in earnings.

(n) Accounts Receivable

Accounts receivable consists primarily of lease payments and aircraft maintenance reserves that are due but not received prior to period-end. An allowance for doubtful accounts is recognized for past-due lease payments based on management's assessment of the collectability of such receivables. As of December 31, 2020, the allowance for doubtful accounts was \$5.2 million. The same amount was booked as a bad debt expense and reflected in the other operating expenses on the Company's Consolidated Statements of Operations. Management monitors all lessees with past-due lease payments and discusses relevant operational and financial issues facing those lessees to determine an appropriate allowance for doubtful accounts. If collection of lease payments is not probable, we will not recognize rental income for amounts due under our lease contracts. In these situations, we will recognize revenue for such lessees on a cash basis. As of December 31, 2019, we had no allowance for doubtful accounts.

(o) Derivative Financial Instruments

We enter into derivative contracts to manage our exposure to interest rate risk and, in limited cases, foreign currency risk. Interest rate swaps are used to minimize our exposure to interest rate movements on the underlying variable-rate debt obligations. Foreign currency forwards are used to minimize our exposure to exchange rate fluctuations versus the U.S. dollar. Derivative instruments are recognized as a component of other assets or other liabilities on the Consolidated Balance Sheets at fair value. Unrealized gains and losses from changes in derivative fair values and realized gains and losses resulting from the periodic settlement of derivatives are recorded as gains (losses) on derivative financial instruments in the Consolidated Statements of Operations. We have not applied hedge accounting to any of our derivative instruments.

(p) Interest Expense

Interest expense is comprised of interest expense on borrowings, amortization of deferred financing costs (debt issuance costs, discounts, and premiums), and capitalized interest.

(q) Capitalized Interest

We capitalize interest in connection with aircraft deposits or progress payments that have been made. The amount of interest capitalized is the amount of interest costs that could have been avoided in the absence of such payments. Capitalized interest is based on the weighted average of the rates applicable to all borrowings of the Company and is recorded in other assets on our Consolidated Balance Sheets. Upon delivery, capitalized interest is recorded as a component of the cost of the related aircraft.

(r) Fair Value Measurements

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements and disclosures require the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820, *Fair Value Measurement*, establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Input Level	Description of Input
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 little or no market data exists, and which require us to develop our own assumptions about how market participants price the asset or liability.

We measure certain assets and liabilities on a recurring or non-recurring basis in accordance with ASC 820, or when U.S. GAAP requires the application of fair value.

(s) Variable Interest Entities

We consolidate all entities in which we have a controlling financial interest, including the accounts of any variable interest entity (“VIE”) in which we have a controlling interest and of which we are the primary beneficiary.

We use judgment when deciding (i) whether an entity is subject to consolidation as a VIE, (ii) who the variable interest holders are, (iii) the potential expected losses and residual returns of the variable interest holders, and (iv) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider (i) the entity’s purpose and design, (ii) which variable interest holder has the power to direct the activities that most significantly impact the entity’s economic performance, and (iii) 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 a VIE.

(t) Segment Information

The Company manages and analyzes its business and reports its results of operations based on one operating segment—leasing and selling commercial aircraft. Management uses one measure of profitability and does not segment its business for purposes of internal reporting.

(u) Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, “*Leases (Topic 842)*”, and related amendments, which replaces the existing guidance in ASC 840. The accounting for leases by lessors under the new standard is largely unchanged from the concepts that exist in ASC 840. ASC 842 requires lessors to classify leases as a sales-type, direct financing, or operating lease. The standard is effective for nonpublic entities for annual periods beginning after December 15, 2021 and interim periods beginning after December 15, 2022. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The standard will also impact us with respect to our lease agreements where we are the lessee, which consists primarily of office and equipment leases. We are currently evaluating the effect of adoption of ASC 842 on our consolidated financial statements and do not believe the new standard will significantly impact our existing or potential lessees’ economic decisions to lease aircraft.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* and related updates. The standard affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The standard replaces today’s incurred loss model with an expected loss model that requires entities to consider a broader range of information to estimate expected credit losses over the lifetime of the asset. Under the new standard, an allowance for credit losses is recorded which represents amounts not expected to be collected. The standard is applied on a modified retrospective approach. The standard is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*”. The standard modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this standard effective January 1, 2020. This standard did not have a material impact on our consolidated financial statements and related disclosures.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810), Targeted Improvements to Related Party Guidance*

for *Variable Interest Entities*. The standard changes how all entities evaluate decision-making fees under the variable interest entity guidance. The standard is applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this standard effective January 1, 2020. This standard did not have a material impact on our consolidated financial statements and related disclosures.

(v) Rental Deficiency Support

The Company provided a rental deficiency support letter to a third party in connection with the sale of two of its aircraft. The support letter was recorded at fair value on our Consolidated Balance Sheet as of September 30, 2019. The fair value was calculated using the estimated discounted cash flows under the two most probable outcomes. Refer to Note 11 Commitments and Contingencies for further information. Subsequent to September 30, 2019, the Company has, and will continue to assess the rental deficiency support in the context of contingent liabilities under ASC 450.

(w) Notes Receivable

Notes receivable are included in other assets on the Consolidated Balance Sheets. They are reported at their amortized cost, which is the outstanding principal balance, net of any unearned income, unamortized deferred fees and costs, and unamortized premiums and discounts. Interest income associated with the notes is included in other income (expenses) on the Consolidated Statements of Operations. The Company had \$5.9 million outstanding in relation to its notes receivable as of December 31, 2020. The notes were current related to all payments and the Company has not recorded a reserve under ASC 450 as the outstanding principal and interest were deemed to be fully collectible.

Note 3. Property and Equipment, Net

Property and equipment, net as of December 31, 2020 and December 31, 2019 consisted of the following:

	December 31, 2020	December 31, 2019
Aircraft	\$ 2,000,432	\$ 2,179,868
Accumulated depreciation on aircraft	(392,688)	(346,349)
Aircraft, net	1,607,744	1,833,519
Maintenance right asset, net	15,824	15,954
Leasehold improvements and other	248	242
Accumulated depreciation on leasehold improvements and other	(242)	(240)
Total property and equipment, net	<u>\$ 1,623,574</u>	<u>\$ 1,849,475</u>

Depreciation expense was \$75.8 million and \$84.1 million for the year ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and December 31, 2019, total property and equipment, net included a maintenance right asset of \$15.8 million and \$16.0 million related to our historical acquisitions of four used aircraft with in-place leases.

Activity within the account during the year ended December 31, 2020 is as follows:

Maintenance right asset, net - December 31, 2019	\$ 15,954
Qualifying maintenance events	(130)
Maintenance right asset, net - December 31, 2020	<u>\$ 15,824</u>

As of December 31, 2020 and December 31, 2019, we owned 18 aircraft comprised of 16 passenger aircraft and two freighter aircraft. On December 3, 2020, the Company converted an operating lease with one of its customers to a finance lease on one of the Company's two freighter aircraft. As of December 31, 2020, the Company has a non-binding letter of intent (LOI) with the same customer to convert the operating lease on its remaining freighter aircraft into a finance lease. As of December 31, 2020, there was no signed agreement in place for the second aircraft and the Company continues to classify the remaining freighter aircraft as held for use.

Our fleet of aircraft on long-term leases is comprised of the following aircraft types as of December 31, 2020 and December 31, 2019:

Aircraft Type	December 31, 2020	December 31, 2019
Airbus A330-200	2	2
Airbus A330-300	9	9
Boeing 777-300ER	5	5
Total passenger aircraft subject to operating lease	16	16
Boeing 747-8F		
Total freighter aircraft subject to operating lease	1	2
Total freighter aircraft subject to finance lease	1	—
Total aircraft held for use	<u>18</u>	<u>18</u>

Note 4. Rental Income

As of December 31, 2020, minimum future rentals on our 17 non-cancellable operating leases are as follows (in thousands):

Years ended December 31,	Rental Income
2021	\$ 177,781
2022	165,133
2023	108,525
2024	88,356
2025	50,694
Thereafter	97,243
Total	<u>\$ 687,732</u>

Our lessees generally agree to lease the aircraft for a fixed term, although in some cases the leases have early termination options exercisable at a specified time prior to the stated maturity and/or lease extension options. We have no lease expirations prior to 2022. As of December 31, 2020, \$32.2 million of rental income is included in the accounts receivable balance. The Company considers these receivables to be fully collectible but has established an allowance for doubtful accounts in the amount of \$5.2 million as of December 31, 2020 based on a probability weighted analysis of our customers.

Note 5. Investment in Finance Lease, net

As of December 31, 2020, our net investment in finance leases was comprised of one aircraft. The following table lists the components of our net investment in finance leases as of December 31, 2020 (in thousands):

	December 31, 2020
Future minimum lease payments	\$ 109,725
Less: Unearned income	(7,737)
Investment in finance lease, net	<u>\$ 101,988</u>

The Company has assessed the collectability of the minimum lease payments associated with the finance lease and has concluded that no reserve is needed as of December 31, 2020.

As of December 31, 2020, minimum future lease payments related to finance leases are as follows (in thousands):

Years ended December 31,	Lease Payments
2021	\$ 12,540
2022	12,540
2023	12,540
2024	12,540
2025	12,540
Thereafter	47,025
Total	<u>\$ 109,725</u>

Note 6. Debt Financings

The Company's debt financings were comprised of the following as of December 31, 2020 and December 31, 2019 (in thousands):

	December 31, 2020			December 31, 2019
	Outstanding Borrowings	Interest Rate (1)	Final Stated Maturity	Outstanding Borrowings
Secured term loans	\$ 1,006,491	2.84% to 6.56% (2)	4/29/22 to 9/28/29	\$ 1,117,069
Senior unsecured notes	415,337	9.0%	8/15/21	415,837
Total debt	1,421,828			1,532,906
Less: debt issuance costs	(21,508)			(29,193)
Add: debt premium	—			—
Net debt	1,400,320			1,503,713
Less: current maturities of long-term debt (3)	(550,723)			(155,061)
Long-term debt, net of current maturities	\$ 849,597			\$ 1,348,652
Number of aircraft pledged as collateral	18			18
Net book value of aircraft pledged as collateral	\$ 1,607,744			\$ 1,833,519
Finance lease aircraft pledged as collateral	\$ 101,988			\$ —

(1) Interest rates exclude amortization of debt issuance costs and debt discounts or premiums.

(2) The secured term loans as of December 31, 2020 have a weighted average cost of borrowing of 4.3% (excludes amortization of debt issuance costs and debt discounts).

