
**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 June 30, 2021

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.)

121 Alhambra Plaza Suite 1700

Coral Gables, FL

(Address of Principal Executive Offices)

33134

(Zip Code)

(305) 764-3200

Registrant's telephone number, including area code

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 Global Market
Redeemable warrants, each warrant exercisable for one share of Common Stock at an exercise price of \$11.50	ASLEW	The Nasdaq Global 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 August 2, 2021 was 42,949,261.

TABLE OF CONTENTS

	Page
Forward-Looking Statements	i
PART I – FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets (Unaudited)	1
Condensed Consolidated Statements of Operations (Unaudited)	2
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)	3
Condensed Consolidated Statements of Cash Flows (Unaudited)	4
Notes to the Condensed Consolidated Financial Statements (Unaudited)	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. Controls and Procedures	28
PART II – OTHER INFORMATION	29
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Mine Safety Disclosures	30
Item 5. Other Information	30
Item 6. Exhibits	30
Signatures	32

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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this Quarterly Report, including statements relating to the benefits of the Business Combination (as defined herein), our financial performance following the Business Combination, the impact of the COVID-19 pandemic on our business, changes in the market for our services, changes in applicable laws or regulations; our ability to launch new services and products or to profitably expand into new markets, and the possibility that we may be adversely affected by 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 impact of the COVID-19 pandemic on our business; factors that adversely impact the commercial aviation industry; fluctuation of market values for our aviation products; our inability to repossess Flight Equipment (as defined herein) when a lessee defaults and the cost of remarketing and releasing such repossessed Flight Equipment; compliance with significant government regulations; the success at our MRO (as defined herein) facilities is dependent on continued outsourcing by airlines; a shortage of skilled personnel or work stoppages; inability to obtain certain components and raw materials from suppliers; competitive pressures; risks associated with operating internationally; the value of liens on our flight equipment; ownership rights over an engine affixed to an aircraft; risks associated with business acquisitions; continued availability of financing; restrictive and financial covenants in our existing debt; product and other liability claims; risks associated with supplying equipment and services to the U.S. government; cyber or other security threats or other disruptions; compliance with environmental requirements; payment of capital expenditures; our lack of ownership of certain intellectual property that is important to our business; dependence on our facilities; damage to our reputation by improper conduct of employees, agents, and others; limitations on employee compensation as a result of the CARES Act; the loss of certain key employees; insolvency of any of our customers; exposure to intellectual property litigation; and the factors described under the section titled “Risk Factors” in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (“SEC”) on March 16, 2021 (together with our amended Annual Report on Form 10-K/A filed with the SEC on May 4, 2021, the “Annual Report”).

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 per share data)

	June 30, 2021 (Unaudited)	December 31, 2020
Current assets:		
Cash and cash equivalents	\$ 41,808	\$ 29,317
Accounts receivable, net of allowance for doubtful accounts of \$1,441 and \$1,652 as of June 30, 2021 and December 31, 2020	51,011	50,215
Income tax receivable	40	—
Inventory:		
Aircraft, airframes, engines, and parts, net	110,436	85,192
Advance vendor payments	10,742	6,205
Due from related party	-	474
Deposits, prepaid expenses, and other current assets	2,448	7,560
Total current assets	216,485	178,963
Fixed assets:		
Aircraft and engines held for lease, net	74,899	86,844
Property and equipment, net	7,677	7,839
Inventory:		
Aircraft, airframes, engines, and parts, net	61,506	55,463
Deferred income taxes	5,992	5,708
Deferred financing costs, net	1,228	367
Deferred customer incentives and other assets, net	288	271
Due from related party	5,421	5,450
Goodwill	19,860	19,860
Other intangible assets, net	27,309	28,364
Total assets	\$ 420,665	\$ 389,129
Current liabilities:		
Accounts payable	\$ 16,392	\$ 16,364
Accrued expenses	6,268	8,576
Income tax payable	2,338	1,324
Lessee and customer purchase deposits	6,166	2,820
Deferred revenue	2,289	2,595
Total current liabilities	33,453	31,679
Long-term lease deposits	2,968	1,145
Maintenance deposit payments and other liabilities	3,980	3,664
Warrant liability	1,817	1,186
Total liabilities	42,218	37,674
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value. Authorized 200,000,000 shares; issued and outstanding 42,949,261 and 41,046,216 shares	4	4
Additional paid-in capital	293,019	292,593
Retained earnings	85,424	58,858
Total equity	378,447	351,455
Total liabilities and stockholders' equity	\$ 420,665	\$ 389,129

