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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from ___________ to ____________.

Commission file number 001-38801

AerSale Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**84-3976002** (I.R.S. Employer Identification No.)
255 Alhambra Circle, Suite 435 **Coral Gables, FL** (Address of Principal Executive Offices)	**33134** (Zip Code)

(305) 764-3200
Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.0001 par value per share	ASLE	The Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of Registrant's common stock outstanding as of November 6, 2023 was 51,328,800.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Quarterly Report may constitute forward-looking statements, and include, but are not limited to, changes in the market for our services; changes in applicable laws or regulations; the ability to launch new services and products or to profitably expand into new markets; and expectations of other economic, business and/or competitive factors. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential”, or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including the factors described under the section titled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (“SEC”) on March 7, 2023.

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Unless otherwise stated or the context otherwise requires, references in this Quarterly Report to the “Company,” “AerSale,” “we,” “us,” “our” and similar terms refer to AerSale Corporation (f/k/a Monocle Holdings, Inc.) and its consolidated subsidiaries.

PART I – FINANCIAL INFORMATION

ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

AERSALE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share data and par value)

	September 30, 2023 (Unaudited)	December 31, 2022
Current assets:		
Cash and cash equivalents	$ 3,154	$ 147,188
Accounts receivable, net of allowance for credit losses of $979 and $1,074 as of September 30, 2023 and December 31, 2022	29,721	28,273
Income tax receivable	1,313	-
Inventory:		
Aircraft, airframes, engines, and parts, net	200,807	117,488
Advance vendor payments	35,798	27,585
Deposits, prepaid expenses, and other current assets	15,335	13,022
Total current assets	286,128	333,556
Fixed assets:		
Aircraft and engines held for lease, net	30,096	31,288
Property and equipment, net	25,092	12,638
Inventory:		
Aircraft, airframes, engines, and parts, net	126,018	66,042
Operating lease right-of-use assets	28,445	31,624
Deferred income taxes	13,618	11,287
Deferred financing costs, net	1,589	544
Deferred customer incentives and other assets, net	535	628
Goodwill	19,860	19,860
Other intangible assets, net	22,521	24,112
Total assets	$ 553,902	$ 531,579
Current liabilities:		
Accounts payable	$ 38,954	$ 21,131
Accrued expenses	3,919	8,843
Lessee and customer purchase deposits	6,444	17,085
Current operating lease liabilities	4,578	4,426
Current portion of long-term debt	632	-
Deferred revenue	2,393	1,355
Total current liabilities	56,920	52,840
Revolving credit facility	8,600	-
Long-term debt	7,927	-
Long-term lease deposits	152	152
Long-term operating lease liabilities	25,238	28,283
Maintenance deposit payments and other liabilities	151	668
Warrant liability	3,652	4,656
Total liabilities	102,640	86,599
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.0001 par value. Authorized 200,000,000 shares; issued and outstanding 51,328,800 and 51,189,461 shares as of September 30, 2023 and December 31, 2022	5	5
Additional paid-in capital	315,254	306,141
Retained earnings	136,003	138,834
Total stockholders' equity	451,262	444,980
Total liabilities and stockholders' equity	$ 553,902	$ 531,579

See accompanying notes to condensed consolidated financial statements.

AERSALE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue:				
Products	$ 66,842	$ 16,823	$ 149,960	$ 217,813
Leasing	2,488	7,786	11,396	23,342
Services	23,154	26,390	78,725	72,258
Total revenue	92,484	50,999	240,081	313,413
Cost of sales and operating expenses:				
Cost of products	48,697	12,755	107,176	133,702
Cost of leasing	1,051	1,818	3,253	6,538
Cost of services	19,262	20,937	61,647	56,001
Total cost of sales	69,010	35,510	172,076	196,241
Gross profit	23,474	15,489	68,005	117,172
Selling, general, and administrative expenses	25,403	23,983	77,724	71,252
(Loss) income from operations	(1,929)	(8,494)	(9,719)	45,920
Other income (expenses):				
Interest (expense) income, net	(250)	393	1,178	15
Other income, net	127	45	498	526
Change in fair value of warrant liability	(55)	(2,029)	1,004	(1,881)
Total other (expenses) income	(178)	(1,591)	2,680	(1,340)
(Loss) income before income tax provision	(2,107)	(10,085)	(7,039)	44,580
Income tax benefit (expense)	1,959	1,072	4,208	(9,912)
Net (loss) income	$ (148)	$ (9,013)	$ (2,831)	$ 34,668
(Loss) earnings per share:				
Basic	$ -	$ (0.17)	$ (0.06)	$ 0.67
Diluted	$ -	$ (0.17)	$ (0.07)	$ 0.64
Weighted average shares outstanding:				
Basic	51,321,026	51,745,354	51,252,581	51,707,809
Diluted	51,321,026	51,745,354	51,430,205	54,036,402

See accompanying notes to condensed consolidated financial statements.

AERSALE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
For the three and nine months ended September 30, 2023 and 2022
(in thousands, except share data)
(Unaudited)

	Common stock		Additional	Retained	Total stockholders'
	Amount	Shares	paid-in capital	earnings	equity
Balance at December 31, 2022	$ 5	51,189,461	$ 306,141	$ 138,834	$ 444,980
Share-based compensation	-	-	2,731	-	2,731
Shares issued under the 2020 Equity Incentive Plan	-	31,925	-	-	-
Shares surrendered for tax withholdings on equity awards	-	-	(70)	-	(70)
Net income	-	-	-	5	5
Balance at March 31, 2023	$ 5	51,221,386	$ 308,802	$ 138,839	$ 447,646
Share-based compensation	-	-	3,028	-	3,028
Shares issued under the 2020 Employee Stock Purchase Plan	-	21,551	278	-	278
Shares issued under the 2020 Equity Incentive Plan	-	7,470	-	-	-
Net (loss)	-	-	-	(2,688)	(2,688)
Balance at June 30, 2023	$ 5	51,250,407	$ 312,108	$ 136,151	$ 448,264
Share-based compensation	-	-	3,180	-	3,180
Shares issued under the 2020 Equity Incentive Plan	-	78,393	-	-	-
Shares surrendered for tax withholdings on equity awards	-	-	(34)	-	(34)
Net (loss)	-	-	-	(148)	(148)
Balance at September 30, 2023	$ 5	51,328,800	$ 315,254	$ 136,003	$ 451,262

	Common stock		Additional	Retained	Total stockholders'
	Amount	Shares	paid-in capital	earnings	equity
Balance at December 31, 2021	$ 5	51,673,099	$ 313,901	$ 94,973	$ 408,879
Share-based compensation	-	-	3,755	-	3,755
Shares issued under the 2020 Employee Stock Purchase Plan	-	11,988	125	-	125
Shares issued under the 2020 Equity Incentive Plan	-	2,970	-	-	-
Net income	-	-	-	17,226	17,226
Balance at March 31, 2022	$ 5	51,688,057	$ 317,781	$ 112,199	$ 429,985
Share-based compensation	-	-	3,917	-	3,917
Shares issued under the 2020 Employee Stock Purchase Plan	-	18,111	220	-	220
Net income	-	-	-	26,455	26,455
Balance at June 30, 2022	$ 5	51,706,168	$ 321,918	$ 138,654	$ 460,577
Share-based compensation	-	-	4,357	-	4,357
Restricted Stock Units ("RSUs") vested and settled	-	20,630	-	-	-
Shares issued upon exercise of warrants	-	47,867	-	-	-
Net (loss)	-	-	-	(9,013)	(9,013)
Balance at September 30, 2022	$ 5	51,774,665	$ 326,275	$ 129,641	$ 455,921

See accompanying notes to condensed consolidated financial statements.

AERSALE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net (loss) income	$ (2,831)	$ 34,668
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization	7,585	8,589
Amortization of debt issuance costs	316	340
Amortization of operating lease assets	286	-
Inventory reserve	1,255	2,010
Impairment of aircraft held for lease	-	857
Provision for credit losses	-	(379)
Deferred income taxes	(2,331)	(2,655)
Change in fair value of warrant liability	(1,004)	1,881
Share-based compensation	8,939	12,029
Changes in operating assets and liabilities:		
Deferred financing costs	(1,361)	-
Accounts receivable	(1,447)	3,730
Income tax receivable	(1,313)	-
Inventory	(168,313)	(26,441)
Deposits, prepaid expenses, and other current assets	(2,313)	(747)
Deferred customer incentives and other assets	93	661
Advance vendor payments	(8,212)	(10,097)
Accounts payable	17,824	2,082
Income tax payable	-	(2,205)
Accrued expenses	(5,015)	(594)
Deferred revenue	1,038	664
Lessee and customer purchase deposits	(10,641)	(24,996)
Other liabilities	(606)	(1,779)
Net cash (used in) operating activities	(168,051)	(2,382)
Cash flows from investing activities:		
Proceeds from sale of assets	14,450	37,107
Acquisition of aircraft and engines held for lease, including capitalized cost	-	(6,945)
Purchase of property and equipment	(7,766)	(6,935)
Net cash provided by investing activities	6,684	23,227
Cash flows from financing activities:		
Proceeds from long-term debt	8,559	-
Proceeds from Revolving Credit Facility	26,100	-
Repayments of Revolving Credit Facility	(17,500)	-
Taxes paid related to net share settlement of equity awards	(104)	-
Proceeds from the issuance of Employee Stock Purchase Plan shares	278	345
Net cash provided by financing activities	17,333	345
(Decrease) increase in cash and cash equivalents	(144,034)	21,190
Cash and cash equivalents, beginning of period	147,188	130,188
Cash and cash equivalents, end of period	$ 3,154	$ 151,378
Supplemental disclosure of cash activities		
Income tax payments, net	1,306	14,637
Interest paid	575	856
Supplemental disclosure of noncash investing activities		
Reclassification of aircraft and aircraft engines inventory to (from) aircraft and engine held for lease, net	9,312	(25,025)
Reclassification of customer purchase deposits to sale of assets	-	12,500

See accompanying notes to condensed consolidated financial statements.