(3) As of December 31, 2020, current maturities of long-term debt includes the full repayable balance of the Company's senior unsecured notes in the amount of \$415.3 million.

Secured Term Loans

We fund aircraft purchases through a combination of senior and subordinated term financings that are secured by the relevant aircraft and, in certain cases, the related lease and receivables of the borrower with respect to the aircraft. During the year ended December 31, 2020, the Company made interest only payments on some of its secured term loans with outstanding balances totaling \$280.2 million. As a result, \$19.0 million of unpaid principal is included in the current maturities of long-term debt. Of the total secured term loans as of December 31, 2020 and December 31, 2019, \$440.4 million and \$474.4 million are considered nonrecourse, respectively.

During the first quarter of 2020, the Company repaid one term loan with a principal balance of \$43.1 million using the proceeds from a new \$64.4 million term loan which bears a fixed interest rate of 2.84%. During the fourth quarter of 2020, the Company successfully extended the maturity of a \$24.4 million facility for one of its aircraft from 2022 to 2028.

Senior Unsecured Notes

On August 10, 2018, the Company issued \$500 million aggregate principal amount of senior notes (the "2021 Notes"), which are due on August 15, 2021. Interest on the 2021 Notes is payable semi-annually on February 15 and August 15 of each calendar year, commencing on February 15, 2019. The net proceeds of the 2021 Notes, together with cash on hand, were used to redeem in full the aggregate principal amount of the 2019 Notes for \$515 million, plus accrued and unpaid interest, on August 10, 2018.

During the year ended December 31, 2020, the Company repurchased \$0.5 million of its 2021 Notes in the open market at a discount of \$0.1 million. During fiscal year ending December 31, 2019, the Company repurchased \$50.2 million of its 2021 Notes in the open market at a total premium of \$1.5 million. In addition, the Company wrote-off a proportionate amount of previously capitalized debt issuance costs of approximately \$0.9 million relating to the repurchased notes during the same period. The Company recorded the premiums / discounts and write-off of costs within interest expense on our Consolidated Statements of Operations.

As of December 31, 2020, the Company was pursuing various options to refinance or restructure the 2021 Notes. See Note 2 *Summary of Significant Accounting Policies* and Note 15 *Subsequent Events* for discussion of the Company's plan, the impact to the Company's ability to continue as a going concern, and the status of the plan through the issuance date of the financial statements.

Our scheduled principal payments of debt as of December 31, 2020 are as follows (in thousands):

Years ended December 31,	Maturities
2021	\$ 550,723
2022	198,476
2023	246,409
2024	115,747
2025	110,170
Thereafter	200,303
Total	<u>\$ 1,421,828</u>

Several of our secured term loans and the indenture governing the 2021 Notes contain covenants and events of default that, among other things, restrict our ability to modify the established cost structure of aircraft purchases and limit our ability to borrow or become liable for additional debt. These covenants include (a) compliance with loan-to-value ratios, (b) maintenance of tangible net worth levels, (c) maintenance of debt-to-tangible net worth ratios, and (d) prohibition of the incurrence or guarantee of additional debt and the issuance of disqualified capital stock or preferred stock unless, subject to pro forma adjustments described in the indenture to the senior unsecured notes, (x) the ratio of the Company's Consolidated Adjusted EBITDA to Consolidated Interest Expense for the most recently ended four full fiscal quarters is at least 2.0 to 1.0 and (y) the Company's ratio of Consolidated Indebtedness to Consolidated Assets is no greater than 0.8 to 1.0. In connection with the discussions related to lease deferrals for Philippine Airlines, the Company has delayed the payment of debt principal amortization associated with its three aircraft on a temporary basis in the amount of \$19.0 million. This delay was done in agreement with the lender counterparties. As of December 31, 2020 and December 31, 2019, we were in compliance with all covenants related to our debt agreements.

Note 7. Interest Expense

The following table presents the components of interest expense for the years ended December 31, 2020 and 2019 (in thousands):

	Year Ended December 31,	
	2020	2019
Interest expense on borrowings	\$ 81,475	\$ 104,809
Amortization of debt issuance costs	8,758	11,429
Interest expense	<u>\$ 90,233</u>	<u>\$ 116,238</u>

We may borrow funds to finance deposits on new aircraft and capitalize interest expense on such borrowings. For the year ended December 31, 2020 and 2019 we did not capitalize any interest costs.

Note 8. Derivative Financial Instruments

For certain of our secured term loans, we utilize interest rate swaps to economically hedge our variable interest rate exposure to better match the fixed-rate cash flows of our aircraft leases. Under the swap contracts, we make fixed-rate payments and receive floating-rate payments from the swap counterparties to convert the floating-rate borrowings to fixed-rate obligations. The counterparties to these interest rate swaps are highly rated financial institutions. In the event the counterparties fail to meet the terms of the swap contracts, our exposure is limited to the interest rate differential on the notional amount at each settlement period over the life of the agreements.

The fair values of our derivative financial instruments as of December 31, 2020 and December 31, 2019 are as follows (in thousands):

	December 31, 2020	December 31, 2019	Balance Sheet Location
Unrealized appreciation on interest rate swaps	\$ -	\$ 659	Other assets
Unrealized depreciation on interest rate swaps	15,664	6,910	Other liabilities

The following table summarizes gains and losses from our derivative financial instruments for the years ended December 31, 2020 and 2019 (in thousands).

	Year Ended December 31,	
	2020	2019
Realized losses on interest rate swaps	\$ (6,286)	\$ (2,275)
Net change in unrealized appreciation (depreciation) on interest rate swaps	(9,412)	(13,360)
Gains (losses) on derivative financial instruments	<u>\$ (15,698)</u>	<u>\$ (15,635)</u>

The notional amounts of our derivative financial instruments associated with outstanding or unsettled interest rate swaps as of December 31, 2020 and December 31, 2019 were \$350.5 million and \$404.8, respectively.

Note 9. Risks and Uncertainties

Geographic Risk

Our rental income is derived from customers based in international locations, including many that operate in emerging market countries. As of December 31, 2020 four of our airline customers operated in Europe and three of our airline customers operated in Asia, respectively. For the year ended December 31, 2020 and 2019, our rental income was derived from customers based in the following geographic regions:

	Year Ended December 31,			
	2020		2019	
Region	Rental Income	Percentage of Total	Rental Income	Percentage of Total
Asia	\$ 94,974	51%	\$ 91,752	42%
Europe	90,865	49%	103,936	48%
Africa	—	0%	22,675	9%
Total	<u>\$ 185,839</u>	<u>100%</u>	<u>\$ 218,363</u>	<u>99%</u>

The following table shows the number of lessees with rental income concentrations of 10% or more, and their combined total percentage, of our total rental income for the year ended December 31, 2020 and 2019:

	Year Ended December 31,			
	2020		2019	
	Number of Lessees	Combined % of Total Rental Income	Number of Lessees	Combined % of Total Rental Income
Largest lessees by lease rental income	6	98%	5	79%

As of December 31, 2020, we owned 17 aircraft which were on operating lease. The net book value of our aircraft based on the geographic regions of our customers as of December 31, 2020 and December 31, 2019 was as follows (in thousands):

	December 31, 2020			December 31, 2019		
Region	Number of aircraft	NBV of aircraft	Percentage of total	Number of aircraft	NBV of aircraft	Percentage of total
Asia	7	\$ 734,803	46%	7	\$ 764,904	42%
Europe	10	872,941	54%	11	1,068,615	58%
Total	<u>17</u>	<u>\$ 1,607,744</u>	<u>100%</u>	<u>18</u>	<u>\$ 1,833,519</u>	<u>100%</u>

As of December 31, 2020 and December 31, 2019, five and three of our lessees accounted for 84% and 65% of our net book value of aircraft, respectively. We had a total of 7 lessees as of December 31, 2020 and 8 as of December 31, 2019. The Company's investment in finance lease totaling \$102.0 million as of December 31, 2020 is with a European customer.

Foreign Currency Exchange Risk

We receive all of our revenues in U.S. dollars, and we pay substantially all of our expenses in U.S. dollars. However, we incur some of our expenses in other currencies, primarily the Euro, and are subject to foreign currency exchange risk. We attempt to minimize foreign currency exchange risk by entering into agreements with U.S. dollars as the designated payment currency, which includes our aircraft purchase agreements and all of our lease and debt agreements. Should the Company have a material exposure to foreign currency exchange risk, we will seek to mitigate such risk by entering into foreign currency forward contracts.

Counterparty Credit Risk

Credit risk is the risk of loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Our exposure to credit risk is based, principally, on the collection of rental payments under our aircraft lease agreements. We seek security deposits in the form of cash or letters of credit to mitigate overall financial exposure to our lessees. We assess the creditworthiness of each new customer and consider qualitative and quantitative information specific to the customer, including business activities, senior management team, financial well-being, resources and performance, and business risks, to the extent that this information is publicly available or otherwise disclosed to us.

We also monitor the creditworthiness of existing customers on an ongoing basis. Our airline customers may face financial difficulties from time to time. One of our current lessees, Alitalia, filed a petition for Extraordinary Administration (“EA”) proceeding in the Italian Bankruptcy Court. EA proceedings are aimed at enabling a debtor in financial difficulty to restructure its operations, including its debt, in order to continue its activities. As of December 31, 2020, we have two aircraft on lease to Alitalia, which comprised 2.2% and 5.5% of our total rental income for the year ended December 31, 2020 and 2019, respectively. We also had total debt of \$39.2 million as of December 31, 2020 with respect to the aircraft on lease to Alitalia, which comprised 2.8% of our total debt on a consolidated basis. While the EA proceedings are ongoing, Alitalia continues to operate our two Airbus A330-200 aircraft in the normal course of business and continues to pay basic rent and post-EA maintenance reserves. As of December 31, 2020, \$0.6 million of pre-EA maintenance reserve receivables were outstanding.

Due to the global nature of the COVID-19 pandemic and the subsequent measures taken by various countries and governments, the financial performance of the Company’s customers has been adversely impacted. As a result, in the third quarter of 2020, the Company booked a reserve on its open accounts receivable with one of its customers in the amount of \$5.2 million. The Company is in discussions with its customer in relation to the deferral of current lease payments owed to the Company under the current lease agreement. No agreement for deferral has been finalized as of December 31, 2020. The Company has received requests from most of its customers for accommodations such as the deferral of lease payments.

Each request is being evaluated on an individual basis and further accommodations may be granted. If collection is not reasonably assured, we will not recognize rental income for amounts due under our lease contracts and will recognize income for such lessees on a cash basis.

There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on world economies. The Company is actively monitoring the impact on its operations, however, cannot reasonably estimate the impact for the foreseeable future.