AERSALE CORPORATION AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Products	\$ 56,175	\$ 9,773	\$ 81,301	\$ 27,804
Leasing	6,366	11,228	12,622	27,010
Services	29,380	24,355	56,433	47,677
Total revenue	<u>91,921</u>	<u>45,356</u>	<u>150,356</u>	<u>102,491</u>
Cost of sales and operating expenses:				
Cost of products	40,387	21,111	54,193	34,550
Cost of leasing	2,464	8,811	5,231	16,243
Cost of services	18,332	17,562	40,359	38,540
Total cost of sales	<u>61,183</u>	<u>47,484</u>	<u>99,783</u>	<u>89,333</u>
Gross profit (loss)	30,738	(2,128)	50,573	13,158
Selling, general, and administrative expenses	16,966	14,036	30,276	27,237
Payroll support program proceeds	(8,405)	(6,346)	(14,768)	(6,346)
Transaction costs (recovered) incurred	-	(16)	-	215
Income (loss) from operations	<u>22,177</u>	<u>(9,802)</u>	<u>35,065</u>	<u>(7,948)</u>
Other income (expenses):				
Interest expense, net	(251)	(504)	(509)	(1,040)
Other income, net	155	95	249	152
Change in fair value of warrant liability	(407)	-	(631)	-
Total other expenses	<u>(503)</u>	<u>(409)</u>	<u>(891)</u>	<u>(888)</u>
Income (loss) before income tax provision	21,674	(10,211)	34,174	(8,836)
Income tax (expense) benefit	(5,126)	2,273	(7,608)	1,957
Net income (loss)	<u>\$ 16,548</u>	<u>\$ (7,938)</u>	<u>\$ 26,566</u>	<u>\$ (6,879)</u>
Earnings (loss) per share - basic	\$ 0.39	\$ (214.48)	\$ 0.62	\$ (185.87)
Earnings (loss) per share - diluted	\$ 0.38	\$ (214.48)	\$ 0.61	\$ (185.87)

AERSALE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity For the three and six months ended June 30, 2021 and 2020 (in thousands, except per share data) (Unaudited)

	Common stock		Additional	Retained	Total
	Amount	Shares	paid-in capital	earnings	stockholders' equity
Balance at December 31, 2019	\$ 1	5,285,054	\$ 243,221	\$ 50,764	\$ 293,986
Net income	—	—	—	1,059	1,059
Balance at March 31, 2020	\$ 1	5,285,054	\$ 243,221	\$ 51,823	\$ 295,045
Net loss	—	—	—	(7,938)	(7,938)
Balance at June 30, 2020	\$ 1	5,285,054	\$ 243,221	\$ 43,885	\$ 287,107

	Common stock		Additional	Retained	Total
	Amount	Shares	paid-in capital	earnings	stockholders' equity
Balance at December 31, 2020	\$ 4	41,046,216	\$ 292,593	\$ 58,858	\$ 351,455
Issuance of Earn-Out shares	—	1,855,634	(269)	-	(269)
Shares issued upon exercise of warrants	—	47,411	545	-	545
Net income	—	—	-	10,018	10,018
Balance at March 31, 2021	\$ 4	42,949,261	\$ 292,869	\$ 68,876	\$ 361,749
Stock-based compensation	—	—	150	—	150
Net income	—	—	-	16,548	16,548
Balance at June 30, 2021	\$ 4	42,949,261	\$ 293,019	\$ 85,424	\$ 378,447

AERSALE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (in thousands, except per share data) (Unaudited)