AERSALE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2023

NOTE A — DESCRIPTION OF THE BUSINESS

Organization

Monocle Acquisition Corporation ("Monocle") was initially formed on August 20, 2018 for the purpose of effecting a merger, share exchange, asset acquisition, stock purchase, recapitalization, reorganization or similar business combination with one or more businesses.

On December 22, 2020 (the "Closing Date"), Monocle consummated the previously announced business combination pursuant to that certain Amended and Restated Agreement and Plan of Merger, dated September 8, 2020 (the "Merger Agreement"), by and among Monocle, AerSale Corporation (f/k/a Monocle Holdings Inc.), a Delaware corporation (the "Company"), AerSale Aviation, Inc. (f/k/a AerSale Corp.), a Delaware corporation ("AerSale Aviation"), Monocle Merger Sub 1 Inc., a Delaware corporation ("Merger Sub 1"), Monocle Merger Sub 2 LLC, a Delaware limited liability company ("Merger Sub 2"), and Leonard Green & Partners, L.P., a Delaware limited partnership, solely in its capacity as the initial Holder Representative (as defined in the Merger Agreement). The transactions contemplated by the Merger Agreement are referred to herein as the "Merger" or the "Business Combination" and in connection therewith, Monocle merged with and into us, whereby we survived the Merger and became the successor issuer to Monocle by operation of Rule 12g-3 under the Securities Exchange Act, as amended.

Upon the consummation of the Merger: (a) Merger Sub 1 was merged with and into Monocle, with Monocle surviving the Merger as a wholly-owned direct subsidiary of the Company (the "First Merger"), and (b) Merger Sub 2 was merged with and into AerSale Aviation, with AerSale Aviation surviving the Merger as a wholly-owned indirect subsidiary of the Company (the "Second Merger"). In connection with the closing of the Business Combination (the "Closing"), AerSale Aviation changed its name from "AerSale Corp." to "AerSale Aviation, Inc." and the Company changed its name from "Monocle Holdings Inc." to "AerSale Corporation." Immediately following the Merger, the Company contributed all of its ownership in Monocle to AerSale Aviation which continued as a wholly owned subsidiary of the Company.

The Company's corporate headquarters is based in Miami, Florida, with additional offices, hangars, and warehouses located globally.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared from the books and records of the Company in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") for interim financial information and Rule 10-01 of Regulation S-X promulgated by the U.S. Securities and Exchange Commission (the "SEC"), which permits reduced disclosures for interim periods. Although these interim consolidated financial statements do not include all of the information and footnotes required for complete annual consolidated financial statements, management believes all adjustments, consisting only of normal recurring adjustments, and disclosures necessary for a fair presentation of the accompanying condensed consolidated balance sheets, statements of operations, stockholders' equity, and cash flows have been made. Unaudited interim results of operations and cash flows are not necessarily indicative of the results that may be expected for the full year. Unaudited interim condensed consolidated financial statements and footnotes should be read in conjunction with the audited consolidated financial statements and footnotes included in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K"), wherein a more complete discussion of significant accounting policies and certain other information can be found.

Revenue Recognition

Products — Used Serviceable Material ("USM") Sales

Revenues from sales of USM are measured based on consideration specified in a contract with a customer, and excludes any sales commissions and taxes collected and remitted to government agencies. We recognize revenue when we satisfy a performance obligation by transferring control over a product to a customer. The parts are sold at a fixed price with no right of return. In determining the performance obligation, management has identified the promise in the contract to be the shipment of the spare parts to the customer. Title passes to the buyer when the goods are shipped, and the buyer is responsible for any loss in transit and the Company has a legal right to payment for the spare parts once shipped. We generally sell our USM products under standard 30-day payment terms, subject to certain exceptions. Customers neither have the right to return products nor do they have the right to extended financing. The Company has determined that physical acceptance of the spare parts to be a formality in accordance with Accounting Standards Codification ("ASC") 606 – Revenue from Contracts with Customers ("ASC 606").

Spare parts revenue is based on a set price for a set number of parts as defined in the purchase order. The performance obligation is completed once the parts have shipped and as a result, all of the transaction price is allocated to that performance obligation. The Company has determined that it is appropriate to recognize spare parts sales at a point in time (i.e., the date the parts are shipped) in accordance with ASC 606.

Products — Whole Asset Sales

Revenues from whole asset sales are measured based on consideration specified in the contract with the customer. The Company and customer enter into an agreement which outlines the place and date of sale, purchase price, condition of the whole asset, bill of sale and the assignment of rights and warranties from the Company to the customer. The Company has identified the transfer of the whole asset as the performance obligation. The transaction price is set at a fixed dollar amount per fixed quantity (number of whole assets) and is explicitly stated in each contract. Whole asset sales revenue is based on a set price for a set number of assets, which is allocated to the performance obligation discussed above, in its entirety. The Company has determined the date of transfer to the customer is the date the customer obtains control over the asset and would cause the revenue recognition. Payment is required in full upon customers' acceptance of the whole asset on the date of the transfer, unless the Company extends credit terms to customers it deems creditworthy.

Leasing Revenues

The Company leases aircraft and engines ("Flight Equipment") under operating leases that contain monthly base rent and reports rental income straight line over the life of the lease as it is earned. Additionally, the Company's leases provide for supplemental rent, which is calculated based on actual hours or cycles of utilization and, for certain components, based on the amount of time until maintenance of that component is required. In certain leases, the Company records supplemental rent paid by the lessees as maintenance deposit payments and other liabilities in recognition of the Company's contractual commitment to reimburse qualifying maintenance. Reimbursements to the lessees upon receipt of evidence of qualifying maintenance work are charged against the existing maintenance deposit payment liabilities. In leases where the Company is responsible for performing certain repairs or replacement of aircraft components or engines, supplemental rent is recorded as revenue in the period earned. In the event of premature lease termination or lessee default on the lease terms, revenue recognition will be discontinued when outstanding balances are beyond the customers' deposits held. Flight Equipment leases are billed in accordance with the lease agreement and invoices are due upon receipt.

Service Revenues

Service revenues are recognized as performance obligations are fulfilled and the benefits are transferred to the customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our service contract with the customer is considered one performance obligation as it includes factors such as the good or service being provided is significantly integrated with other promises in the contract, the service provided significantly modifies or customizes the other good or service or the goods or services are highly interdependent or interrelated with each other. If the contract has more than one performance obligation, the Company determines the standalone price of each distinct good or service underlying each performance obligation and allocates the transaction price based on their relative standalone selling prices. The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

For most service contracts, our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. We receive payments from our customers based on billing schedules or other terms as written in our contracts.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. Under most of our maintenance, repair and overhaul ("MRO") contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered, fair compensation for work performed, the costs of settling and paying other claims and a reasonable profit on the costs incurred or committed.

Changes in estimates and assumptions related to our arrangements accounted for using the input method based on labor hours are recorded using the cumulative catchup method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide MRO services.

We have elected to use certain practical expedients permitted under ASC 606. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales in our Condensed Consolidated Statements of Operations, and are not considered a performance obligation to our customers. Our reported revenue on our Condensed Consolidated Statements of Operations is net of any sales or related non-income taxes.

New Accounting Pronouncements Adopted

There have been no recent accounting pronouncements, changes in accounting pronouncements, or recently adopted accounting guidance during the nine months ended September 30, 2023 that are of significance or potential significance to us.

Payroll Support Programs

In connection with the financial assistance the Company received under the Payroll Support Program, the Company was required to comply with certain provisions of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), including the requirement that funds provided pursuant to the Payroll Support Program be used exclusively for the continuation of payment of employee wages, salaries and benefits and the requirement against involuntary terminations and furloughs and reductions in employee pay rates and benefits from the signing date of the Payroll Support Program agreement through September 30, 2021. The agreement also required the Company to issue a recall to any employee who was terminated or furloughed between October 1, 2020 and March 4, 2021 and enable such employee to return to employment. In addition, the Company was subject to provisions prohibiting the repurchase of common stock and the payment of common stock dividends through September 30, 2022, and limited the payment of certain employees' compensation, which lapsed on April 1, 2023. If the Company does not comply with these provisions, it may be required to reimburse up to 100% of any previously received relief funds. As of September 30, 2023, we were in compliance with all applicable provisions of the CARES Act, Payroll Support Program and American Rescue Plan Act of 2021.