Interest Rate Risk

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Interest rate risk is highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors, and other factors beyond our control. Increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding proportional increase in rent or cash flow from our leases (unless the leases are also floating rate). We seek to mitigate floating interest rate risk on our debt financings by entering into fixed-pay interest rate derivatives, as appropriate. Approximately \$90.4 million of our third-party debt instruments as of December 31, 2020 have floating interest rates not fixed by a corresponding interest rate swap, and require payments based on a variable interest rate index, such as LIBOR. Of our floating-rate debt not fixed by a corresponding interest rate swap, \$88.5 million is secured by aircraft with lease agreements that have floating-rate cash flows.

Liquidity Risk

We will need access to additional capital to refinance or repay our existing debt and meet any commitments under any future purchase agreements into which we may enter. Our access to additional sources of financing, including debt and equity capital markets, and our ability to repay or finance amounts outstanding under our existing borrowings or to fund acquisitions will depend on a number of factors over which we have limited control, which include general market conditions, the market’s view of the quality of our assets, our historical and expected performance, the market’s perception of our growth potential, compliance with the terms of our debt agreements, compliance with the terms of our LLC Agreement, interest rate fluctuations, and our current and potential future earnings and cash distributions. There can be no assurance that we will be able to access additional capital on commercially reasonable terms or at all.

Note 10. Income Taxes

For the years ended December 31, 2020 and 2019, income before taxes consisted of the following (in thousands):

	2020	2019
U.S. operations	\$ (38,987)	\$ (11,797)
Foreign operations	14,009	(53,054)
Total (loss) before taxes	<u>\$ (24,978)</u>	<u>\$ (64,851)</u>

VAH was formed as a limited liability company. For U.S. federal and state income tax purposes, any taxable profit or loss is passed through to, and reported, in the income tax returns of the interest holders. Accordingly, no U.S. income tax provision has been recorded with respect to VAH. The Company also owns several domestic and foreign subsidiaries. Most of our domestic subsidiaries and several of our foreign subsidiaries are classified as disregarded entities, and the related activity is reported in the tax returns of VAH.

For the years ended December 31, 2020 and 2019, the components of income tax expense (benefit) consisted of the following (in thousands):

	2020	2019
Current:		
United States:		
Federal	\$ —	\$ —
State and local	—	—
Foreign	40	8
Current income tax expense	<u>\$ 40</u>	<u>\$ 8</u>
Deferred:		
United States:		
Federal	\$ —	\$ —
State and local	—	—
Foreign	1,239	2,092
Deferred income tax expense (benefit)	<u>\$ 1,239</u>	<u>\$ 2,092</u>
Total income tax expense (benefit)	<u>\$ 1,279</u>	<u>\$ 2,100</u>

Differences between the provision for income taxes and income taxes at the statutory U.S. federal income tax rate are as follows for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Federal income tax (benefit) / expense at statutory rate	(5,245)	(13,619)
U.S. state and local income tax, net	—	—
Non-taxable pass-through entities	8,187	2,477
Permanent differences	(3)	149
Foreign tax rate differential	673	(3,436)
Graduated tax bracket benefit	—	—
Deferred taxes	16	(106)
Deferred taxes - other adjustment	1,749	-
Change in valuation allowance	(4,127)	16,403
Intergroup loss relief for foreign entities	—	—
Other	29	232
Provision for income taxes	<u>\$ 1,279</u>	<u>\$ 2,100</u>

The tax effect of temporary differences that give rise to significant portions of the net deferred income tax assets (liabilities) as of December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Deferred income tax assets:		
Contingent interest accrual	\$ 40,753	\$ 41,304
Management retention liability	58	57
Tax attribute carryforwards	190,208	171,820
Deferred rent expense	—	—
Total gross deferred income tax assets	231,019	213,181
Valuation allowance	(32,824)	(36,962)
Total net deferred income tax assets	\$ 198,195	\$ 176,219
Deferred income tax liabilities:		
Property and equipment	\$ (197,216)	\$ (174,001)
Total gross deferred income tax liabilities	(197,216)	(174,001)
Total net deferred income tax assets	\$ 979	\$ 2,218

The valuation allowance for deferred tax assets as of December 31, 2020 and 2019 was \$33.0 million and \$37.0 million, respectively, and relates to certain foreign tax loss carryforwards. The Company considers whether it is nor more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. The Company considers the future reversal of deferred tax liabilities, projected future income, and tax planning strategies in making its assessment of the realizability of deferred tax assets. As of December 31, 2020, and December 31, 2019, the Company had \$802.3 million and \$738.4 million of net operating loss carryforwards in foreign jurisdictions. These foreign net operating loss carryforwards do not have an expiration period in the applicable jurisdictions. However, a majority of these net operating loss carryforwards relate to foreign subsidiaries that do not have a history of profits and, therefore, a valuation allowance has been established for such foreign subsidiaries in accordance with ASC 740.

In an effort to reduce the economic impacts of COVID-19, the United States has responded with the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted on March 27, 2020. The CARES Act has a number of beneficial tax provisions, including the ability to claim additional interest deductions, carryback of net operating losses and removal of the 80% usage limitation for post-2017 net operating losses for tax years 2018, 2019 and 2020. As the Company is a pass-through entity for U.S. tax purposes, the CARES Act is not expected to have a material impact on the Company's income tax provision.

The Company is subject to the potential examination of our income tax returns by the U.S. Internal Revenue Service, Irish Revenue Commissioners, and other tax authorities in jurisdictions where we file tax returns. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. While the Company believes it has made adequate provision for its income tax obligations, it is possible that such examinations will result in additional obligations. As of December 31, 2020 and December 31, 2019, the Company did not have any unrecognized tax benefits.

Note 11. Members' Equity

Equity capital invested in the Company was \$427.8 million as of December 31, 2020 and 2019.

The Amedeo Partnership

On June 29, 2018 (the Effective Date), our existing sponsors, Centerbridge Partners, L.P. and its respective affiliates ("Centerbridge") and Reservoir Capital Group, L.L.C. and its respective affiliates ("Reservoir"), entered into a strategic partnership with Amedeo (the "Amedeo Partnership"). Centerbridge and Reservoir acquired minority stakes in Amedeo as part of their continued investment strategy in the aviation industry. Amedeo, in turn, acquired the U.S. Management Company and made a minority investment in Voyager, representing 2.5% of the total equity interests of Voyager, as part of a broader strategic partnership in which Amedeo Limited (the "Amedeo Management Company") will provide management and aircraft support services to Voyager. After giving effect to the Amedeo Partnership, Centerbridge and Reservoir collectively own 97.5% of the total equity interests of Voyager.

Pursuant to the Amedeo Partnership, Voyager Holdings and the Amedeo Management Company entered into a management agreement (the "Management Agreement"), which sets forth the terms of services the Amedeo Management Company will provide to Voyager Holdings and its subsidiaries. Among other general management responsibilities, the Amedeo Management Company will have responsibility for (i) maintaining Voyager's books and records, (ii) preparing financial information, including financial statements, and tax returns, (iii) providing cash management and loan administration services, (iv) monitoring the compliance of lessees of Voyager's aircraft, (v) notifying the Board of Managers (the "Board") of any potential targeted aircraft investment and disposition opportunities, (vi) ensuring all aspects of the business comply with applicable laws, and (vii) furnishing trained employees and consultants as necessary.

The amended and restated Management Agreement agreed on February 11, 2020 was for the period from the January 1, 2020 to December 31, 2020, which can be extended for successive one-year renewal terms as mutually agreed upon by Voyager Holdings and the Amedeo Management Company. The Management Agreement provides that for the period January 1, 2020 to December 31, 2020, Voyager will pay the Amedeo Management Company quarterly management fees equal to \$1.025 million, totaling \$4.1 million annually. In addition, Voyager paid \$4.8 million in commission fees related to sales and purchases of aircraft. These commissions have been recognized with the conversion of an operating lease into a finance lease on one of the two freighter aircraft as well as the agreement for the sale-leaseback purchase of five A220-300 aircraft due to deliver in 2022 and 2023.

In addition, Voyager will reimburse the Amedeo Management Company for out-of-pocket appraisal costs, aircraft inspection costs, filing fees, insurance costs, auditor and accountant expenses, repossession and remarketing expenses, and transaction-related legal expenses, as well as for certain employee salary, benefits, severance, and retention costs and office space rental payments. During the year ended December 31, 2020, Voyager reimbursed Amedeo for approximately \$0.7 million relating to said costs. Further, on March 8, 2019, Voyager reimbursed Amedeo for cash awards made to various executives in conjunction with distributions to shareholders (approximating \$0.8 million). This agreement was extended for an additional one-year term on September 30, 2020.

Limited Liability Company Agreement

In connection with the Amedeo Partnership and Amedeo's purchase of a minority stake in Voyager, on June 29, 2018 (the "LLC Effective Date"), the Fourth Amended and Restated Limited Liability Company Agreement (the "LLC Agreement") was adopted and executed by Voyager Holdings, CB-INA Acquisition, L.L.C., Reservoir Voyager Investors, LLC, and Amedeo (each, a "Member" and, together, the "Members").

Pursuant to the LLC Agreement, Voyager is governed by a Board of Managers comprised of up to twelve managers, of which: (i) up to five managers shall be designated and appointed by Centerbridge (each, a "Centerbridge Manager") and such Centerbridge Managers shall be entitled collectively to cast ten votes (regardless of the number of Centerbridge Managers actually serving on the Board), (ii) up to two managers shall be designated and appointed by Reservoir (each, a "Reservoir Manager") and such Reservoir Managers shall be entitled collectively to cast two votes (regardless of the number of Reservoir Managers actually serving on the Board), (iii) two independent managers (each, an "Independent Manager") shall be designated and appointed, one by Centerbridge and the other by Reservoir, and such Independent Managers shall be entitled each to cast one vote, (iv) one manager shall be the President of Voyager, Mike Lungariello, who is entitled to cast one vote, and (v) one manager shall be the Chairman & Chief Executive Officer of Amedeo, Mark Lapidus, who is entitled to cast one vote. As of December 31, 2020, the Board is comprised of nine managers.

Prior to the LLC Effective Date, Centerbridge and Reservoir collectively owned 100% of the limited liability company membership interests of Voyager, comprised of the New Class A interests, New Class B interests, New Class C interests, and New Class D interests. Pursuant to the LLC Agreement, (i) Amedeo acquired a portion of the New Class A interests, New Class B interests, New Class C interests, and New Class D interests from each Centerbridge and Reservoir, and (ii) in exchange for services to be rendered by the Amedeo Management Company to Voyager pursuant to the Management Agreement, Voyager issued New Class E interests to Amedeo. No additional capital was contributed to Voyager as a result of the execution of the LLC Agreement. While the LLC Agreement resulted in a change in the equity capital structure of Voyager between the Members, Centerbridge continues to be the controlling voting interest holder of Voyager.