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 26,566	\$ (6,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,699	14,635
Amortization of debt issuance costs	257	405
Inventory impairment	5,016	13,349
Impairment of aircraft held for lease	-	3,036
Provision for doubtful accounts	(151)	439
Deferred income taxes	(284)	(1,964)
Change in fair value of warrant liability	631	-
Stock-based compensation	150	-
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(1,586)	12,494
Inventory	(33,417)	(5,503)
Deposits, prepaid expenses, and other current assets	5,750	3,976
Deferred customer incentives and other assets	(19)	49
Advance vendor payments	(4,536)	1,240
Accounts payable	28	(1,442)
Income tax payable	1,013	-
Accrued expenses	(3,425)	1,161
Deferred revenue	(306)	(1,931)
Lessee and customer purchase deposits	5,934	5,556
Other liabilities	316	(295)
Net cash provided by operating activities	8,636	38,326
Cash flows from investing activities:		
Business acquisition	-	(16,976)
Proceeds from sale of assets	4,420	3,100
Acquisition of aircraft and engines held for lease, including capitalized cost	-	(400)
Purchase of property and equipment	(841)	(921)
Net cash provided by (used in) investing activities	3,579	(15,197)
Cash flows from financing activities:		
Repayments of 8% Senior Secured Notes	-	(3,424)
Proceeds from Revolving Credit Facility	-	104,281
Repayments of Revolving Credit Facility	-	(104,281)
Cash paid for employee taxes on withholding shares	(269)	-
Proceeds from exercise of warrants	545	-
Net cash provided by (used in) financing activities	276	(3,424)
Increase in cash and cash equivalents	12,491	19,705
Cash and cash equivalents, beginning of period	29,317	17,505
Cash and cash equivalents, end of period	\$ 41,808	\$ 37,210
Supplemental disclosure of cash activities		
Income taxes	1,815	132
Interest	308	640
Supplemental disclosure of noncash investing activities		
Reclassification of aircraft and aircraft engines inventory (from) to equipment held for lease, net	(7,307)	(2,014)

AERSALE CORPORATION AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2021

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 the Company survived the merger and became the successor issuer to Monocle by operation of Rule 12g-3 under the Exchange Act.

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 will continue as a wholly owned subsidiary of the Company.

The Company’s corporate headquarters are based in Miami, Florida, with additional offices, hangars, and warehouses 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 accounting principles Generally Accepted 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 (“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 Annual Report*, wherein a more complete discussion of significant accounting policies and certain other information can be found.

Revenue Recognition

Products — Used Serviceable Material Sales (“USM”)

Revenues from sales of USM are measured based on consideration specified within customer contracts, and excludes any sales commissions and taxes collected and remitted to government agencies. The Company recognizes revenue when performance obligations are satisfied by transferring control of a product or service 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, the buyer is responsible for any loss in transit and the Company has a legal right to payment for the spare parts once shipped. The Company generally sells its 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 ASC Topic 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 believes the whole asset holds standalone value to the customer as it is not dependent on any other services for functionality purposes and therefore is distinct within the context of the contract and as described in ASC 606-10. Accordingly, 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 a customer’s acceptance of the whole asset on the date of the transfer.

Leasing Revenues

The Company leases 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 payment 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 payments 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. Payment terms for leased flight equipment are due upon receipt.

Service Revenues

Service revenues are recognized as performance obligations when they are fulfilled and the benefits are transferred to the customer. At contract inception, the Company evaluates if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, the Company's 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. Variable consideration that cannot be reasonably estimated is recorded when known.

For most service contracts, performance obligations are satisfied over time as work progresses based on transfer of control of products and services to our customers. The Company receives payments from our customers based on billing schedules or contract terms.

For performance obligations that are satisfied over time, the Company measures progress in a manner that depicts the performance of transferring control to the customer. As such, the Company utilizes 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. The Company is 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 the Company's Maintenance, Repair and Overhaul ("MRO") contracts, if the contract is terminated for convenience, the Company is 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 the Company provides MRO services.

The Company has 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, are included in cost of sales in our condensed consolidated statements of operations and are not considered a performance obligation to our customers. The Company's reported sales on our condensed consolidated statements of operations are net of any sales or related non income taxes. The Company also utilizes the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value the Company is providing to the customer.