NOTE C — SIGNIFICANT RISKS AND UNCERTAINTIES

Impact of Ukraine Conflict and Russia Sanctions

In February of 2022, Russia invaded Ukraine and is still engaged in an active conflict against the country. As a result, governments in the European Union, the United States, the United Kingdom, Switzerland, and other countries have enacted sanctions against Russia and Russian interests. These sanctions include controls on the export and re-export of certain goods, supplies, and technologies, supply of aircraft and aircraft components to Russian persons or for use in Russia, subject to certain wind-down periods, and the imposition of restrictions on doing business with certain state-owned Russian customers and other investments and business activities in Russia. In order to comply with these sanctions, we ceased pursuing future business in Russia and terminated three leases in 2022 with operators doing business in Russia, successfully recovering two aircraft with one engine still unrecovered. Due to continued uncertainty in the ability to recover this engine from Russia or to collect insurance coverage, we impaired this asset during the second quarter of 2022. Although the current sanctions prohibit the continuation of certain business activities, the three leases referenced were contractually scheduled to expire in 2022 and therefore did not have a material impact on our business. While it is difficult to predict the short or long term implications of this conflict and sanctions on the global economy and the aviation industry, we intend to fully comply with all applicable sanctions and embargoes, and do not expect the current situation will have a material adverse effect on our results of operations.

Emerging Military Conflict in Israel

On October 7, 2023, Hamas militants launched an extensive military operation into Israel's southern border from the Gaza Strip and conducted a series of attacks, followed by an invasion of Israeli territory by land, air and sea directed at civilian and military targets. On October 8, 2023 Israel formally declared war on Hamas after their deadly attack. The intensity and duration of Israel's current war against Hamas is difficult to predict, as are such war's global economic impact and impact on the Company's business and operations and on the businesses and operations of the Company's suppliers, customers and other third parties with which the Company conducts business. Although we do not expect the current situation will have a material adverse effect on our results of operations, our supplier of most of the components in our Enhanced Flight Vision System "AerAware" and our ERP supplier are both based in Israel.

NOTE D — REVENUE

The timing of revenue recognition, customer billings and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of unbilled receivables or costs incurred where revenue recognized over time exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Contract assets are as follows (in thousands):

	September 30, 2023	December 31, 2022	Change
Contract assets	$ 7,007	$ 7,277	$ (270)

Contract assets are reported within deposits, prepaid expenses, and other current assets on our Condensed Consolidated Balance Sheets. Changes in contract assets primarily result from the timing difference between the performance of services. Contract liabilities are reported as deferred revenue on our Condensed Consolidated Balance Sheets and amounted to $1.4 million as of December 31, 2022, of which $1.1 million was related to contract liabilities for services to be performed. For the nine months ended September 30, 2023, the Company recognized as revenue the full amount of contract liabilities included in the beginning balance for services performed as the timing between customer payments and our performance of the services is generally no longer than six months. No such revenue was recognized for the three months ended September 30, 2023.

Disaggregation of Revenue

The Company reports revenue by segment. The following tables present revenue by segment, as well as a reconciliation to total revenue for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30, 2023			Nine Months Ended September 30, 2023		
	Asset Management Solutions	Tech Ops	Total Revenues	Asset Management Solutions	TechOps	Total Revenues
USM	$ 17,754	$ 3,884	$ 21,638	$ 49,348	$ 9,709	$ 59,057
Whole asset sales	44,812	-	44,812	89,811	218	90,029
Engineered solutions	-	392	392	-	874	874
Total products	62,566	4,276	66,842	139,159	10,801	149,960
Leasing	2,488	-	2,488	11,396	-	11,396
Services	-	23,154	23,154	-	78,725	78,725
Total revenues	$ 65,054	$ 27,430	$ 92,484	$ 150,555	$ 89,526	$ 240,081

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	Asset Management Solutions	Tech Ops	Total Revenues	Asset Management Solutions	TechOps	Total Revenues
USM	$ 10,128	$ 3,455	$ 13,583	$ 38,869	$ 5,209	$ 44,078
Whole asset sales	2,677	-	2,677	147,451	23,605	171,056
Engineered solutions	-	563	563	-	2,679	2,679
Total products	12,805	4,018	16,823	186,320	31,493	217,813
Leasing	7,786	-	7,786	23,342	-	23,342
Services	-	26,390	26,390	-	72,258	72,258
Total revenues	$ 20,591	$ 30,408	$ 50,999	$ 209,662	$ 103,751	$ 313,413

NOTE E — INVENTORY

Following are the major classes of inventory as of the below dates (in thousands):

	September 30, 2023	December 31, 2022
Used serviceable materials	$ 91,680	$ 73,827
Work-in-process	20,113	16,659
Whole assets	215,032	93,044
	$ 326,825	183,530
Less short term	(200,807)	(117,488)
Long term	$ 126,018	$ 66,042

The Company recorded inventory scrap loss reserves of $0.5 million and $1.3 million for the three and nine months ended September 30, 2023, respectively.

The Company did not record an inventory reserve for the three and nine months ended September 30, 2023, and recorded an inventory reserve $1.8 million for the nine months ended September 30, 2022, due to the Company's evaluation of the inventory's net realizable value. Additions to inventory reserves are included in cost of products in the accompanying Condensed Consolidated Statements of Operations.

NOTE F — INTANGIBLE ASSETS

In accordance with ASC 350, Intangibles — Goodwill and Other ("ASC 350"), goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. The Company reviews and evaluates our goodwill and indefinite life intangible assets for potential impairment at a minimum annually or more frequently if circumstances indicate that impairment is possible.

The Company determined the fair value of assets acquired and liabilities assumed using a variety of methods. An income approach based on discounted cash flows was used to determine the values of our trademarks, certifications, customer relationships and Federal Aviation Administration ("FAA") certificates. The assumptions the Company used to estimate the fair value of our reporting units are based on historical performance, as well as forecasts used in our current business plan and require considerable management judgment.

The Company's goodwill and intangible assets as defined by ASC 350 is related to our subsidiaries, AerSale Component Solutions (d/b/a AerSale Landing Gear Solutions) ("ALGS"), Avborne Component Solutions (d/b/a AerSale Component Solutions) ("ACS"), and Aircraft Composite Technologies ("ACT"), which are included in the TechOps segment, as well as Qwest, which is included under the Asset Management Solutions segment.

Goodwill and other intangibles as of the below dates are (in thousands):

	September 30, 2023	December 31, 2022
Qwest:		
FAA Certifications	$ 724	$ 724
Goodwill	13,416	13,416
ALGS:		
FAA Certifications	710	710
Goodwill	379	379
ACS:		
Trademarks	600	600
FAA Certifications	7,300	7,300
Goodwill	63	63
ACT:		
Trademarks	200	200
FAA Certificates	796	796
Goodwill	6,002	6,002
Total intangible assets with indefinite lives	$ 30,190	$ 30,190

The Company performed its annual quantitative impairment analysis on the indefinite lived intangible assets as of July 1, 2023 and 2022 and concluded there was no impairment.

Intangible assets with definite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets with definite lives as of the below dates are as follows (in thousands):

	Useful Life In Years	September 30, 2023	December 31, 2022
Qwest:			
Customer relationships	10	$ 5,408	$ 6,136
ALGS:			
Customer relationships	10	35	50
ACS:			
Customer relationships	10	1,085	1,243
ACT:			
Customer relationships	10	5,663	6,353
Total intangible assets with definite lives		$ 12,191	$ 13,782

Total amortization expense amounted to $0.5 million for the three months ended September 30, 2023 and 2022. Total amortization expense amounted to $1.6 million for the nine months ended September 30, 2023 and 2022. Accumulated amortization amounted to $8.8 million and $7.2 million as of September 30, 2023 and December 31, 2022, respectively.

Other intangible assets are reviewed at least annually or more frequently if any event or change in circumstance indicates that an impairment may have occurred.

NOTE G — PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of the below dates consisted of the following (in thousands):

	Useful Life In Years	September 30, 2023	December 31, 2022
Tooling and equipment	7 - 15	$ 15,791	$ 14,649
Furniture and other equipment	5	12,030	10,090
Computer software	5	2,244	2,152
Leasehold improvements	3 - 10	13,085	7,390
Equipment under capital lease	5	192	192
Flight equipment held for R&D	2	7,784	-
		51,126	34,473
Less accumulated depreciation		(26,034)	(21,835)
		$ 25,092	$ 12,638

Depreciation expense, which includes amortization of equipment under capital lease, amounted to $0.9 million and $0.6 million for the three months ended September 30, 2023 and 2022, respectively. Depreciation expense, which includes amortization of equipment under capital lease, amounted to $2.7 million and $1.6 million for the nine months ended September 30, 2023 and 2022, respectively.

NOTE H — LEASE RENTAL REVENUES AND AIRCRAFT AND ENGINES HELD FOR LEASE

Aircraft and engines held for lease, net, as of the below dates consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Aircraft and engines held for lease	$ 64,430	$ 83,902
Less accumulated depreciation	(34,334)	(52,614)
	$ 30,096	$ 31,288

Total depreciation expense amounted to $1.1 million and $1.7 million for the three months ended September 30, 2023 and 2022, respectively. Total depreciation expense amounted to $3.3 million and $5.4 million for the nine months ended September 30, 2023 and 2022, respectively, and is included in cost of leasing in the Condensed Consolidated Statements of Operations.