General distributions and those issued under a liquidation of the Company are made pursuant to the terms of the LLC Agreement. In the event of a liquidation of the Company, such distributions to the Members will vary based on the size of any liquidation.

The LLC Agreement restricts certain actions by the Company without the consent of a majority of the Board. Additionally, certain actions require the consent of a majority of the Board and the affirmative vote of at least one Reservoir Manager, including but not limited to the undertaking of any transaction with the Company's affiliates or affiliates of the Members, changes in the tax structure or tax treatment of the Company, and issuing new interests in the Company that rank on parity or junior to the New Class A interests. The LLC Agreement also includes provisions with respect to restrictions on the transfer of limited liability company membership interests, tag-along rights, and right of the Board to cause an initial public offering, as well as certain other provisions with respect to registration rights and approval rights. The Company made no payments on behalf of our shareholders during the year ended December 31, 2020 and 2019.

Note 12. Commitments and Contingencies

The Company has no aircraft purchase commitments as of December 31, 2020.

As of December 31, 2020, the Company had a non-refundable deposit asset of \$4.5 million related to a non-binding term sheet with

Airbus, with an expiry date of December 31, 2020, to order 15 Airbus A330-900 neo aircraft. The Company continues to discuss and negotiate the terms of the order with Airbus, as well as evaluate the realizability of the non-refundable deposit, including for aircraft types other than Airbus A330-900 neo aircraft, on an ongoing basis.

We are party to an agreement with Rolls Royce that contains a minimum purchase requirement of engines by December 31, 2020, which, if not satisfied, would result in a \$2.6 million penalty payment. On November 6, 2020, the Company reached an agreement with Rolls Royce to extend its current minimum purchase agreement to December 31, 2021.

During the third quarter of 2019, the Company sold two Airbus A330-300 aircraft to a third party. Concurrent with the transaction, Voyager Aviation Holdings, LLC guaranteed a stream of cash flows to the buyer over the term of the early termination period, which starts on March 9 and May 12, 2023 and continues for a consecutive 24 months from each starting date. Should the gross cash flows fall below the minimum stream guaranteed, the Company would be legally obligated to make the purchaser whole. The Company's maximum exposure is \$14.4 million per aircraft (for the two aircraft sold). At September 30, 2019, the Company recorded the financial guarantee of \$6.4 million at fair value through the statement of operations. Subsequent to September 30, 2019, the Company has assessed, and will continue to assess the rental deficiency support letter in the context of contingent liabilities under ASC 450. As of December 31, 2020, a liability of \$6.4 million related to the guarantee is included in Other Liabilities.

Note 13. Fair Value Measurements

The following table sets forth our financial assets and liabilities as of December 31, 2020 and December 31, 2019 that we measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands).

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 38,024	\$ 38,024	\$ —	\$ —
Restricted cash	105,671	105,671	—	—
Equity Securities	691	691	—	—
Total Assets	<u>\$ 144,386</u>	<u>\$ 144,386</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:				
Interest rate swaps	15,664	—	15,664	—
Total Liabilities	<u>\$ 15,664</u>	<u>\$ —</u>	<u>\$ 15,664</u>	<u>\$ —</u>
	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 38,007	\$ 38,007	\$ —	\$ —
Restricted cash	67,922	67,922	—	—
Equity Securities	2,330	2,330	—	—
Interest rate swaps	659	—	659	—
Total Assets	<u>\$ 108,918</u>	<u>\$ 108,259</u>	<u>\$ 659</u>	<u>\$ —</u>
Liabilities:				
Interest rate swaps	6,911	—	6,911	—
Total Liabilities	<u>\$ 6,911</u>	<u>\$ —</u>	<u>\$ 6,911</u>	<u>\$ —</u>

For the year ended December 31, 2020 and 2019, we had no transfers into or out of Level 1, 2, and 3.

Our financial instruments, other than cash and restricted cash, consist principally of accounts receivable, accounts payable, interest rate swaps, and debt financings. The fair value of cash, restricted cash, accounts receivable, and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

Our equity securities consist of public equity traded stock with available quoted market prices. The fair value reflects the quoted market price multiplied by the number of shares owned on the last trading day of the quarter.

Our interest rate swaps are measured at fair value by using contractual cash flows and observable inputs comprising yield curves and credit spreads. Fair values reflect the credit risk of the instruments and include adjustments for the credit risk of the Company and

counterparty, as required.

We measure the fair value of certain assets and liabilities on a non-recurring basis, principally our aircraft, 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. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft are determined through various valuation techniques utilizing significant unobservable inputs, which are considered Level 3. As of December 31, 2020 and December 31, 2019, we had no aircraft that were required to be measured at fair value on a non-recurring basis.

The fair value of our debt financings is based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities, which would be categorized as Level 2. The fair value of debt financings as of December 31, 2020 was \$1,209.0 million compared to a book value of \$1,421.8 million. The fair value of debt financings as of December 31, 2019 was \$1,410.9 million compared to a book value of \$1,532.9 million.

Note 14. Variable Interest Entities (“VIEs”)

During the year ended December 31, 2020 and 2019, the Company assisted in the incorporation and ongoing management of 12 and 12 separate VIEs, respectively, and holds purchase options over the ordinary shares of each entity, exercisable at fair value. The VIEs are primarily engaged in the business of leasing and financing passenger and freighter aircraft on behalf of the Company. We determined that the Company was the primary beneficiary of these VIEs and, therefore, consolidated the activities of such VIEs in the financial statements herein.

The following table presents summary balance sheet and other data with respect to the VIEs as of December 31, 2020 and December 31, 2019, and summary statements of operations data for the year ended December 31, 2020 and 2019 (in thousands, except number of aircraft):

	December 31, 2020	December 31, 2019
Balance Sheet and Other Data:		
Number of aircraft as of period end	9	9
Aircraft, net	\$ 929,271	\$ 969,241
Net debt (current maturities of long-term debt and long-term debt)	701,216	791,235
Voyager Holdings guarantee of third-party debt	543,096	619,676
	Year Ended December 31,	
	2020	2019
Statements of Income Data:		
Rental income	\$ 97,148	\$ 98,669
Depreciation	39,969	40,160
Interest expense	34,792	46,742

We are required to consolidate our interests in these entities because we are deemed to be the primary beneficiary and have the power to direct the activities of the entity that most significantly affect economic performance, as well as have the obligation to absorb losses and rights to receive benefits that could potentially be significant to the entity. The assets of the VIEs can be used only to settle obligations of the VIEs. Contractually, the cash flows from these aircraft must first be used to pay third-party debt holders and other operating expenses of the VIEs. Excess cash flows are available to the Company.

Note 15. Subsequent Events

The Company has evaluated subsequent events through April 8, 2021, the date upon which the consolidated financial statements were available to be issued.

On January 20, 2021 the Company converted its second of two 747-8F aircraft operating leases into a finance lease.

On February 24, 2021, an early termination option for one of the Company's A330-300 aircraft was exercised by its customer resulting in a payment of \$5.3 million which was received by the Company on March 31, 2021. This accelerates the lease termination on this aircraft to August 2022.

On March 8, 2021, early termination options were exercised for the two A330-300 leases discussed in note 12. The Company will assess the potential outcome and account for any changes to the liability as necessary.

On February 19, 2021, the Company executed a Restructuring Support Agreement with 100% of the Company's existing equity holders and beneficial owners of the 2021 Notes who held, at such time, 59.48% of the aggregate principal amount of the 2021 Notes. Subsequently, on March 30, 2021, the Company entered into an amended and restated Restructuring Support Agreement, which added certain additional holders of the 2021 Notes such that the supporting noteholders party to the Restructuring Support Agreement collectively held, as of such date, approximately 84.9% of the aggregate principal amount of the 2021 Notes outstanding. In accordance with the terms of the amended and restated Restructuring Support Agreement, the Company commenced an exchange offer pursuant to an Offering Memorandum, and Disclosure Statement on March 30, 2021, for the exchange of the Notes for \$150 million of new secured notes, \$200 million of preferred equity and 100% of the equity of the Company. Concurrently with the completion of the exchange offer, the Company would also issue \$15 million of new secured notes to its existing equity holders. As discussed in the Offering Memorandum and Disclosure Statement, a minimum participation level of 95%, from the existing holders of the 2021 Notes (which the Company may amend, in its sole discretion, to 92%) is required in order for the exchange to be executed out of court. In a scenario in which the Company does not obtain the required level of participation from the existing holders of the 2021 Notes, the Company will pursue an in-court restructuring through a Scheme of Arrangement in Ireland pursuant to Part 9 of the Companies Act 2014 of the Republic of Ireland (as amended). Based on discussions with its advisors, it is likely that the levels of support will enable it to successfully complete an in-court restructuring. The expected completion of the exchange or in-court restructuring would mitigate the conditions and events that raised the substantial doubt.

As of the issuance date of these financial statements, the Company has obtained commitment from existing holders of 84.9% of the outstanding aggregate principal amount of the 2021 Notes to participate in the exchange in accordance with the amended and restated Restructuring Support Agreement and under the terms described in the Offering Memorandum and Disclosure Statement. However, given that both the out-of-court exchange and in-court restructuring discussed in the preceding paragraph require action from at least one external counterparty, it is not probable, in accordance with ASC 205-40, that the Company will be able to restructure the debt.

The consolidated financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities, and reported expenses that may be necessary if the Company were unable to continue as a going concern.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks, uncertainties, and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto.

The consolidated financial statements and the related notes thereto included elsewhere in these financial statements, which are the subject of the following discussion and analysis, are those of Voyager Aviation Holdings, LLC and its consolidated subsidiaries for the years ended December 31, 2020 and 2019. Our fiscal year ends on December 31 of each year and our fiscal quarters end on March 31, June 30 and September 30 of each year.

Metrics noted as “weighted by net book value” are an average resulting from the multiplication of each metric by the dollar net book value of an aircraft to reflect its relative importance.