Revision of Prior Period Financial Statements

During the six months ended June 30, 2021, the Company identified and corrected immaterial errors that affected certain of its previously issued consolidated financial statements. These errors related to the misapplication of generally accepted accounting principles in the United States in connection with the classification of the Company's private warrants as equity. The SEC released a Public Statement on April 12, 2021 noting that when one or more features common to warrants in SPAC transactions is included in a warrant, the warrant "should be classified as a liability measured at fair value, with changes in fair value each period reported in earnings." Following review of the SEC's statement, the Company concluded that its private warrants do not meet the conditions to be classified as equity and instead, the private warrants

meet the definition of a derivative under Accounting Standards Codification (“ASC”) 815 “Derivatives and Hedging.” This requires the Company to record the private warrants as a liability measured at fair value on the Company’s Condensed Consolidated Balance Sheets with the changes in fair value each period reported in earnings. As a result, the Company recorded \$0.4 million and \$0.6 million of expense in the three and six month periods ended June 30, 2021, reflected as change in fair value of warrant liability. Accordingly, the Company revised its December 31, 2020 financial statements by recognizing the private warrants as a liability upon the consummation of the Business Combination on December 22, 2020 in the amount of \$1.2 million with a corresponding reduction to additional paid-in capital and retained earnings of \$0.8 million and \$0.4 million, respectively.

The Company determined the impact of the error related to the accounting treatment of private warrants had an immaterial impact with respect to the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2020. However, in order to correctly present the immaterial errors noted above, previously issued comparative financial statements have been revised as of the quarter ended March 31, 2021.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. In July 2018, FASB issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” and ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements.” Although early adoption is permitted, the Company plans to adopt Topic 842 during the first quarter of 2022, on a modified retrospective basis. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” In November 2018, FASB issued ASU No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” which amends the scope and transition requirements of ASU 2016-13. Topic 326 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. Topic 326 will become effective for the Company beginning January 1, 2023, with early adoption permitted, on a modified retrospective basis. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements and related disclosures.

Payroll Support Programs

The Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020 and is intended to assist the economy by issuing a relief package to preserve jobs in industries adversely impacted by the COVID-19 outbreak. On June 8, 2020, the Company entered into an agreement with the U.S. Department of the Treasury to receive \$16.4 million in emergency relief through the CARES Act Payroll Support Program to be paid in installments. The proceeds of the grant are recorded within accrued expenses when received and are recognized as payroll support program proceeds in the condensed consolidated statement of operations over the periods that the funds are intended to compensate. During the six months ended June 30, 2021, we received the remaining balance of \$3.7 million in grant proceeds under the CARES Act Payroll Support Program and this amount has been recognized as payroll support program proceeds in the condensed consolidated statement of operations. No amounts were received under the CARES Act Payroll Support Program during the three months ended June 30, 2021.

As part of the Payroll Support Program Extension Law, we entered into a new agreement with the U.S. Department of the Treasury on March 4, 2021 for the receipt of relief funds of \$5.5 million. During the six months ended June 30, 2021, we received \$5.5 million in grant proceeds under the Payroll Support Program Extension Law. During the three- and six-month periods ended June 30, 2021, \$2.9 million and \$5.5 million was recognized as payroll support program proceeds in the condensed consolidated statements of operations.

Pursuant to the American Rescue Plan Act of 2021 (“ARP”), we entered into a new agreement with the U.S. Department of the Treasury on April 16, 2021 for the receipt of relief funds of an additional \$5.5 million. This amount was recognized as payroll support program proceeds during the three- and six-month periods ended June 30, 2021 in the condensed consolidated statements of operations.

In connection with the financial assistance we have received under the Payroll Support Program, we are required to comply with certain provisions of the 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, furloughs and reductions in employee pay rates and benefits from the signing date of the Payroll Support Program agreement through September 30, 2021. In addition, we are subject to provisions prohibiting the repurchase of common stock and the payment of common stock dividends through September 30, 2022, as well as limitations on the payment of certain employee compensation through April 1, 2023. These restrictions may affect our operations and if we do not comply with these provisions, we may be required to reimburse up to 100% of any previously received relief funds.

NOTE C — SIGNIFICANT RISKS AND UNCERTAINTIES

Impact of Coronavirus (“COVID-19”)

COVID-19 has been declared a global health pandemic by the World Health Organization. In early March 2020, as AerSale began to see the impacts to its customers, the Company took decisive actions to position itself for the short-term impacts of COVID-19, while allowing the Company the flexibility to quickly pursue the opportunities that would follow. The Company cancelled approximately \$20 million of feedstock opportunities under negotiation, as it evaluated the impacts of COVID-19 on asset valuations. The Company also reexamined its structure and executed measures in 2020 to adjust the business through strategic headcount reductions and suspension of various other initiatives, resulting in reduced costs of over \$20 million on an annualized basis.