The Company did not record any impairment of Flight Equipment for the three and nine months ended September 30, 2023. The Company recorded impairment of Flight Equipment in the amount of $0.9 million for the nine months ended September 30, 2022, which is included in cost of leasing in the Condensed Consolidated Statements of Operations.

Supplemental rents recognized as revenue totaled $0.9 million and $3.6 million for the three months ended September 30, 2023 and 2022, respectively. Supplemental rents recognized as revenue totaled $5.4 million and $10.1 million for the nine months ended September 30, 2023 and 2022, respectively.

The Company's current operating lease agreements for leased Flight Equipment expire over the next two years. The amounts in the following table are based upon the assumption that Flight Equipment under operating leases will remain leased for the length of time specified by the respective lease agreements. Minimum future annual lease rentals contracted to be received under existing operating leases of Flight Equipment were as follows (in thousands):

Year ending December 31:	
Remainder of 2023	$ 1,256
2024	1,010
Total minimum lease payments	$ 2,266

NOTE I — ACCRUED EXPENSES

The following is a summary of the components of accrued expenses as of the below dates (in thousands):

	September 30, 2023	December 31, 2022
Accrued compensation and related benefits	$ 1,055	$ 6,040
Accrued legal fees	686	716
Commission fee accrual	169	251
Accrued federal, state and local taxes and fees	188	142
Other	1,821	1,694
	$ 3,919	$ 8,843

NOTE J – WARRANT LIABILITY

Warrants to purchase a total of 623,834 shares of the Company's common stock were outstanding as of September 30, 2023 and December 31, 2022. 750,000 warrants were issued to founders in a private placement (the "Private Warrants"). Each of the Private Warrants entitles the registered holder to purchase one share of the Company's common stock at a price of $11.50 per share, subject to adjustment. During 2022, a private warrant holder initiated a cashless exercise of 126,166 warrants for the purchase of shares of common stock at an exercise price of $11.50 per share (remaining term on exercised warrants at September 30, 2023 was 2.2 years) and we issued 47,867 shares of common stock based on the fair value at the date of exercise of $18.5306 per share. The remaining Private Warrants will expire at 5:00 p.m., New York City time, on December 22, 2025, or earlier upon redemption or liquidation.

The Private Warrants include provisions that affect the settlement amount. Such variables are outside of those used to determine the fair value of a fixed-for-fixed instrument, and as such, the Private Warrants do not meet the criteria for equity treatment under guidance contained in ASC Topic 815, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock." The Company classifies the Private Warrants as a liability at their fair value subject to re-measurement at each balance sheet date and adjusted at each reporting period until exercised or expired, and any change in fair value is recognized in the Company's Condensed Consolidated Statements of Operations. The fair value of the Private Warrants is determined using the Black-Scholes option pricing model. The following table represents the assumptions used in determining the fair value of the Private Warrants as of September 30, 2023:

	September 30, 2023
Risk-free interest rate	4.60%
Expected volatility of common stock	41.48%
Dividend yield	-
Expected option term in years	2.2

The significant assumptions utilized in the Black-Scholes calculation consist of interest rate for U.S. Treasury Bonds, as published by the U.S. Federal Reserve, and expected volatility estimated using historical daily volatility of guideline public companies.

The warrant liability adjustment recognized in the Company's Condensed Consolidated Statements of Operations related to the change in fair value of warrant liability was $0.1 million expense and $1.0 million income during the three and nine months ended September 30, 2023, respectively. The warrant liability expense recognized in the Company's Condensed Consolidated Statement of Operations related to the change in fair value of warrant liability was $2.0 million and $1.9 million during the three and nine months ended September 30, 2022, respectively.

NOTE K — EARNINGS PER SHARE

The computation of basic and diluted earnings per share ("EPS") is based on the weighted average number of common shares outstanding during each period.

The following table provides a reconciliation of the computation for basic and diluted earnings per share for the three and nine months ended September 30, 2023 and 2022, respectively (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net (loss) income	$ (148)	$ (9,013)	$ (2,831)	$ 34,668
Change in fair value of warrant liability	-	-	(1,004)	-
Net (loss) income for EPS - Diluted	$ (148)	$ (9,013)	$ (3,835)	$ 34,668
Weighted-average number of shares outstanding - basic	51,321,026	51,745,354	51,252,581	51,707,809
Additional shares from assumed stock-settled restricted stock units	-	-	-	2,326,858
Additional shares from assumed exercise of warrants	-	-	177,624	180
Additional shares issued under the employee stock purchase plan	-	-	-	1,555
Weighted-average number of shares outstanding - diluted	51,321,026	51,745,354	51,430,205	54,036,402
(Loss) earnings per share – basic:	$ -	$ (0.17)	$ (0.06)	$ 0.67
(Loss) earnings per share – diluted:	$ -	$ (0.17)	$ (0.07)	$ 0.64
Anti-dilutive shares/units excluded from earnings per share - diluted:				
Additional shares from assumed exercise of warrants	126,154	188,150	-	179,695
Additional shares from assumed stock-settled restricted stock units	2,007,217	2,415,638	1,869,782	-
Additional shares purchasable for employee stock purchase plan	6,542	4,626	1,043	-

NOTE L — BUSINESS SEGMENTS

Consistent with how our chief operating decision maker (Chairman and Chief Executive Officer) evaluates performance and utilizes gross profit as a profitability measure, the Company reports its activities in two business segments:

- Asset Management Solutions — comprised of activities to extract value from strategic asset acquisitions through leasing, trading, or disassembling for product sales.

- TechOps — comprised of MRO activities and product sales of internally developed engineered solutions and other serviceable products.

The Asset Management Solutions segment activities include monetization of assets through the lease or sale of whole assets, or through disassembly activities in support of our USM-related activities. Our monetizing services have been developed to maximize returns on mid-life Flight Equipment throughout their operating life, in conjunction with realizing the highest residual value of Flight Equipment at its retirement.

The TechOps segment consists of aftermarket support and services businesses that provide maintenance support for aircraft and aircraft components, and sale of engineered solutions. Our MRO business also engages in longer term projects such as aircraft modifications, cargo conversions of wide-body aircraft, and aircraft storage. The segment also includes MRO of landing gear, thrust reversers, and other components. Cost of sales consists principally of the cost of product, direct labor, and overhead. Our engineered solutions revenue consists of sales of products internally developed as permitted by Supplemental Type Certificates issued by the FAA. These products are proprietary in nature and function as non-original equipment manufacturer solutions to airworthiness directives and other technical challenges for operators. In order to develop these products, the Company engages in research and development ("R&D") activities, which are expensed as incurred. The TechOps segment also engages in the repair and sale of USM inventory for which it has the overhaul capabilities and relationships to sell.

Gross profit is calculated by subtracting cost of sales from revenue. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around the differences in products and services. The segment reporting excludes the allocation of selling, general and administrative expenses, interest income (expense) and income tax expense.

Selected financial information for each segment for the three and nine months ended September 30, 2023 and 2022 is as follows (in thousands):

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenue				
Asset Management Solutions				
Aircraft	$ 20,888	$ 6,503	$ 57,836	$ 78,343
Engine	44,166	14,088	92,719	131,319
	65,054	20,591	150,555	209,662
TechOps				
MRO services	23,154	26,390	78,725	72,258
Product sales	4,276	4,018	10,583	7,888
Whole asset sales	-	-	218	23,605
	27,430	30,408	89,526	103,751
Total	$ 92,484	$ 50,999	$ 240,081	$ 313,413

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Gross profit				
Asset Management Solutions				
Aircraft	$ 6,656	$ 2,480	$ 16,871	$ 29,779
Engine	11,881	6,210	31,080	60,439
	18,537	8,690	47,951	90,218
TechOps				
MRO services	3,892	5,453	17,078	16,257
Product sales	1,045	1,346	2,600	3,174
Whole asset sales	-	-	376	7,523
	4,937	6,799	20,054	26,954
Total	$ 23,474	$ 15,489	$ 68,005	$ 117,172

	September 30, 2023	December 31, 2022
Total assets		
Asset Management Solutions	$ 382,624	$ 233,034
Tech Ops	156,672	141,406
Corporate	14,606	157,139
	$ 553,902	$ 531,579

The following table reconciles segment gross profit to (loss) income before income tax provision for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Segment gross profit	$ 23,474	$ 15,489	$ 68,005	$ 117,172
Selling, general and administrative expenses	(25,403)	(23,983)	(77,724)	(71,252)
Interest (expense) income, net	(250)	393	1,178	15
Other income, net	127	45	498	526
Change in fair value of warrant liability	(55)	(2,029)	1,004	(1,881)
(Loss) income before income tax provision	$ (2,107)	$ (10,085)	$ (7,039)	$ 44,580

Intersegment sales include amounts invoiced by a segment for work performed for another segment. Amounts are based on actual work performed or products sold and agreed-upon pricing which is intended to be reflective of the arm’s length value of the contribution made by the supplying business segment. All intersegment transactions have been eliminated upon consolidation. Intersegment revenue for the three and nine months ended September 30, 2023 and 2022, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Asset Management Solutions	$ 168	$ 1,705	$ 1,241	$ 4,886
TechOps	3,761	3,168	13,952	15,771
Total intersegment revenues	$ 3,929	$ 4,873	$ 15,193	$ 20,657

NOTE M— FINANCING ARRANGEMENTS

$180.0 million Wells Fargo Senior Secured Revolving Credit Facility

On July 20, 2018, the Company and other subsidiary borrowers signatory thereto entered into a secured amended and restated revolving credit agreement (as amended, the “Revolving Credit Agreement”), which provides for a $150.0 million aggregate amount of revolver commitments subject to borrowing base limitations. Effective July 25, 2023, the Company amended the Revolving Credit Agreement to increase the maximum commitments thereunder to $180.0 million aggregate amount, expandable to $200.0 million, subject to borrowing base limitations, and to extend the maturity date to July 24, 2028.