Forward-Looking Statements

All statements included or incorporated by reference other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and “should,” and variations of these words and similar expressions, are used in many cases to identify these forward-looking statements. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results to vary materially from our future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. Such factors include, among others, general commercial aviation industry, economic and business conditions, which will, among other things, affect demand for aircraft, availability and creditworthiness of current and prospective lessees, lease rates, availability and cost of financing and operating expenses, governmental actions and initiatives, and environmental and safety requirements. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for the Company to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. The Company expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

Overview

We are an aviation investor and full-service global aircraft leasing platform. We have demonstrated capabilities in aircraft leasing, aircraft marketing and re-marketing, aircraft sales and trading, original equipment manufacturer order and supply chain management, technical management, and aircraft finance. We target aircraft on long-term leases with well-established airlines, typically with initial terms ranging from six to twelve years. We pursue assets that we believe will attract beneficial lease terms, including higher lease rates, longer lease durations, and higher lease renewal rates, which in turn drive profitability and reduce exposure to residual value risk. We also invest in aviation-related securities, primarily debt. Together, we aim to produce stable and predictable revenue, earnings, and cash flows, while seeking to generate attractive returns.

Historically, we have acquired aircraft through three different channels, which include purchase agreements with OEMs, trading transactions with other aircraft investors, and sale-leaseback transactions with airline customers. We evaluate opportunities within each of these acquisition channels so that we will not be dependent on any single channel to acquire aircraft that provide attractive returns. By remaining flexible among acquisition channels, we believe we are well-positioned to opportunistically source transactions that drive growth at attractive financial returns. We also explore and evaluate aircraft sale opportunities, which will allow us to reduce our highest concentration of aircraft types and lessee exposures. As of December 31, 2020, we owned 18 aircraft, 17 of which were on long term operating leases and had a net book value of \$1,607.7 million and one of which was classified as a financing lease with a book value of \$102.0 million. The aircraft had an average age of 5.9 years, weighted by net book value. As of December 31, 2020, we have no outstanding aircraft purchase commitments.

We maintain numerous relationships with OEMs, airlines, and financial institutions. We have significant experience sourcing aircraft directly from Boeing and Airbus, through sale-leaseback transactions with airline customers, and through trading transactions with other lessors. We also have significant experience in managing aircraft configuration and the related supply chain, including reconfiguration and transition projects of significant scale. We have access to key decision makers at over 140 airlines, enabling us to customize aircraft leases to meet airlines' specific needs, while securing attractive lease terms and returns. Our robust and diverse funding model is a product of our relationships with a diverse group of global financial institutions that have significant expertise and lending capacity in aircraft finance. Since 2013, we have financed over \$3.5 billion of aircraft acquisitions with 40 different lenders.

In addition, we have entered into a strategic partnership and management agreement with Amedeo, a full-service aviation asset manager, who now manages over \$7.0 billion in wide body aircraft. We believe that this relationship enhances our access to vendors, customers, and investment opportunities and is strategically beneficial to the development of our business.

As of December 31, 2020, our owned aircraft have been placed on lease with a diverse group of 7 airline customers in 6 different countries. Our customers are well-established airlines or flag carriers, most of which are majority owned by sovereign entities, and our aircraft are typically used on what we believe are key international or long-haul routes for our customers. Each of our aircraft is on long-term lease as of December 31, 2020, and collectively our aircraft have an average remaining lease term of 6.0 years, weighted by net book value. We have no lease expirations prior to 2022. Out of our 18 aircraft as of December 31, 2020, 17 have fixed rental rates and one has a floating rental rate.

Market and Industry Trends

Our revenues are derived from leases of our aircraft with commercial airlines. As of December 31, 2020, we derived 100% of our revenues from airlines domiciled outside the United States and we anticipate that a significant portion of our revenues in the future will be generated from foreign lessees. The airline industry is cyclical, economically sensitive, and highly competitive. Airlines and related companies are affected by, among other things, fuel price volatility and fuel shortages, political and economic instability, natural disasters, terrorist activities, changes in national policy, competitive pressures, labor actions, pilot shortages, insurance costs, recessions, health concerns, and other political or economic events adversely affecting world or regional trading markets. Our airline customers' ability to react to, and cope with, the volatile competitive environment in which they operate, as well as our own competitive environment, will affect our results of operations.

Our Fleet

Key portfolio metrics of our fleet as of December 31, 2020 and December 31, 2019 are as follows (aircraft net book value and finance lease book values in thousands):

	December 31, 2020	December 31, 2019
Number of owned aircraft (held for use)	18	18
Average fleet age (in years), weighted by net book value	5.9	4.9
Average remaining lease term, weighted by net book value	6.0	7.3
Aggregate aircraft net book value	\$ 1,607,744	\$ 1,833,519
Aggregate finance lease book value	\$ 101,988	\$ —

The net book value of our aircraft subject to operating leases based on the geographic regions of our customers as of December 31, 2020 and December 31, 2019 is as follows (in thousands):

Region	December 31, 2020			December 31, 2019		
	Number of Aircraft	NBV of Aircraft	Percentage of Total	Number of Aircraft	NBV of Aircraft	Percentage of Total
Asia	7	\$ 734,803	46%	7	\$ 764,904	42%
Europe	10	872,941	54%	11	1,068,615	58%
Total	17	\$1,607,744	100%	18	\$1,833,519	100%

Lease Terms

All of our leases are "triple-net" operating leases, under which the lessees are required to pay for maintenance, insurance, taxes, and all other aircraft operating expenses. Lessees are required to continue to make lease payments in all circumstances, including during periods in which an aircraft is not in operation due to maintenance or grounding. Most of our leases provide that the lessee's payment obligations are absolute and unconditional under any and all circumstances. Lessees are generally required to make payment without deduction of any amounts that we may owe the lessee. Most of our leases also require lessees to gross up lease payments where they are subject to withholdings and other taxes. We also use contractual terms in the leases, including security deposits, maintenance reserves, return conditions, payment of rent in advance, and other mechanisms to protect the contracted revenue and the value of our portfolio. Our lessees generally agree to lease the aircraft for a fixed term, although in some cases lessees may have early termination options exercisable at a specified time prior to the stated maturity and/or lease extension options.

Factors Affecting our Results of Operations

Our results of operations are affected by a number of factors, primarily:

- the number, type, and age of the aircraft we own;
- market conditions in the airline industry;
- the demand and the resulting lease rates we are able to obtain for our aircraft;
- the availability and cost of capital to refinance our aircraft or to fund future aircraft purchase commitments into which we may enter;
- the purchase price we pay for our aircraft; and
- the ability of our lessees to comply with the terms of their lease.

Segments

We operate in one segment, as we manage our business and analyze and report our results of operations on the basis of one operating segment—leasing and selling commercial aircraft.

Key Income Statement Items

Rental income

Rental income consists primarily of lease rental income derived from leasing commercial passenger aircraft to various commercial airlines around the world. We record lease rental income on a straight-line basis over the life of the lease as it is earned in accordance with ASC 840. Monthly lease rentals are generally paid in advance, and a security deposit is typically maintained during the term of the lease in cash or in the form of a letter of credit. Rentals received, but unearned under our leases, are deferred and recorded as unearned rental revenue on our Consolidated Balance Sheet.

For all lease contracts, any amounts of accrued maintenance liability existing at the end of a lease are recognized as “Rental income” at lease termination. When an aircraft is sold, the portion of the accrued maintenance liability which is not specifically assigned to the buyer is released from the Consolidated Balance Sheet and recognized as a component of aircraft sales and trading, net.

Interest income

Interest income includes revenue recognized from the Company’s only finance lease and is recognized using the interest method to produce a constant yield over the life of the finance lease.

Aircraft sales and trading, net

We may choose to sell one or more of our owned aircraft. Buyers of the aircraft may include aircraft lessors, financial institutions, and airlines. The net gain or loss resulting from our aircraft sales and trading activities is recorded as a separate component of total revenues.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) consist primarily of payroll costs and other compensation expenses, including severance, and, to a lesser extent, travel, accommodation and entertainment expenses for our team, as well as fees for legal services, insurance, facilities costs and related expenses, and other professional services.

Management fee

Pursuant to the Amedeo Partnership, Voyager Holdings and the Amedeo Management Company entered into the Management

Agreement, which sets forth the terms of services the Amedeo Management Company will provide to Voyager Holdings and its subsidiaries. Among other general management responsibilities, the Amedeo Management Company will have responsibility for (i) maintaining Voyager's books and records, (ii) preparing financial information, including financial statements, and tax returns, (iii) providing cash management and loan administration services, (iv) monitoring the compliance of lessees of Voyager's aircraft, (v) notifying the Board of Managers (the "Board") of any potential targeted aircraft investment and disposition opportunities, (vi) ensuring all aspects of the business comply with applicable laws, and (vii) furnishing trained employees and consultants as necessary. Voyager will pay the Amedeo Management Company quarterly management fees equal to \$1.025 million, totaling \$4.1 million annually. In addition, Voyager paid \$4.8 million in commission fees related to sales and purchases of aircraft. These commissions have been recognized with the conversion of an operating lease into a finance lease on one of the two freighter aircraft as well as the agreement for the sale-leaseback purchase of five A220-300 aircraft due to deliver in 2022 and 2023.

Depreciation

Depreciation expense consists primarily of depreciation on our aircraft and related equipment, which is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of our aircraft are 25 to 30 years from their date of manufacture and are reviewed annually or when a triggering event has occurred. We depreciate aircraft to an estimated residual value of 5% to 15% of the original cost of the aircraft.

Asset impairment

Aircraft are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Indicators may include, but are not limited to, a significant change in lease term(s) or lease restructuring, a significant decrease in the market prices of aircraft, a significant change in market conditions, a significant decline in air traffic, or a significant reduction in the useful lives of aircraft.

Other operating expenses

Other operating expenses consists primarily of expenses related to the creation and ongoing maintenance of the legal structure of our aircraft-owning entities, such as accounting, legal, and professional fees. Other operating expenses also includes any offsets to earnings related to provisions held against current accounts receivable.

Interest expense

Interest expense is comprised of interest expense on borrowings, amortization of deferred financing costs (debt issuance costs, discounts, and premiums), and capitalized interest.

Gains (losses) on derivative financial instruments

Gains (losses) on derivative financial instruments consists of changes in derivative fair values and realized gains and losses resulting from the periodic settlement of derivatives, in particular those related to interest rate swaps and foreign currency forward contracts. For certain of our secured term loans, we utilize interest rate swaps to economically hedge our variable interest rate exposure to better match the fixed-rate cash flows of our aircraft leases. Under the swap contracts, we make fixed-rate payments and receive floating-rate payments from the swap counterparties to convert the floating-rate borrowings to fixed-rate obligations. Foreign currency forwards are used in certain cases to minimize exposure to positive or negative exchange rate fluctuations versus the U.S. dollar.

Other income (expenses)

Other income (expenses) consists of interest income and other miscellaneous, non-operating income (expenses).