While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the extent and effectiveness of containment actions, and future restrictions due to different strains, or variants of COVID-19, it has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown.

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):

	June 30, 2021	December 31, 2020	Change
Contract assets	\$ 19,975	\$ 20,431	\$ (456)

Contract assets are reported within accounts receivable on our condensed consolidated balance sheets. Changes in contract assets primarily results from the timing difference between our performance of services. Contract liabilities are reported as deferred revenue on our condensed consolidated balance sheets and amounted to \$2.6 million as of December 31, 2020, of which \$2.2 million was related to contract liabilities for services performed. For the three and six months ended June 30, 2021, the Company recognized as revenue \$0.4 and \$1.4 million of contract liabilities for services performed as the timing between customer payments and our performance of the services is generally no longer than six months.

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 six months ended June 30, 2021 and 2020 (in thousands):

	Three months ended June 30, 2021			Six months ended June 30, 2021		
	Asset Management Solutions	Tech Ops	Total Revenues	Asset Management Solutions	Tech Ops	Total Revenues
USM	\$ 11,244	\$ 1,116	\$ 12,360	\$ 20,469	\$ 2,259	\$ 22,728
Whole asset sales	42,689	-	42,689	56,460	-	56,460
Engineered solutions	-	1,126	1,126	-	2,113	2,113
Total products	53,933	2,242	56,175	76,929	4,372	81,301
Leasing	6,366	-	6,366	12,622	-	12,622
Services	-	29,380	29,380	-	56,433	56,433
Total revenues	\$ 60,299	\$ 31,622	\$ 91,921	\$ 89,551	\$ 60,805	\$ 150,356

	Three months ended June 30, 2020			Six months ended June 30, 2020		
	Asset Management Solutions	Tech Ops	Total Revenues	Asset Management Solutions	Tech Ops	Total Revenues
USM	\$ 6,520	\$ 150	\$ 6,670	\$ 21,569	\$ 1,474	\$ 23,043
Whole asset sales	3,103	-	3,103	3,103	-	3,103
Engineered solutions	-	-	-	-	1,658	1,658
Total products	9,623	150	9,773	24,672	3,132	27,804
Leasing	11,228	-	11,228	27,010	-	27,010
Services	-	24,355	24,355	-	47,677	47,677
Total revenues	\$ 20,851	\$ 24,505	\$ 45,356	\$ 51,682	\$ 50,809	\$ 102,491

NOTE E — INVENTORY

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

	June 30, 2021	December 31, 2020
Used serviceable materials	\$ 62,302	\$ 63,277
Work-in-process	20,518	20,611
Whole assets	89,122	56,767
	\$ 171,942	140,655
Less short term	(110,436)	(85,192)
Long term	\$ 61,506	\$ 55,463

The Company recorded an inventory reserve of \$4.8 million for the three and six months ended June 30, 2021, and an inventory reserve of \$12.9 million for the three and six months ended June 30, 2020. These amounts are included in cost of products in the accompanying condensed consolidated statements of operations, due to the Company's evaluation of the inventory's net realizable value.

The Company recorded inventory scrap loss reserves of \$0.2 million and \$0.1 million for the three months ended June 30, 2021 and 2020, respectively. The Company recorded inventory scrap loss reserves of \$0.2 million and \$0.5 million for the six months ended June 30, 2021 and 2020, respectively, each of which was 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, 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 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 Tech Ops 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):

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
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	<u>\$ 30,190</u>	<u>\$ 30,190</u>

As a result of the COVID-19 pandemic and its impact on the aviation industry, the Company performed a qualitative impairment analysis as of June 30, 2020 on the indefinite lived intangible assets and concluded there was no impairment. Additionally, the Company performed an impairment analysis on the goodwill for both the Asset Management Solutions and Tech Ops segments and concluded that goodwill was not impaired as of June 30, 2020.