The interest rate applicable to loans outstanding under the Revolving Credit Agreement is a floating rate of interest per annum of Secured Overnight Financing Rate (“SOFR”) plus a margin of 2.75%. The applicable interest rate as of September 30, 2023 was 9.75%.

The Company’s ability to borrow under the Revolving Credit Agreement is subject to ongoing compliance by the Company and the borrowers with various customary affirmative and negative covenants. The Revolving Credit Agreement requires the Company and borrowers to meet certain financial and nonfinancial covenants. The Company was in compliance with these covenants as of September 30, 2023.

During the three and nine months ended September 30, 2023, the Company borrowed $26.1 million, and made repayments of $17.5 million under the Revolving Credit Agreement. As of September 30, 2023, the balance outstanding under this facility was $8.6 million, and the Company had $149.0 million of availability.

Interest expense on the Revolving Credit Agreement for the three and nine months ended September 30, 2023 was $0.1 million.

$10.0 million Synovus Property and Equipment Revolving Term Loan

On June 30, 2023, the Company entered into a Property and Equipment Revolving Term Loan ("Equipment Loan") with a total advance commitment of $10.0 million for the purpose of financing capital expenditures on property and equipment. Once the total advance commitment is reached or commencing on June 30, 2024, whichever comes first, this facility will become a term loan with a maturity date of June 30, 2027. This loan is collateralized by the property and equipment it finances and requires interest only payment until converted to a term loan, at which point, principal and interest payments will be required.

The Equipment Loan bears interest at a rate per annum equal to one-month SOFR + 3.50%, which will be adjusted monthly. The effective rate on this facility as of September 30, 2023 was 8.83%.

The Equipment Loan is subject to ongoing compliance by the Company in the form of various customary affirmative and negative covenants, as well as certain financial covenants. The Company was in compliance with these covenants as of September 30, 2023.

During the nine months ended September 30, 2023 the Company borrowed $8.6 million under this facility, which remained outstanding as of September 30, 2023.

Interest expense on the Equipment Loan for the three and nine months ended September 30, 2023 was 0.2 million.

The schedule of payments on the Equipment Loan as of September 30, 2023 is as follows (in thousand):

Year ending December 31:		
2023	$	-
2024		1,278
2025		2,727
2026		2,971
2027		1,583
Total payments	$	8,559

NOTE N — STOCKHOLDERS' EQUITY

Common Stock

The Company's common stock, $0.0001 par value, consists of 200,000,000 authorized shares, of which 51,328,800 and 51,189,461 shares were issued and outstanding as of September 30, 2023 and December 31, 2022, respectively.

2020 Equity Incentive Plan

The Company maintains a 2020 Equity Incentive Plan (the "2020 Plan") and has registered 6,200,000 shares of common stock issuable under the 2020 Plan. The 2020 Plan authorizes discretionary grants of incentive stock options to employees of the Company and its qualifying subsidiaries. The 2020 Plan also authorizes discretionary grants of non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents or other equity or cash-based awards to employees and consultants of the Company and its subsidiaries and to members of the Board of Directors of the Company. To the extent that an award under the 2020 Plan expires, is cancelled, forfeited, terminated, settled in cash or is otherwise settled without issuance of the full number of shares to which it relates, will become or again be available for awards under the 2020 Plan. The 2020 Plan is administered by the Company's Compensation Committee. The Compensation Committee has complete, full and final authority to: designate participants; determine the types of awards to be granted; determine the terms of awards; interpret and administer the 2020 Plan and any agreements and awards thereunder.

Restricted stock unit activity under the 2020 Plan for the nine months ended September 30, 2023 and 2022 was as follows:

	Amount	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2022	1,374,383	$ 10.72	$ 2.88
Granted	359,036	15.01	2.30
Forfeited	(33,526)	14.86	2.10
Vested	(121,737)	14.28	-
Outstanding September 30, 2023	1,578,156	$ 11.34	$ 2.99

	Amount	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2021	1,669,300	$ 10.10	$ 2.02
Granted	278,473	14.80	2.49
Forfeited	(11,048)	13.39	2.20
Vested	(23,643)	12.24	-
Outstanding September 30, 2022	1,913,082	$ 10.74	$ 2.11

The Company's restricted stock units include 1,073,736 performance-based awards that have vesting provisions subject to both time vesting and the achievement of certain performance milestones at 100% and 200% vesting targets. Effective March 31, 2022, the performance-based awards granted in 2021 (the "2021 PSUs") met the performance metric at the maximum level of 200% with one-third vested on December 22, 2022 and two-thirds vesting on December 22, 2023. For the three and nine months ended September 30, 2023, the Company recognized share-based compensation expense for the 2021 PSUs of $2.0 million and $6.0 million, respectively, given the achievement of the 200% performance milestone. For the three and nine months ended September 30, 2022, the Company recognized share-based compensation expense for the 2021 PSUs of $3.6 million and $10.6 million, respectively.

For the restricted stock unit awards granted under the 2020 Plan containing both service and performance conditions, the Company recognizes compensation expense when the awards are considered probable of vesting. Restricted stock units are considered granted, and the service inception date begins, when a mutual understanding of the key terms and conditions between the Company and the employee have been established. The fair value of these awards is determined based on the closing price of the shares on the grant date. The probability of restricted share awards granted with future performance conditions is evaluated at each reporting period and compensation expense is adjusted based on the probability assessment.

2020 Employee Stock Purchase Plan

The Company also maintains the Aersale Corporation 2020 Employee Stock Purchase Plan (the "ESPP") and has registered 500,000 shares of common stock issuable under the ESPP. During the nine-months ended September 30, 2023 and 2022, the Company issued 21,551 and 30,099 shares, respectively, pursuant to the ESPP.

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

The following discussion and analysis provides information that our management believes is relevant to an assessment and understanding of our condensed consolidated results of operations and financial condition. You should read the following management's discussion and analysis together with the financial statements and related notes including Part II, Item 7 of AerSale's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K"). This discussion contains forward-looking statements about AerSale's business, operations and industry that involve risks and uncertainties, such as statements regarding AerSale's plans, objectives, expectations and intentions. AerSale's future results and financial condition may differ materially from those currently anticipated because of the factors described in the section titled "Risk Factors" in the 2022 Form 10-K.

The Company

We operate as a platform for serving the commercial aviation aftermarket sector. Our top executives have on average over 30 years of experience in aircraft and engine ("Flight Equipment") management, sales and maintenance services, and are supported by an experienced management team. We have established a global purpose built and fully integrated aviation company focused on providing products and services that maximize the value of Flight Equipment in the middle to end of its operating life cycle.

We are a worldwide provider of aftermarket commercial aircraft, engines, and their parts to passenger and cargo airlines, leasing companies, original equipment manufacturers ("OEM"), government and defense contractors, and maintenance, repair and overhaul ("MRO") service providers. We report our activities in two business segments: Asset Management Solutions, comprised of activities that extract value from strategic asset acquisitions either as whole assets or by disassembling for used serviceable material ("USM"), and TechOps, comprised of MRO activities for aircraft and their components, sales of internally developed engineered solutions and other serviceable products.

We focus on mid-life Flight Equipment and monetize them through our Asset Management Solutions segment. Asset Management Solutions' activities include monetization of assets through the lease or sale of whole assets, or through disassembly activities in support of our USM-related activities. Our monetizing services have been developed to maximize returns on mid-life Flight Equipment throughout their operating life, in conjunction with realizing the highest residual value of Flight Equipment at its retirement. We accomplish this by utilizing deep market and technical knowledge related to the management of Flight Equipment sales, leasing and MRO services. To extract value from the remaining flight time on whole assets, we provide flexible short-term (generally less than five years) leasing solutions of Flight Equipment to passenger and cargo operators across the globe. Once the value from the Flight Equipment's flight time has been extracted, Flight Equipment is considered to be at or near the end of its useful life and is analyzed for return maximization as either whole asset sales or disassembled for sale as USM parts. Revenue from this segment is segregated between Aircraft and Engine depending on the asset type that generated the revenue. Lease revenue and the related depreciation from aircraft and engines installed on those aircraft is recognized under the Aircraft category. Revenue from sales of whole aircraft and related cost of sales are allocated between the Aircraft and Engine categories based on the allocated cost basis of the asset sold.

Our TechOps segment provides internal and third-party aviation services, including internally developed engineered solutions, full heavy aircraft maintenance and modification, component MRO, as well as end-of-life disassembly services. Our MRO business also engages in longer-term projects such as aircraft modifications, cargo and tanker conversions of aircraft, and aircraft storage. The TechOps segment also includes MRO services for landing gear, thrust reversers, hydraulic systems, and other aircraft components.