Income tax expense (benefit)

For U.S. federal and state income tax purposes, any taxable profit or loss is passed through to, and reported in, the income tax returns of the interests' holders. Accordingly, no U.S. income tax provision has been recorded with respect to Voyager Holdings. Most of our domestic subsidiaries and several of our foreign subsidiaries are classified as disregarded entities, and the related activity is reported in the tax returns of Voyager Holdings. A provision for income taxes has been recorded for the Company's foreign subsidiaries that are subject to income taxes in their respective jurisdictions.

Results of Operations

The following table presents our results of operations for the years ended December 31, 2020 and 2019 (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Revenues:		
Rental income	\$ 185,839	\$ 218,364
Interest income	201	-
Aircraft sales and trading, net	(2,015)	(26,968)
Total revenues	184,025	191,396
Operating expenses:		
Selling, general and administrative expenses	11,622	13,490
Management fee	8,949	5,608
Depreciation	75,810	84,064
Asset impairment	-	18,244
Other operating expenses	8,310	3,588
Total operating expenses	104,691	124,994
Operating income	79,334	66,402
Other income (expenses):		
Interest expense	(90,233)	(116,238)
Loss on derivative financial instruments	(15,698)	(15,635)
Other income	1,515	620
Total other expenses	(104,416)	(131,253)
Loss before income taxes	(25,082)	(64,851)
Income tax expense	1,279	2,100
Net Loss	<u>\$ (26,361)</u>	<u>\$ (66,951)</u>

For the year ended December 31, 2020

Rental income

Rental income decreased \$32.6 million, from \$218.4 million for the year ended December 31, 2019 to \$185.8 million for the year ended December 31, 2020. The decrease in rental income attributable mainly to the absence of monthly rental income related to the sales of four aircraft sold during the third quarter of 2019.

Interest income

Interest income related to an investment in a finance lease in December 2020 resulted in \$.2 million of interest income. The Company did not account for any of its leases as direct finance leases in 2019.

Aircraft Sales and Trading

The Company sold four aircraft, one of which was held for sale, at a loss of \$27.0 million for year ended December 31, 2019. During the year ended December 31, 2020 the Company recognized a \$2.0 million loss in connection with a lease restructuring which resulted in an investment in direct finance lease.

Selling, general and administrative expenses

SG&A expenses decreased \$1.9 million for the year ended December 31, 2020 to \$11.6 million from \$13.5 million. The decrease in SG&A expenses is attributable to a decrease in legal fees, reimbursable employee costs to a related party and accrued compensation.

Management fee

In connection with the Amedeo Partnership, the Company recognized \$8.9 million in management fee expenses for the year ended

December 31, 2020. For the year ended December 31, 2019 the Company recognized management fee expenses of \$3.4 million related to the prior management agreement between Voyager and Amedeo. In addition to management fee expenses of \$4.1 million for the year ended December 31, 2020, the Company recognized commissions of \$4.8 million with the conversion of one of the Company's operating leases into finance lease on one of the Company's freighter aircraft as well as the agreement for the sale-leaseback of five A220-300 aircraft due to deliver in 2022 and 2023.

Depreciation

Depreciation expense decreased \$8.3 million, from \$84.1 million for the year ended December 31, 2019 to \$75.8 million for the year ended December 31, 2020 driven by the four aircraft sold during the third quarter of 2019.

Asset Impairment

During the year ended December 31, 2019, the Company classified two aircraft from its portfolio as held for sale. In connection with the designation of held for sale, the Company recorded a charge to recognize the aircraft at the lower of net book value or estimated sales price less cost to sell. One of the two aircraft was impaired, and the Company recorded an \$18.2 million charge. No such events occurred, and no such impairments were recognized during the year ended December 31, 2020.

Other operating expenses

Other operating expenses increased by \$4.7 million to \$8.3 million for the year ended December 31, 2020 compared to \$3.6 million for the year ended December 31, 2019. The increase is primarily attributed to an allowance for doubtful accounts recorded in the amount of \$5.2 million related to one of the Company's customers for the year ended December 31, 2020.

Interest expense

Interest expense decreased \$26.0 million from \$116.2 million for the year ended December 31, 2019 to \$90.2 million for the year ended December 31, 2020. The overall decrease in interest expense is primarily related to the disposal of four aircraft sold during the third quarter of 2019 along with the any deferred financing costs associated with these aircraft that were absent for the full year ended December 31, 2020.

Gains (losses) on derivative financial instruments

We recognized losses on derivative financial instruments of \$15.7 million for the year ended December 31, 2020 compared to losses on derivative financial instruments of \$15.6 million for the year ended December 31, 2019.

Other income (expenses)

Other income (expenses) increased \$0.9 million, from \$0.6 million of other income for the year ended December 31, 2019 compared to \$1.5 million of other income for the year ended December 31, 2020. This is driven primarily by a fee received in the amount of \$2.0 million related to the conversion of an operating lease into a finance lease on one of the Company's 747-8F freight aircraft as well as \$0.5 million in interest income for the year ended December 31, 2020. These amounts were offset by \$0.7 million in mark to market losses on securities held for sale by the Company.

Income tax expense

Income tax expense decreased for the year ended December 31, 2020 with \$1.3 million of expense versus \$2.1 million of income tax expense for the year ended December 31, 2019.

Liquidity and Capital Resources

We finance the acquisition of our aircraft with available cash balances, internally generated funds from our aircraft-owning subsidiaries, cash flows from operating activities, debt financings, equity capital, and U.S. capital market transactions. We borrow funds to purchase new and used aircraft, make aircraft deposits on new aircraft purchase commitments, and to pay down and refinance maturing debt obligations. We are dependent upon dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations, to pay our SG&A expenses, and to grow our fleet. Our existing subsidiaries use funds generated from aircraft rents to pay their operating expenses and to meet their debt service requirements.

We believe that our available liquidity, consisting of unrestricted cash balances of \$38.0 million as of December 31, 2020, combined

with internally generated funds from our aircraft-owning subsidiaries, including cash flows provided from operating activities, will be sufficient to satisfy our operating requirements for the next twelve months when considering the exchange offer and Restructuring Support Agreement discussed in Notes 2 and 15. In addition to our available liquidity, we will need access to additional capital through debt or equity financings to repay or refinance our existing debt, as well as execute our growth strategy (including meeting commitments under any future purchase agreements into which we may enter). Our access to additional sources of financing and our ability to repay or refinance amounts outstanding under our existing borrowings will depend on a number of factors over which we have limited control, which include general market conditions, the market's view of the quality of our assets, our historical and expected performance, the market's perception of our growth potential, compliance with the terms of our debt agreements, compliance with the terms of our LLC Agreement, interest rate fluctuations, and our current and potential future earnings and cash distributions. There can be no assurance that we will be able to access additional capital on commercially reasonable terms or at all.

Cash Flows

The following table sets forth a summary of our cash flows for the year ended December 31, 2020 and December 31, 2019 (in thousands):

	Year Ended December 31,		
	2020	2019	Change
	(Unaudited)		
Net cash provided from operating activities	\$ 56,200	\$ 82,651	\$ (26,451)
Net cash provided from investing activities	46,381	290,122	(243,741)
Net cash used by financing activities	(64,815)	(473,817)	409,002
Net increase / (decrease) in cash and restricted cash	37,766	(101,044)	138,810
Cash and restricted cash at the beginning of the period	105,929	206,973	
Cash and restricted cash at the end of the period	<u>\$ 143,695</u>	<u>\$ 105,929</u>	

Net cash provided from operating activities for the year ended December 31, 2020 and 2019 was \$56.2 million and \$82.7 million, respectively, a decrease of \$26.5 million. The decrease in operating cash is primarily attributable to an increase in outstanding receivables between the year ended December 31, 2020 and 2019.

Net cash provided from investing activities for the year ended December 31, 2020 and 2019 was \$46.4 million and \$290.1 million, respectively, a decrease of \$243.8 million. During the year ended December 31, 2020, the Company received \$44.3 million related to the conversion of one B747-8F freighter aircraft from an operating lease into a finance lease, \$1.3 million of principal payments on this finance lease, and \$0.4 million from receipts of financing receivables. During the year ended December 31, 2019 the Company received \$301.2 million for the sale of four aircraft offset by a purchase of equity securities at a cost of \$2.9 million and the funding of a financing receivable in the amount of \$6.4 million.

Net cash used by financing activities for the year ended December 31, 2020 was \$64.8 million primarily attributable to the repayment of \$175.4 million in debt financing. This was offset by the net receipt of maintenance reserves and security deposits in the amount of \$47.3 million and proceeds from the issuance of new debt in the amount of \$64.4 million. Net cash used by financing activities for the year ended December 31, 2019 was \$473.8 million, including payment of debt financings of \$451.4 million, net maintenance reserves paid of \$17.0 million and dividends paid of \$55.4 million. This was partially offset by proceeds from the refinancing of a secured loan in the amount of \$50.0 million.

Debt Financings

The Company's debt financings comprised of the following as of December 31, 2020 and December 31, 2019 (in thousands):

	December 31, 2020			December 31, 2019
	Outstanding Borrowings	Interest Rate (1)	Final Stated Maturity	Outstanding Borrowings
Secured term loans	\$ 1,006,491	2.84% to 6.56% (2)	4/29/22 to 9/28/29	\$ 1,117,069
Senior unsecured notes	415,337	9.0%	8/15/21	415,837
Total debt	1,421,828			1,532,906
Less: debt issuance costs	(21,508)			(29,193)
Add: debt premium	—			—
Net debt	1,400,320			1,503,713
Less: current maturities of long-term debt (3)	(550,723)			(155,061)
Long-term debt, net of current maturities	<u>\$ 849,597</u>			<u>\$ 1,348,652</u>
Number of aircraft pledged as collateral	18			18
Net book value of aircraft pledged as collateral	\$ 1,607,744			\$ 1,833,519
Finance lease aircraft pledged as collateral	\$ 101,988			\$ —

(1) Interest rates exclude amortization of debt issuance costs and debt discounts or premiums.

(2) The secured term loans as of December 31, 2020 have a weighted average cost of borrowing of 4.3% (excludes amortization of debt issuance costs and debt discounts).

(3) As of December 31, 2020, current maturities of long-term debt includes the full repayable balance of the Company's senior unsecured 2021 Notes in the amount of \$415.3 million.

Secured Term Loans

We fund aircraft purchases through a combination of senior and subordinated term financings that are secured by the relevant aircraft and, in certain cases, the related lease and receivables of the borrower with respect to the aircraft. Our secured term loans contain provisions that generally require the payment of principal and interest throughout the terms of the loans. As of December 31, 2020 and December 31, 2019, our secured term loans had a weighted average cost of borrowing of 4.3% and 4.6% (excludes amortization of debt issuance costs and debt discounts), and a weighted average maturity of 5.9 years and 5.4 years, respectively.