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	June 30, 2021	December 31, 2020
Qwest:			
Customer relationships	10	\$ 7,600	\$ 8,083
ALGS:			
Customer relationships	10	80	90
ACS:			
Customer relationships	10	1,558	1,663
ACT:			
Customer relationships	10	7,741	8,198
Total intangible assets with definite lives		<u>\$ 16,979</u>	<u>\$ 18,034</u>

Total amortization expense amounted to \$0.5 million and \$0.7 million for the three months ended June 30, 2021 and 2020, respectively. Total amortization expense amounted to \$1.1 million and \$1.0 million for the six months ended June 30, 2021 and 2020, respectively. Accumulated amortization amounted to \$4.0 million and \$3.0 million as of June 30, 2021 and December 31, 2020, 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. As a result of the COVID-19 pandemic and its impact on the aviation industry, the Company performed an impairment analysis as of June 30, 2020 on the definite-lived intangible assets and concluded there was no impairment.

There was no goodwill activity during the six months ended June 30, 2021. For the six-month period ended June 30, 2020, goodwill increased by \$6.0 million due to the acquisition of ACT.

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	June 30, 2021	December 31, 2020
Tooling and equipment	7 - 15	\$ 13,303	\$ 13,465
Furniture and other equipment	5	7,651	7,379
Computer software	5	2,026	2,378
Leasehold improvements	3 - 6	3,470	3,314
Equipment under capital lease	5	192	197
		<u>26,642</u>	<u>26,733</u>
Less accumulated depreciation		<u>(18,965)</u>	<u>(18,894)</u>
		<u>\$ 7,677</u>	<u>\$ 7,839</u>

Depreciation expense, which includes amortization of equipment under capital lease, amounted to \$0.5 million and \$0.5 million for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense, which includes amortization of equipment under capital lease, amounted to \$1.0 million and \$1.1 million for the six months ended June 30, 2021 and 2020, respectively.

As a result of the COVID-19 pandemic and its impact on the aviation industry, the Company performed an impairment analysis as of June 30, 2020 on the property, plant and equipment and concluded there was no impairment.

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

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

	June 30, 2021	December 31, 2020
Aircraft and engines held for operating leases	\$ 210,593	\$ 228,942
Less accumulated depreciation	(135,694)	(142,098)
	<u>\$ 74,899</u>	<u>\$ 86,844</u>

Total depreciation expense amounted to \$2.2 million and \$5.4 million for the three months ended June 30, 2021 and 2020, respectively. Total depreciation expense amounted to \$4.6 million and \$12.5 million for the six months ended June 30, 2021 and 2020, respectively, and is included in cost of leasing in the condensed consolidated statements of operations.

Supplemental rents recognized as revenue totaled \$1.8 million and \$2.1 million for the three months ended June 30, 2021 and 2020, respectively. Supplemental rents recognized as revenue totaled \$2.9 million and \$7.6 million for the six months ended June 30, 2021 and 2020, respectively.

The Company's current operating lease agreements for flight equipment on lease expire over the next month to three years. The amounts in the following table are based upon the assumption that flight equipment under operating leases will remain on lease 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 at were as follows (in thousands):

Year ending December 31:		
Remainder of 2021	\$	9,950
2022		10,947
2023		2,008
Total minimum lease payments	<u>\$</u>	<u>22,905</u>

NOTE I — ACCRUED EXPENSES

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

	June 30, 2021	December 31, 2020
Accrued compensation and related benefits	\$ 4,642	\$ 6,624
Accrued legal fees	53	18
Commission fee accrual	74	103
Accrued federal, state and local taxes and fees	184	130
Other	1,315	1,701
	<u>\$ 6,268</u>	<u>\$ 8,576</u>

NOTE J – WARRANT LIABILITY

Monocle issued certain public warrants in 2018 which, upon the Closing, were converted into AerSale warrants. Each of the Company's warrants entitles the registered holder to purchase one share of the Company's common stock at a price of \$11.50 per share. The warrants will expire at 5:00 p.m., New York City time, on the fifth anniversary of the completion of the Merger, or earlier upon redemption or liquidation. Warrants to purchase a total of 17,952,589 shares of the Company's common stock were outstanding as of June 30, 2021, of which 750,000 warrants were issued to founders in a private placement (the "Private Warrants") and subject to a twelve-month lock-up period from the date of the Merger. The remaining are public warrants and are exercisable immediately.