We utilize these capabilities to support our customers' Flight Equipment, as well as to maintain and improve our own Flight Equipment, which is subsequently sold or leased to our customers. These processes require a high degree of expertise on each individual aircraft or component that is being serviced. Our knowledge of these processes allows us to assist customers to comply with applicable regulatory and OEM requirements. A significant amount of skilled labor is required to support this process, which the Company has accumulated through its diversified offerings.

In addition to our aircraft and USM parts offerings, we develop Engineered Solutions consisting of Supplemental Type Certificates ("STCs") that can be installed on existing Flight Equipment to improve performance, comply with regulatory requirements, or improve safety. An example of these solutions is the AerSafe® product line, which we designed and obtained Federal Aviation Administration ("FAA") approval to sell as a solution for compliance with the FAA's fuel tank flammability regulations. These products are proprietary in nature and function as non-OEM solutions to regulatory requirements and other technical challenges, often at reduced delivery time and cost for operators. In order to develop these products, we engage in research and development ("R&D") activities that are expensed as incurred.

Recent Accounting Pronouncements

The most recently adopted and to be adopted accounting pronouncements are described in Note B of our condensed consolidated financial statements included in this Quarterly Report, as well as in Item 8, Note B of our consolidated financial statements included in the 2022 Form 10-K.

Results of Operations

Three months ended September 30, 2023 compared to the three months ended September 30, 2022

Sales and gross profit for AerSale's two business segments for the three months ended September 30, 2023 and 2022 were as follows:

(in thousands, except percentages)	Three Months Ended September 30, 2023	2022	Percent Change
Revenue			
Asset Management Solutions			
Aircraft	$ 20,888	$ 6,503	221.2 %
Engines	44,166	14,088	213.5 %
	65,054	20,591	215.9 %
TechOps			
MRO	23,154	26,390	(12.3)%
Product Sales	4,276	4,018	6.4 %
Whole Asset Sale	—	—	— %
	27,430	30,408	(9.8)%
Total	$ 92,484	$ 50,999	81.3 %

(in thousands, except percentages)	Three Months Ended September 30, 2023	2022	Percent Change
Gross Profit			
Asset Management Solutions			
Aircraft	$ 6,656	$ 2,480	168.4 %
Engines	11,881	6,210	91.3 %
	18,537	8,690	113.3 %
TechOps			
MRO	3,892	5,453	(28.6)%
Product Sales	1,045	1,346	(22.4)%
Whole Asset Sale	—	—	— %
	4,937	6,799	(27.4)%
Total	$ 23,474	$ 15,489	51.6 %

Total revenue for the three months ended September 30, 2023 increased $41.5 million or 81.3% compared to the three months ended September 30, 2022, driven by an increase of $44.5 million, or 215.9%, in revenues within Asset Management Solutions, partially offset by an decrease of $3.0 million, or 9.8%, in revenues within TechOps.

Asset Management Solutions

Sales in the Asset Management Solutions segment increased $44.5 million or 215.9%, to $65.1 million for the three months ended September 30, 2023, due to a $14.4 million, or 221.2%, increase in revenue from Aircraft; and a $30.1 million, or 213.5%, increase in revenue from Engines. The increase in Aircraft revenue is primarily attributable to increased activity in the B757 and A320 product lines, as a result of higher Flight Equipment sales in the amount of $13.1 million due to the timing and availability of assets, as well as higher USM sales due to increased feedstock acquisitions; partly offset by lower leasing activity in the amount of $2.6 million as a result of planned reduction of the Aircraft leasing portfolio. The increase in Engines revenue is primarily attributable to higher activity across most product lines due to higher Flight Equipment sales in the amount of $29.1 million, and higher CF6-80 and CFM56 USM sales, partly offset by lower leasing activity in the amount of $2.7 million.

Cost of sales in Asset Management Solutions increased $34.6 million or 290.9%, to $46.5 million for the three months ended September 30, 2023, compared to the prior year period. The increase in cost of sales was primarily driven by the sales increase discussed above. Gross profit in the Asset Management Solutions segment increased $9.8 million to $18.5 million, or 113.3%, for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The gross profit increase is mainly attributable to higher revenue generated for the three months ended September 30, 2023, as noted above.

Aircraft gross profit margins decreased to 31.9% for the three months ended September 30, 2023, from 38.1% for the three months ended September 30, 2022 due to lower margin contribution from Flight Equipment sales. Engines gross profit margin was 26.9% for the three months ended September 30, 2023, a decrease from 44.1% for the three months ended September 30, 2022, which was primarily the result of lower margins on Flight Equipment sales and leasing activity.

TechOps

Our revenue from TechOps decreased by $3.0 million or 9.8%, to $27.4 million for the three months ended September 30, 2023, compared to the prior year period. The decrease was driven in part by lower storage maintenance at AerSale’s Roswell facility, largely due to fewer customer aircraft in storage as compared to prior periods, as well as lower contributions by component and landing gear repair activities.

Cost of sales in TechOps decreased $1.1 million or 4.7%, to $22.5 million for the three months ended September 30, 2023 compared to the prior year period. This was driven by lower cost of sales from AerSale’s Roswell facility, component repairs and landing gear activities.. Gross profit in TechOps decreased $1.9 million, or 27.4% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, driven by lower gross profit of $1.6 million on MRO services. Gross profit margin decreased to 18.0% for the three months ended September 30, 2023 compared to 22.4% for the prior year period, and was largely attributable to lower margin on MRO services of 16.8% for the three months ended September 30, 2023 compared to 20.7% for the prior year period, driven by lower component MRO and landing gear activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $1.4 million, or 5.9% to $25.4 million for the three months ended September 30, 2023, compared to the prior year period. The increase was mostly related to higher facility, research and development, and repair and maintenance costs incurred.

Change in Fair Value of Warrant Liability

We account for our private warrants as a liability at their fair value, with changes in fair value recognized in our results from operations for the period. The fair value of our private warrants is determined using a Black Scholes option pricing model. For the three months ended September 30, 2023, we recorded a $0.1 million change in fair value of warrant liability loss, compared to a $2.0 million loss in the prior year period.

Interest Income (Expense), Net

Interest expense, net was $0.3 million for the three months ended September 30, 2023, compared to $0.4 million interest income, net for the three months ended September 30, 2022. This was primarily related to interest expense incurred on borrowings under our debt facilities during the current year period, compared to interest earned on our excess cash in the prior year period.

Income Taxes

The effective tax rate for the three months ended September 30, 2023 was 93.0% compared to 10.6% for the three months ended September 30, 2022. The difference between the effective tax rate and the statutory tax rate of 21% for the three months ended September 30, 2023 is primarily due to the impact of state income taxes and non-deductible executive compensation, offset by the foreign derived intangible income deduction, release of the valuation allowance and R&D credits. The difference between the effective tax rate and the statutory tax rate of 21% for the three months ended September 30, 2022 is primarily due to the impact of state income taxes and non-deductible executive compensation, offset by the foreign derived intangible income deduction.

Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

Sales and gross profit for AerSale's two business segments for the nine months ended September 30, 2023 and 2022 were as follows:

	Nine Months Ended September 30,		
(in thousands, except percentages)	**2023**	**2022**	**Percent Change**
Revenue			
Asset Management Solutions			
Aircraft	$ 57,836	$ 78,343	(26.2)%
Engines	92,719	131,319	(29.4)%
	150,555	209,662	(28.2)%
TechOps			
MRO	78,725	72,258	8.9 %
Product Sales	10,583	7,888	34.2 %
Whole Asset Sale	218	23,605	(99.1)%
	89,526	103,751	(13.7)%
Total	$ 240,081	$ 313,413	(23.4)%

(in thousands, except percentages)	Nine Months Ended September 30, 2023	2022	Percent Change
Gross Profit			
Asset Management Solutions			
Aircraft	$ 16,871	$ 29,779	(43.3)%
Engines	31,080	60,439	(48.6)%
	47,951	90,218	(46.8)%
TechOps			
MRO	17,078	16,257	5.1 %
Product Sales	2,600	3,174	(18.1)%
Whole Asset Sale	376	7,523	(95.0)%
	20,054	26,954	(25.6)%
Total	$ 68,005	$ 117,172	(42.0)%

Total revenue for the nine-months ended September 30, 2023 decreased $73.3 million or 23.4% compared to the nine months ended September 30, 2022, driven by a decrease of $59.1 million, or 28.2%, in revenues within Asset Management Solutions and a decrease of $14.2 million, or 13.7%, in revenues within TechOps.

Asset Management Solutions

Sales in the Asset Management Solutions segment decreased $59.1 million or 28.2%, to $150.6 million for the nine months ended September 30, 2023, due to a $38.6 million, or 29.4%, decrease in revenue from Engines; and a $20.5 million, or 26.2%, decrease in revenue from Aircraft. The decrease in Engines revenue is primarily attributable to decreased activity in the RB211 and CF6-80 product lines as a result of lower Flight Equipment sales in the amount of $37.1 million, and lower leasing revenue in the CF6-80 product line totaling $6.3 million, partially offset by higher USM sales. The decrease in Aircraft revenue is primarily attributable to decreased activity in the B747 and B757 product line due to lower Flight Equipment sales in the amount of $20.5 million due to softer demand in the freighter market, and lower leasing revenue of $5.6 million, partially offset by higher USM sales activity.