Senior Unsecured Notes

As of December 31, 2020, senior unsecured notes comprised of the 2021 Notes, which are due on August 15, 2021. The Company may from time to time, repurchase our unsecured notes by means other than a redemption, whether by tender offer, open market purchase, negotiated transaction or otherwise, in accordance with applicable securities laws, so long as such acquisition does not otherwise violate the terms of the unsecured notes indenture.

Our scheduled principal payments of debt as of December 31, 2020 for fiscal years ending are as follows (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total
Secured term loans	\$ 135,386	\$ 198,476	\$ 246,409	\$ 115,747	\$ 110,170	\$ 200,303	\$1,006,491
Senior unsecured notes	415,337	—	—	—	—	—	415,337
Total debt	<u>\$550,723</u>	<u>\$ 198,476</u>	<u>\$ 246,409</u>	<u>\$ 115,747</u>	<u>\$ 110,170</u>	<u>\$ 200,303</u>	<u>\$1,421,828</u>

Interest Expense

The following table presents the components of interest expense for the years ended December 31, 2020 and 2019 (in thousands):

	Year Ended December 31,	
	2020	2019
Interest expense on borrowings	\$ 81,475	\$ 104,809
Amortization of debt issuance costs	8,758	11,429
Interest expense	<u>\$ 90,233</u>	<u>\$ 116,238</u>

For the years ended December 31, 2020 and 2019 we did not capitalize any interest costs.

Our total cost of borrowing, comprised of interest expense and realized gains (losses) on interest rate swaps, for the years ended December 31, 2020 and 2019 was as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Interest expense	\$ 90,233	\$ 116,238
Realized losses on interest rate swaps	(6,286)	(2,275)
Total cost of borrowings	<u>\$ 83,947</u>	<u>\$ 113,963</u>

Off-Balance Sheet Arrangements

We have not created, and are not party to, any off-balance sheet entities for the purpose of raising capital, incurring debt, or operating our business. We do not have any off-balance sheet arrangements or relationships with entities that are not consolidated into or disclosed on our consolidated financial statements that have or are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Contractual Obligations

We have no aircraft purchase commitments as of December 31, 2020. We are party to an agreement with Rolls Royce that contains a minimum purchase requirement of engines by December 31, 2020, which, if not satisfied, would result in a \$2.4 million penalty payment. Currently, we have not satisfied this purchase requirement.

During the third quarter of 2019, the Company sold two Airbus A330-300 aircraft to a third party. Concurrent with the transaction, Voyager Aviation Holdings, LLC guaranteed a stream of cash flows to the buyer over the term of the early termination period, which starts on March 8 and May 11 2023 and continues for a consecutive 24 months from each starting date. Should the gross cash flows fall below the minimum stream guaranteed, the Company would be legally obligated to make the purchaser whole. The Company's maximum exposure is \$14.4 million per aircraft (for the two aircraft sold). At September 30, 2019, the Company recorded the financial guarantee of \$6.4 million at fair value through the statement of operations. Subsequent to September 30, 2019, the Company has assessed, and will continue to assess the rental deficiency support letter in the context of contingent liabilities under ASC 450

The following table details the Company's contractual obligations in future years, which consists primarily of principal and interest payments under our existing debt financings (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total
Principal repayments(1)	\$550,723	\$198,476	\$246,409	\$115,747	\$110,170	\$200,303	\$1,421,828
Interest payments (2)	76,424	36,534	22,406	16,618	10,114	9,159	171,255
Other obligations (3)	106	106	106	71	—	—	389
Total contractual obligations	<u>\$627,253</u>	<u>\$235,116</u>	<u>\$268,921</u>	<u>\$132,436</u>	<u>\$120,284</u>	<u>\$209,462</u>	<u>\$1,593,472</u>

- (1) See "Secured Term Loans" and "Senior Unsecured Notes" under Note 5 for a discussion of debt financings.
- (2) Estimates for interest payments are based on existing debt financings as of December 31, 2020. Interest payments on floating-rate debt are based on their applicable margins plus LIBOR as of December 31, 2020. We have entered into interest rate swap agreements, which synthetically fix a significant portion of our floating-rate debt. Actual payments could vary.
- (3) Relates to operating lease payments for our offices in Ireland.

Critical Accounting Policies and Estimates

Our consolidated financial Statements have been prepared in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. While we believe that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. All intercompany transactions by and among Voyager have been eliminated in consolidation.

Aircraft

Purchased aircraft held for use, are stated at original cost (net of manufacturer incentives) less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of our aircraft are 25 to 30 years from their date of manufacture. We depreciate aircraft to an estimated residual value of 5% to 15% of the original cost of the aircraft. Qualified maintenance events performed on aircraft that were purchased used with leases in place are depreciated over the estimated period to next maintenance event. We periodically review the useful lives and residual values of our aircraft based on our knowledge

and external factors coupled with market conditions to determine if they are appropriate, and record adjustments to depreciation prospectively on an aircraft-by-aircraft basis, as necessary.

We capitalize interest in connection with aircraft deposits or progress payments that have been made. The amount of interest capitalized is the amount of interest costs that could have been avoided in the absence of such payments for the related assets. Capitalized interest is based on the weighted average of the rates applicable to all borrowings of the Company and is recorded in other assets on our Consolidated Balance Sheet. Upon delivery, capitalized interest is recorded as a component of the cost of the related aircraft.

In the future, we may incur maintenance and repair expenses for off-lease aircraft. For planned major maintenance activities for aircraft off-lease, we capitalize the actual maintenance costs of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required (for aircraft with no maintenance rights assets).

With respect to our aircraft, we make estimates about the expected useful lives, residual values, fair value of attached leases, and maintenance reserve liabilities. Changes in the estimated useful lives or residual values for aircraft could have a significant impact on our financial condition and results of operations. These estimates include certain assumptions that are based upon actual industry experience with the same or similar aircraft types and our anticipated use of the aircraft. As part of our due diligence on each aircraft we purchase through trading activities, we evaluate the transaction to consider whether there are other assets acquired and/or liabilities assumed, such as those related to lease terms that are above or below market and maintenance rights. If we determine the lease is above or below market, we recognize a separate lease asset or liability for the contract, which is recognized over the remaining lease term. In addition, we recognize maintenance right assets or liabilities, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

Impairment of Aircraft

Aircraft are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators may include, but are not limited to, a significant change in lease term(s) or lease restructuring, a significant decrease in the market prices of aircraft, a significant change in market conditions, a significant decline in air traffic, or a significant reduction in the useful lives of aircraft.

An assessment is performed on an aircraft-by-aircraft basis whenever events or changes in circumstances indicate that the carrying amount of an aircraft may not be recoverable. The review for recoverability has a level of subjectivity and requires the use of our judgment in the assessment of the estimated future cash flows associated with the use of an aircraft and its eventual disposition. Recoverability of an aircraft's carrying amount is measured by comparing the carrying amount of the aircraft to future undiscounted net cash flows expected to be generated by the aircraft. The undiscounted net cash flows consist of cash flows from currently contracted leases, future projected leases, reconfiguration costs, and estimated residual or scrap values for each aircraft. We develop assumptions used in the recoverability analysis based on our knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type, and historical experience in the aircraft leasing market and aviation industry, as well as information received from third-party industry sources. The factors considered in estimating the undiscounted cash flows are affected by changes in future periods due to changes in contracted lease rates, economic conditions, technology, and airline demand for a particular aircraft type.

In the event that an aircraft does not meet the recoverability test, we determine the estimated fair value of the aircraft through various valuation techniques, including discounted cash flow models and third-party independent appraisals. An impairment charge is recognized to the extent that the carrying value exceeds the estimated fair value. With regard to our fleet, we identify those aircraft that are most susceptible to failing the recoverability test and monitor these aircraft more closely for impairment, which may result in more frequent recoverability assessments. The recoverability of the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates, and residual or scrap values.

Aircraft Maintenance

Under all of our leases, the lessee is required to return the aircraft in full-life condition at the end of the lease term. The lessee is also responsible for maintenance and repairs of our aircraft during the term of the lease. Our leases require the lessee to pay cash maintenance reserves periodically, to post letters of credit, or make full-life financial adjustment payments.

In certain of our leases, the lessee is required to make periodic payments of cash maintenance reserves, which we collect based on passage of time or usage of the aircraft, measured by hours flown or cycles operated. Aircraft maintenance reserves are funded by the lessee based on the terms of the aircraft lease on a monthly basis. Such reserve funding is maintained by the Company and used on an as-needed basis to fund required maintenance on the associated aircraft. We will make a payment to compensate the lessee for the maintenance cost incurred, up to the amount of aircraft maintenance reserves made by the lessee during the lease term, net of previous reimbursements. These payments are made upon the lessee's presentation of invoices evidencing the completion of such maintenance.

Nonrefundable maintenance reserves are recognized as additional rental income when they are forfeited by the lessee at the end of the lease. When an aircraft is sold, the portion of the accrued maintenance liability which is not specifically assigned to the buyer is released from the Consolidated Balance Sheet and recognized as a component of aircraft sales and trading, net within the Consolidated Statement of Operations.

In lease contracts not requiring the payment of cash maintenance reserves, the lessee is still required to re-deliver the aircraft in a full-life condition, that is, fresh from major overhaul (normal wear and tear excepted), with reference to major life-limited components of the aircraft. To the extent that such components are re-delivered in a different condition than at acceptance, there is a full-life financial adjustment for the difference at re-delivery. We recognize receipts of full-life financial adjustments as additional rental income when received and payments of full-life financial adjustments as contra revenue (rental income). Other lease contracts require the lessee to post letters of credit to ensure that we take re-delivery of our aircraft in the condition specified in the lease.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in the tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. We evaluate deferred tax assets on a quarterly basis by considering available positive and negative evidence to determine if valuation allowances are required. Changes in recognition or measurement are reflected in the period in which the change in recoverability occurs.

We recognize the effect of income tax positions, if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. Changes in recognition or measurement are reflected in the period in which a change in the evaluation of the more likely than not threshold occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

As of December 31, 2020 and December 31, 2019, we did not have any unrecognized tax benefits.

Management's Use of Non-GAAP Consolidated Net Income and Non-GAAP Consolidated Adjusted EBITDA and Non-GAAP Consolidated Interest Expense (as Defined in the Indenture Governing our 2021 Notes)

We present Non-GAAP Consolidated Net Income, Non-GAAP Consolidated Adjusted EBITDA and Non-GAAP Consolidated Interest Expense, each as defined in the indenture governing our 2021 Notes, as supplemental measures of our performance and ability to service debt. This data is derived from our consolidated financial information but not presented in our consolidated financial statements prepared in accordance with U.S. GAAP.