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 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 statement of operations. The fair value of the private warrants is determined using the market price of the public warrants adjusted for their lack of liquidity.

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 six months ended June 30, 2021 and 2020, respectively (in thousands, except share and per share data):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ 16,548	\$ (7,938)	\$ 26,566	\$ (6,879)
Reversal of loss on change in value of warrant liability	407	-	631	-
Net income attributable to common shareholders for EPS - diluted	<u>\$ 16,955</u>	<u>\$ (7,938)</u>	<u>\$ 27,197</u>	<u>\$ (6,879)</u>
Weighted-average number of shares outstanding - basic	42,949,261	37,010	42,584,793	37,010
Additional shares from assumed stock-settled restricted stock units	237,243	-	186,420	-
Additional shares from assumed exercise of warrants	1,063,357	-	1,469,201	-
Weighted-average number of shares outstanding - diluted	<u>44,249,861</u>	<u>37,010</u>	<u>44,240,414</u>	<u>37,010</u>
Earnings per share – basic:	\$ 0.39	\$ (214.48)	\$ 0.62	\$ (185.87)
Earnings per share – diluted:	\$ 0.38	\$ (214.48)	\$ 0.61	\$ (185.87)

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

The Asset Management Solutions segment provides short-term and long-term leasing solutions of aircraft and jet engines to passenger and cargo operators worldwide. Assets considered to be at or near the end of their useful lives, supplied by our leasing portfolio or acquisitions, are analyzed for return maximization to assess whether they will be traded as whole assets or disassembled and sold as individual spare parts and components.

The Tech Ops 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 revenues consist 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 activities. Periodically, the Company's Tech Ops segment engages in the repair and sale of used serviceable materials through their ability to overhaul existing inventory.

The accounting policies for the segments are the same as those described in Note B to our consolidated financial statements included in our annual report. Gross profit (loss) is calculated by subtracting cost of sales from sales. 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 expense and income tax expense.

Selected financial information for each segment for the three and six months ended June 30, 2021 and 2020 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues				
Asset Management Solutions				
Aircraft	\$ 24,269	\$ 10,602	\$ 34,721	\$ 24,840
Engine	36,030	10,249	54,830	26,842
	<u>60,299</u>	<u>20,851</u>	<u>89,551</u>	<u>51,682</u>
Tech Ops				
MRO services	29,380	24,355	56,433	47,677
Product sales	2,242	150	4,372	3,132
	<u>31,622</u>	<u>24,505</u>	<u>60,805</u>	<u>50,809</u>
Total	<u>\$ 91,921</u>	<u>\$ 45,356</u>	<u>\$ 150,356</u>	<u>\$ 102,491</u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Gross profit (loss)				
Asset Management Solutions				
Aircraft	\$ 5,178	\$ (9,924)	\$ 9,641	\$ (6,262)
Engine	13,921	1,017	23,045	9,122
	<u>19,099</u>	<u>(8,907)</u>	<u>32,686</u>	<u>2,860</u>
Tech Ops				
MRO services	11,048	6,793	16,074	9,137
Product sales	591	(14)	1,813	1,161
	<u>11,639</u>	<u>6,779</u>	<u>17,887</u>	<u>10,298</u>
Total	<u>\$ 30,738</u>	<u>\$ (2,128)</u>	<u>\$ 50,573</u>	<u>\$ 13,158</u>

The following table reconciles segment gross profit (loss) to net income (loss) for the three and six months ended June 30, 2021 and 2020 (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Segment gross profit (loss)	\$ 30,738	\$ (2,128)	\$ 50,573	\$ 13,158
Selling, general and administrative expenses	(16,966)	(14,036)	(30,276)	(27,237)
Payroll support program proceeds	8,405	6,346	14,768	6,346
Transaction costs	-	16	-	(215)
Interest expense, net	(251)	(504)	(509)	(1,040)
Other income, net	155	95	249	152
Change in fair value of warrant liability	(407)	-	(631)	-
Income tax (expense) benefit	(5,126)	2,273	(7,608)	1,957
Net income (loss)	<u>\$ 16,548</u>	<u>\$ (7,938)</u>	<u>\$ 26,566</u>	<u>\$ (6,879)</u>

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 six months ended June 30, 2021 and 2020, is as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Asset Management Solutions	\$ 536	\$ 832	\$ 1,983	\$ 1,102
Tech Ops	1,328	542	3,486	1,461
Total intersegment revenues	<u>\$ 1,864</u>	<u>\$ 1,374</u>	<u>\$ 5,469</u>	<u>\$ 2,563</u>

NOTE M— COMMITMENTS AND CONTINGENCIES

Litigation

The Company may 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 as defendant 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 existing 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 litigation, if any, in which the Company is involved will materially affect the Company's condensed consolidated financial condition or results of operations.