Cost of sales in Asset Management Solutions decreased $16.8 million, or 14.1%, to $102.6 million for the nine months ended September 30, 2023, compared to the prior year period. The decrease in cost of sales was primarily driven by the sales decrease discussed above. Gross profit in the Asset Management Solutions segment decreased $42.3 million to $48.0 million, or 46.8%, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The gross profit decrease is mainly attributable to lower revenue generated for the nine months ended September 30, 2023, as noted above.

Aircraft gross profit margin decreased to 29.2% for the nine months ended September 30, 2023, from 38.0% for the nine months ended September 30, 2022, due to lower margin on Flight Equipment sales. Engine gross profit margin was 33.5% for the nine months ended September 30, 2023, a decrease from 46.0% for the nine months ended September 30, 2022, which was primarily the result of lower margins on Flight Equipment sales, partly offset by higher margins on USM sales.

TechOps

Our revenue from TechOps decreased by $14.2 million, or 13.7%, to $89.5 million for the nine months ended September 30, 2023, compared to the prior year period. The decrease was primarily driven by the sale of Flight Equipment during 2022, which was purchased and controlled by the TechOps segment prior to its ultimate sale, partly offset by higher revenues from component repair activities and heavy MRO services.

Cost of sales in TechOps decreased $7.3 million, or 9.5%, to $69.5 million for the nine months ended September 30, 2023, compared to the prior year period, driven by lower costs related to the sale of Flight Equipment of $16.1 million during the nine months ended September 30, 2022, partially offset by cost associated with revenue fluctuations noted above. Gross profit in TechOps decreased $6.9 million, or 25.6% for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, driven by lower profit generated from the sale of Flight Equipment of $7.1 million and USM sales, partially offset by higher gross profit of $0.8 million on MRO services. Gross profit margin decreased to 22.4% for the nine months ended September 30, 2023 compared to 26.0% for the nine months ended September 30, 2022, and was largely attributable to the margin generated from the sale of Flight Equipment of 31.9% for the nine months ended September 30, 2022, as well as lower margins on MRO services of 21.7% for the nine months ended September 30, 2023, compared to 22.5% during the nine months ended September 30, 2022.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $6.5 million, or 9.1% to $77.7 million for the nine months ended September 30, 2023, compared to the prior year period. The increase was mostly related to Company-wide cost of living adjustments, additional headcount, along with higher facility and legal costs incurred.

Change in Fair Value of Warrant Liability

We account for our private warrants as a liability at their fair value, with changes in fair value recognized in our results from operations for the period. The fair value of our private warrants is determined using a Black Scholes option pricing model. For the nine months ended September 30, 2023, we recorded a change in fair value of the warrant liability gain of $1.0 million, compared to a $1.9 million loss in the prior year period.

Interest Income (Expense), Net

Interest income, net for the nine months ended September 30, 2023 was $1.2 million and was primarily related to interest generated on excess cash. There was nominal interest expense during the nine months ended September 30, 2022.

Income Taxes

The effective tax rate for the nine months ended September 30, 2023 was 59.8% compared to 22.2% for the nine months ended September 30, 2022. The difference between the effective tax rate and the statutory tax rate of 21% for the nine months ended September 30, 2023 is primarily due to the impact of state income taxes and non-deductible executive compensation, offset by the foreign derived intangible income deduction, release of the valuation allowance and R&D credits. The difference between the effective tax rate and the statutory tax rate of 21% for the nine months ended September 30, 2022 is primarily due to the impact of state income taxes and non-deductible executive compensation, offset by the foreign derived intangible income deduction.

Financial Position, Liquidity and Capital Resources

As of September 30, 2023, we had $3.2 million of cash and cash equivalents. We finance our growth through cash flows generated from operations and borrowings secured by our assets. We had $8.6 million outstanding under the Revolving Credit Agreement as of September 30, 2023, and we had $149.0 million of availability thereunder. We used cash in operations of $168.1 million for the nine months ended September 30, 2023, mostly for feedstock acquisitions, and generated cash from investing activities of $6.7 million for the nine months ended September 30, 2023.

During the nine months ended September 30, 2023, we entered into a revolving term loan collateralized by our property and equipment (the "Equipment Loan"), and borrowed $8.6 million, which remained outstanding as of September 30, 2023.

We believe our equity base, internally generated funds, and existing availability under our debt facilities are sufficient to maintain our level of operations through September 30, 2024. If an event occurs that would affect our ability to meet our capital requirements, our ability to continue to grow our asset base consistent with historical trends could be impaired and our future growth limited to that which can be funded from internally generated capital.

We may, from time to time, purchase our outstanding shares of common stock through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, legal and regulatory considerations, contractual restrictions and other factors. Purchases, if any, will be funded through our available cash from operations. The amounts involved may be material.

Cash Flows— Nine months ended September 30, 2023 compared to nine months ended September 30, 2022

Cash Flows from Operating Activities

Net cash used in operating activities was $168.1 million for the nine months ended September 30, 2023, compared to cash used of $2.4 million for the same period in 2022. The increase in cash deployed of $165.7 million was primarily due to feedstock acquisitions and impact of lower results from operations, partially offset by the timing of purchase deposits.

Cash Flows from Investing Activities

Net cash provided by investing activities was $6.7 million for the nine months ended September 30, 2023, compared to cash provided of $23.2 million in the same period for 2022. Cash provided by investing activities during the nine months ended September 30, 2023 and 2022 was driven by Flight Equipment sales.

Cash Flows from Financing Activities

Net cash provided by financing activities was $17.3 million for the nine months ended September 30, 2023, compared to cash provided of $0.3 million in the same period for 2022. Cash provided by financing activities during the nine months ended September 30, 2023 was primarily related to the proceeds from the Equipment Loan, as more fully described below; as well as borrowing under our Revolving Credit Agreement (as defined below). Cash provided by financing activities during the nine months ended September 30, 2022 is the result of proceeds from the issuance and the sale of shares of common stock under the AerSale Corporation 2020 Employee Stock Purchase Plan.

Debt Obligations and Covenant Compliance

Wells Fargo Senior Secured Revolving Credit Facility

Effective July 25, 2023, we amended our revolving credit agreement (as amended, the "Revolving Credit Agreement") to increase our maximum commitments under the Revolving Credit Agreement to $180.0 million aggregate amount, subject to borrowing base limitations, and to extend the maturity date to July 24, 2028, subject to certain conditions.

Prior to the amendment, our Revolving Credit Agreement was scheduled to mature on March 12, 2024, and provided commitments for a $150.0 million revolving credit facility, including a $10.0 million sub facility for letters of credit and for borrowings on same-day notice referred to as "swingline loans", which has been retained.

The maximum amount of such commitments available at any time for borrowings and letters of credit is determined according to a borrowing base calculation equal to the sum of eligible inventory and eligible accounts receivable reduced by the aggregate amount, if any, of trade payables of the loan parties, as defined in the Revolving Credit Agreement. Extensions of credit under the Revolving Credit Agreement are available for working capital and general corporate purposes.

As of September 30, 2023, there was $8.6 million outstanding under the Revolving Credit Agreement and we had $149.0 million of availability thereunder. We were in compliance with our debt covenants for the Revolving Credit Agreement as of September 30, 2023.

Synovus Equipment Loan

On June 30, 2023, the Company entered into a property and equipment revolving term loan (the "Equipment Loan") with a total advance commitment of $10.0 million for the purpose of financing capital expenditures on property and equipment. Once the total advance commitment is reached or commencing on June 30, 2024, whichever comes first, this facility will become a term loan with a maturity date of June 30, 2027. This loan is collateralized by the property and equipment it finances and requires interest only payment until converted to a term loan, at which point, principal and interest payments will be required.

During the nine months ended September 30, 2023, the Company borrowed $8.6 million under this facility, which remained outstanding as of September 30, 2023.

We were in compliance with our debt covenants for the Equipment Loan as of September 30, 2023.

Off-Balance Sheet Arrangements and Contractual Obligations

We did not have any off-balance sheet arrangements as of September 30, 2023. Refer to Note Q – Leases within our Consolidated Financial Statements in our 2022 Form 10-K for a listing of our non-cancelable contractual obligations under operating leases.

The Company has entered into a purchase commitment with Universal Avionics, a subsidiary of Elbit Systems, valued at $33.1 million for the acquisition of technical equipment for manufacturing our AerAware product. The commitment is expected to be satisfied by the fourth quarter of 2024. The Company has a commitment for the purchase of cargo conversion kits to support its B757 freighter conversion program in the amount of $11.9 million. The commitment is expected to be satisfied by 2024.

Critical Accounting Policies and Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. A summary of our critical accounting estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the 2022 Form 10-K. We continually review these estimates and their underlying assumptions to ensure they are appropriate for the circumstances. Changes in the estimates and assumptions we use could have a material impact on our financial results. During the nine months ended September 30, 2023, there were no material changes in our critical accounting estimates and policies.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we are subject to market risks. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and sales. Our exposure to market risk includes fluctuating interest rates and changes in foreign exchange rates.

Interest Rate Risk

We are exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates associated with borrowings under the Revolving Credit Agreement and the Equipment Loan, which have variable interest rates tied to SOFR. A ten percent increase in the average interest rate affecting our variable rate debt outstanding as of September 30, 2023 would not have had a material impact on our interest expense, financial position or continuing operations as of and for the three and nine months ended September 30, 2023.