Our presentation of Non-GAAP Consolidated Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these types of adjustments. Non-GAAP Consolidated Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income, or any other performance measures derived in accordance with U.S. GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity. Non-GAAP Consolidated Net Income, Non-GAAP Consolidated Adjusted EBITDA and Non-GAAP Consolidated Interest Expense have limitations as analytical tools and should not be viewed in isolation or as substitutes for U.S. GAAP measures of earnings. Some of these limitations are as follows:

- these measures do not reflect changes in, or cash requirement for, our working capital needs;
- these measures do not reflect our interest burden, or the cash requirements necessary to service interest or principal payments on our debt;
- these measures do not reflect our income tax expense or the cash requirement to pay our taxes;
- these measures do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- although depreciation is a non-cash charge, the assets being depreciated and amortized will often require replacement in the future, and these measures do not reflect any cash requirements for such replacements; and

- they may not be comparable to other companies' measures, as they may be calculated differently.

Non-GAAP Consolidated Net Income and Non-GAAP Consolidated Adjusted EBITDA

Non-GAAP Consolidated Net Income means, with reference to any period, the net income (or loss) of the Company and its consolidated Subsidiaries for such period, on a consolidated basis; provided that there shall be excluded any net income, gain or losses during such period from (1) any change in accounting principles in accordance with GAAP, (2) any prior period adjustment resulting from any change in accounting principles in accordance with GAAP, (3) any discontinued operations, (4) any unusual or non-recurring items, (5) any gain (or loss) realized upon the sale or other disposition of any assets of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale/leaseback arrangement) which are not sold or otherwise disposed of in the ordinary course of business, as determined in good faith by the Board of Directors, and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person, (6) gains or losses in respect of foreign exchange transactions, (7) solely for the purpose of determining the amount available for Restricted Payments under the first paragraph of the covenant described under “—Certain Covenants—Limitation on Restricted Payments,” any net income (loss) of any Subsidiary (other than Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to either Issuer or a Guarantor by operation of the terms of such Subsidiary’s charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released and (b) restrictions pursuant to the Notes or the Indenture), except that the Company’s equity in the net income of any such Subsidiary for such period will be included in such Non-GAAP Consolidated Net Income up to the greater of (x) the aggregate amount of cash or cash equivalents permitted to be distributed during such period to the Company or another Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Subsidiary, to the limitation contained in this clause) or (y) the actual amount of cash and cash equivalents distributed to the Company in respect of investments made in such Subsidiary, (8) the effects of adjustments resulting from the application of purchase accounting in relation to any acquisition that is consummated after the Issue Date, net of taxes, (9) any gain (loss) arising from changes in the fair value of derivatives, (10) any valuation allowance against a deferred tax asset, and (11) amortization of (i) fair value lease premiums and discounts, (ii) lease incentives, (iii) fair value debt discounts, and (iv) debt discounts in respect of Indebtedness.

Non-GAAP Consolidated Adjusted EBITDA means, with reference to any period, Non-GAAP Consolidated Net Income for such period plus, to the extent deducted in determining Non-GAAP Consolidated Net Income, depreciation, amortization, interest expense, income taxes, stock-based compensation expense, any other non-cash or non-recurring losses or charges of the Company and its consolidated Subsidiaries (provided that, in the case of any non-cash losses or charges, such non-cash losses or charges are not ultimately settled in cash) and (1) any costs incurred pursuant to the LLC Agreement, (2) any fees, charges or other expenses made or Incurred in connection with any non-ordinary course investment, Equity Offering (including an initial public offering), Asset Sale, Asset Acquisition, recapitalization or incurrence of Indebtedness permitted to be incurred by the Indenture (whether or not successful), including such fees, expenses or charges related to the offering of the Notes and any Credit Facilities, (3) the amount of any restructuring charge, including any one-time costs incurred in connection with acquisitions after the Issue Date, (4) the amount of management, monitoring, consulting and advisory fees (including termination fees) and related expenses paid or accrued in such period to the extent otherwise permitted under “Certain Covenants—Limitation on Affiliate Transactions” (but excluding, for the avoidance of doubt, any amounts payable pursuant to the Management Agreement or any agreement entered into pursuant to clause (5) of the second paragraph under “Certain Covenants—Limitation on Affiliate Transactions”), (5) any loss from the early extinguishment of Indebtedness arising from the application of purchase accounting, (6) any realized loss (and minus any realized gain) from Hedging Obligations or other derivative instruments entered into for the purpose of hedging interest rate risk, (7) any impairment charge or asset write-off pursuant to ASC 350, “Intangibles-Goodwill and Other”, and ASC 360 and the amortization of intangibles arising pursuant to ASC, “805 Business Combinations”, and (8) any non-cash compensation expense recorded from grants of stock appreciation or similar rights, stock options or other rights to officers, directors or employees, and (9) the amount of any charges attributable to the undertaking and/or implementation of cost savings initiatives, cost rationalization programs, operating expense reductions, and/or synergies, charges relating to entry into new markets, charges relating to strategic initiatives, and professional and consulting fees incurred in connection with any of the foregoing.

	Year Ended December 31,	
	2020	2019
	(Unaudited)	
Net loss	\$ (26,361)	\$ (66,951)
<i>Adjustments:</i>		
Unusual or non-recurring items (1)	711	1,957
Losses on foreign exchange	52	45
Losses on fair value of derivatives	9,412	13,360
Valuation allowance recorded	—	13,557
Amortization of debt discounts	8,758	11,429
Non-GAAP Consolidated Net (Loss)	(7,428)	(26,603)
<i>Adjustments:</i>		
Depreciation	75,810	84,064
Interest expense, net of amortization of debt issuance costs	81,475	104,809
Income tax expense (benefit)	1,279	2,100
Non-cash charges	—	—
Realized gains or losses on derivative instruments	6,286	2,275
Impairment Charge	—	18,244
Non-GAAP Consolidated Adjusted EBITDA	<u>\$ 157,422</u>	<u>\$ 184,888</u>

- (1) Unusual or non-recurring items consist primarily of costs incurred to cancel the Stamford office lease, which are included in other income / expense for the year ended December 31, 2019. Unusual or non-recurring items for the year ended December 31, 2020 consist primarily of costs incurred in connection with our corporate restructuring, which are included in other income / expense.

Non-GAAP Consolidated Interest Expense

Non-GAAP Consolidated Interest Expense means, for any period, consolidated interest expense as calculated in accordance with GAAP, excluding all debt discount and expense amortized or required to be amortized in the determination of Non-GAAP Consolidated Net Income for such period.

The table below shows the reconciliation of interest expense under U.S. GAAP to Non-GAAP Consolidated Interest Expense as defined in the indenture governing the 2021 Notes to Non-GAAP Consolidated Interest Expense for the year ended December 31, 2020 and 2019 (in thousands):

	Year Ended December 31,	
	2020	2019
	(Unaudited)	
Interest expense	\$ 90,233	\$ 116,238
Less amortization of debt discounts	(8,758)	(11,429)
Non-GAAP Consolidated Interest Expense	<u>\$ 81,475</u>	<u>\$ 104,809</u>

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

We receive all of our revenues in U.S. dollars, and we pay substantially all of our expenses in U.S. dollars. However, we incur some of our expenses in other currencies, primarily the Euro, and are subject to foreign currency exchange risk.

The portion of our business conducted in other currencies could expand in the future, which could increase our exposure to losses arising from currency fluctuations. Because we currently receive all of our revenues in U.S. dollars and pay substantially all of our expenses in U.S. dollars, a change in foreign exchange rates would not have a material impact on our results of operations. When there is a significant exposure to foreign currency, we intend to hedge our position to minimize exposure to such fluctuations.

As of December 31, 2020 and December 31, 2019, we did not have any foreign currency hedge positions.

Counterparty Credit Risk

Credit risk is the risk of loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Our exposure

to credit risk is based, principally, on the collection of rental payments under our aircraft lease agreements. Risks surrounding counterparty performance and credit could ultimately impact the amount and timing of expected cash flows. We seek to mitigate counterparty risk by having a diversified portfolio of counterparties.

Market Risk

Market risk is the risk of loss due to the deterioration of equity securities value in the market. Our exposure to market risk is based on the portfolio of owned securities at any given time.

Interest Rate Risk

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Interest rate risk is highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors, and other factors beyond our control. Increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding proportional increase in rent or cash flows from our leases, unless the leases are also floating rate. We seek to mitigate floating interest rate risk on our debt by entering into fixed-pay interest rate derivatives, as appropriate. Approximately \$90.4 million of our third-party debt instruments have floating interest rates not fixed by a corresponding interest rate swap, and require payments based on a variable interest rate index such as LIBOR. Of our floating-rate debt not fixed by a corresponding interest rate swap, \$90.4 million is secured by aircraft with lease agreements that have floating-rate cash flows. Therefore, changes in LIBOR rates will not have a material impact on our results of operations.

We fund the acquisition of our aircraft primarily with a combination of long-term fixed-rate secured credit facilities or long-term variable-rate secured credit facilities with corresponding interest rate swaps. The terms of these facilities generally match the length of our leases to mitigate our interest rate and refinancing risk. As of December 31, 2020, 93.6% of our debt is either fixed rate or synthetically fixed using interest rate swaps, and 6.3% of our debt is floating rate and secured by aircraft with lease agreements that have floating-rate cash flows. If our interest rates on our floating-rate debt not fixed by a corresponding interest rate swap were to increase by 100 basis points, we would expect to incur additional interest expense on our existing indebtedness as of December 31, 2020 of \$0.9 million on an annualized basis, which would negatively affect our financial condition, cash flows, and results of operations. Our total outstanding debt has a weighted average remaining maturity of 3.5 years as of December 31, 2020.

Liquidity Risk

We will need access to additional capital to refinance our existing debt and meet commitments under future purchase agreements into which we may enter. Our access to additional sources of financing, including debt and equity capital markets, and our ability to repay or finance amounts outstanding under our existing borrowings or to fund acquisitions will depend on a number of factors over which we have limited control, which include general market conditions, the market's view of the quality of our assets, our historical and expected performance, the market's perception of our growth potential, compliance with the terms of our debt agreements, compliance with the terms of our LLC Agreement, interest rate fluctuations, and our current and potential future earnings and cash distributions. There can be no assurance that we will be able to access additional capital on commercially reasonable terms or at all.