Foreign Currency Exchange Risk

We primarily use the U.S. dollar as our functional currency in all markets in which we operate in order to reduce our foreign currency market risk. Only general office expense and payroll transactions for our international locations are denominated in local currency. A hypothetical ten percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations as of and for the three and nine months ended September 30, 2023.

ITEM 4 CONTROLS AND PROCEDURES

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act as of September 30, 2023.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

The Company could be involved in litigation incidental to the operation of the business. The Company intends to vigorously defend all matters in which the Company is named defendants, and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect the Company. Although the adequacy of exiting insurance coverage of the outcome of any legal proceedings cannot be predicted with certainty, based on the current information available, the Company does not believe the ultimate liability associated with known claims or litigations, if any, in which the Company is involved will materially affect the Company's consolidated financial condition or results of operations.

ITEM 1A RISK FACTORS

The following should be read in conjunction with, and supplements and amends, the factors that may affect our business or operations described under Part I – Item 1A "Risk Factors" contained in the 2022 Form 10-K. Other than as described in this Item 1A, there have been no material changes to our risk factors from the risk factors previously disclosed in the 2022 Form 10-K.

We are exposed to risks associated with operating internationally.

We conduct business in a number of foreign countries, certain of which are politically unstable or subject to military or civil conflicts. Consequently, we are subject to a variety of risks that are specific to international operations, including the following:

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act of 2010, and other anti-bribery and anticorruption laws;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value added taxes;
- foreign exchange risk;
- transportation delays and interruptions;
- uncertainties arising from foreign local business practices and cultural considerations; and
- changes in United States policies on trade relations and trade policy, including implementation of or changes in trade sanctions (such as those imposed on Russia), tariffs, and embargoes.

Following a national referendum and enactment of legislation by the government of the United Kingdom, the United Kingdom formally withdrew from the European Union and ratified a trade and cooperation agreement governing its future relationship with the European Union. The agreement, which is being applied provisionally from January 1, 2021 and entered into force on May 1, 2021, addresses trade, economic arrangements, law enforcement, judicial cooperation and a governance framework including procedures for dispute resolution, among other things. Because the agreement merely sets forth a framework in many respects and will require complex additional bilateral negotiations between the United Kingdom and the European Union as both parties continue to work on the rules for implementation, significant political and economic uncertainty remains about how the precise terms of the relationship between the parties will differ from the terms before withdrawal. These developments, or the perception that any related developments could occur, have had and may continue to have a material adverse effect on global economic conditions and financial markets, and could significantly reduce global market liquidity, restrict the ability of key market participants to operate in certain financial markets, increase restrictions on imports and exports between the United Kingdom and other countries and increase regulatory complexities. Asset valuations, currency exchange rates and credit ratings have been and may continue to be subject to increased market volatility. Lack of clarity about future United Kingdom laws and regulations as the United Kingdom determines which European Union laws to replace or replicate, including with respect to trade relations could depress economic activity and restrict our access to capital.

Measures that we have or will adopt to reduce the potential impact of losses resulting from the risks of doing business internationally may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all.

The war in the Ukraine is creating an adverse climate for our business. The U.S. government has imposed enhanced export restrictions and controls on certain products and technology, as well as sanctions on certain industry sectors and parties in Russia, Belarus and parts of the Ukraine. The governments of other jurisdictions in which we may conduct business, such as the European Union, have also implemented sanctions or other restrictive measures. These sanctions and enhanced export controls, as well as any responses from Russia, could adversely affect the Company and/or our supply chain, business partners or customers, flight activity, demand for MRO and leasing services and the related macro environment. The economic and security conditions could also limit the Company's ability to provide its services or products to certain customers, as well as limit its ability to receive payments. The totality of these events, sanctions and restrictions may have a material adverse effect on our business, financial condition, liquidity and results of operations. These sanctions and restrictions may also jeopardize and adversely impact the availability and cost of insurance which covers any assets or operations that may be subject to these restrictions and enhanced sanctions.

On October 7, 2023, Hamas militants launched an extensive military operation into Israel's southern border from the Gaza Strip and conducted a series of attacks, followed by an invasion of Israeli territory by land, air and sea directed at civilian and military targets. On October 8, 2023 Israel formally declared war on Hamas after their deadly attack. The intensity and duration of Israel's current war against Hamas is difficult to predict, as are such war's global economic impact and impact on the Company's business and operations and on the businesses and operations of the Company's suppliers, customers and other third parties with which the Company conducts business. Of note, the Company's ERP vendor and the supplier of most of the components of our Enhanced Flight Vision System "AerAware" are both based in Israel.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

		Incorporated by Reference				Filed/
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Furnished Herewith
2.1	Agreement and Plan of Merger, dated December 8, 2019, by and among Monocle Acquisition Corporation, Monocle Holdings Inc., AerSale Corp., Monocle Merger Sub 1 Inc., Monocle Merger Sub 2 LLC, and Leonard Green & Partners, L.P., in its capacity as the Holder Representative.	8-K	001-38801	2.1	12/9/2019	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.2	Amendment No. 1 to the Agreement and Plan of Merger, dated August 13, 2020, by and among Monocle Acquisition Corporation, Monocle Holdings Inc., AerSale Corp., Monocle Merger Sub 1 Inc., Monocle Merger Sub 2 LLC, and Leonard Green & Partners, L.P., in its capacity as the Holder Representative.	10-Q	001-38801	2.1	8/14/2020	
2.3	Amended and Restated Agreement and Plan of Merger, dated September 8, 2020, by and among Monocle Acquisition Corporation, Monocle Holdings Inc., AerSale Corp., Monocle Merger Sub 1 Inc., Monocle Merger Sub 2 LLC, and Leonard Green & Partners, L.P., in its capacity as the Holder Representative.	8-K	001-38801	2.1	09/08/2020	
2.4	Amendment No. 1 to the Amended and Restated Agreement and Plan of Merger, dated December 16, 2020, by and among Monocle Acquisition Corporation, Monocle Holdings Inc., AerSale Corp., Monocle Merger Sub 1 Inc., Monocle Merger Sub 2 LLC, and Leonard Green & Partners, L.P., in its capacity as the Holder Representative.	8-K	001-38801	10.5	12/17/2020	
3.1	Amended and Restated Certificate of Incorporation of Monocle Holdings Inc., dated October 13, 2020.	S-4/A	333-235766	3.1	10/14/2020	
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Monocle Holdings Inc., dated December 22, 2020.	8-K	001-38801	3.2	12/23/2020	
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of AerSale Corporation, dated June 17, 2021.	10-Q	001-38801	3.3	08/09/2021	
3.4	Amended and Restated By laws of Monocle Holdings Inc., dated October 13, 2020.	S-4/A	333-235766	3.2	10/14/2020	
3.5	Amendment No. 1 to the Amended and Restated Bylaws of Monocle Holdings Inc., dated December 22, 2020.	8-K	001-38801	3.4	12/23/2020	
4.1	Specimen Common Stock Certificate of Monocle Holdings Inc.	S-4/A	333-235766	4.2	02/14/2020	
4.2	Specimen Warrant Certificate of Monocle Holdings Inc.	S-4/A	333-235766	4.3	02/14/2020	
4.3	Warrant Agreement, dated February 6, 2019, between Monocle Acquisition Corporation and Continental Stock Transfer & Trust Company, as warrant agent.	8-K	001-38801	4.1	02/12/2019	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
10.22	AerSale Corporation Second Amended and Restated Non-Employee Director Compensation Policy	10-Q	001-38801	10.22	08/09/2023	*
10.23	Amendment No. 3 to Amended and Restated Credit Agreement, dated as of March 9, 2023, by and among AerSale Aviation Inc., the existing borrowers thereto, the lenders thereto, Wells Fargo Bank, National Association, as administrative agent and lender	10-Q	001-38801	10.22	08/09/2023	*
10.24	Amendment No. 4 to the Amended and Restated Credit Agreement, dated as of July 25, 2023, by and among the Company, the lenders and other parties from time to time party thereto, Synovus Bank, as documentation agent, and Wells Fargo Bank, National Administration, as administrative agent and collateral agent.	8-K	001-38801	1.1	08/01/2023	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.					**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibit 101*)					*

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AerSale Corporation

Date:	November 8, 2023	By:	/s/ Nicolas Finazzo Nicolas Finazzo Chairman, Chief Executive Officer, Division President, TechOps and Director (*Principal Executive Officer*)
Date:	November 8, 2023	By:	/s/ Martin Garmendia Martin Garmendia Chief Financial Officer and Treasurer (*Principal Financial and Accounting Officer*)

Exhibit 31.1

CERTIFICATION

I, Nicolas Finazzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AerSale Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

By: /s/ Nicolas Finazzo
Nicolas Finazzo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Martin Garmendia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AerSale Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023

By: /s/ Martin Garmendia
Martin Garmendia
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of AerSale Corporation (the “Company”) for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023

By: /s/ Nicolas Finazzo
Nicolas Finazzo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of AerSale Corporation (the “Company”) for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2023

By: /s/ Martin Garmendia
Martin Garmendia
Chief Financial Officer
(Principal Financial Officer)