Lease Commitments

The Company leases office space, warehouses, hangars, computers and equipment in connection with its operations under various operating leases, many of which contain escalation clauses.

Future minimum lease payments under non-cancelable operating leases (with initial lease terms in excess of one year) are (in thousands):

Year ending December 31:

Remainder of 2021	\$ 2,397
2022	3,591
2023	2,755
2024	2,308
2025	1,811
2026	1,846
Thereafter	2,601
Total minimum lease payments	\$ 17,309

Expenses incurred under the operating lease agreements was \$1.6 million for each of the three months ended June 30, 2021 and 2020, respectively. Expenses incurred under the operating lease agreements was \$3.2 million and \$3.1 million for the six months ended June 30, 2021 and 2020, respectively. Operating lease expense is recognized on a straight-line basis over the term of the lease, including any option periods, as appropriate. The same lease term is used for lease classification, the amortization period of related leasehold improvements, and the estimation of future lease commitments.

NOTE N — BUSINESS COMBINATION

On January 7, 2020 the Company acquired all of the outstanding shares of Aircraft Component Technologies, Inc. (ACT), a Florida corporation located in Miami, Florida, for \$17.0 million in cash. The results of ACT operations have been included in the condensed consolidated financial statements since the acquisition date. All assets and liabilities of ACT were recorded at their fair market value, and to the extent that the purchase cost exceeded the fair market value of the net assets, that excess was recorded as goodwill, all of which is deductible for federal income tax purposes. The goodwill is attributable to the general reputation of the business and the collective experience of ACT's management and employees. This business operates as part of our Tech Ops segment. ACT's revenues and income from operations for the three months ended June 30, 2020 were \$1.8 million and \$0.4 million, respectively, and from January 7, 2020 through June 30, 2020 were \$4.0 million and \$1.1 million, respectively. The purchase price for ACT was allocated as follows (in thousands):

	Acquisition Date Fair Values
Accounts receivable	\$ 1,442
Deposits, prepaid expenses, and other current assets	22
Property and equipment	381
Other intangible assets	10,096
Goodwill	6,002
Accounts payable	(134)
Accrued expenses	(833)
Total purchase price	\$ 16,976

The intangible assets included above consist of the following (in thousands):

	Fair Value
Trademark and trade name (indefinite lived)	\$ 200
	Fair Value
FAA part 145 certificate (indefinite lived)	\$ 796

	Useful Life In Years	Fair Value
Customer relationships	10	\$ 9,100

The acquisition of ACT did not have a material impact on the consolidated results of operations for the three- and six-month period ended June 30, 2020.

NOTE O — STOCKHOLDERS' EQUITY

The Consolidated Statements of Stockholders' Equity reflect the Reverse Recapitalization as defined in Item 8, Note B of the Annual Report. As AerSale Aviation was deemed the accounting acquirer in the Reverse Recapitalization with Monocle, all periods prior to the consummation date reflect the balances and activity of AerSale Aviation. The share activity (preferred stock and common stock) and per share amounts in the Consolidated Statements of Stockholders' Equity as of December 31, 2019, from the previously reported audited consolidated financial statements of AerSale Aviation, were retroactively adjusted using the recapitalization exchange ratio of 74.0%.

Common Stock

Prior to the Merger, holders of AerSale Aviation's common stock were entitled to one vote per share, and to receive dividends and, upon liquidation or dissolution, were entitled to receive all assets available for distribution to stockholders. The holders had no preemptive or other subscription rights and there were no redemption or sinking fund provisions with respect to such shares. Common stock was subordinated to the preferred stock with respect to dividend rights and rights upon liquidation, winding up, and dissolution of the Company.

Upon the consummation of the Merger, holders of AerSale Aviation's common stock received shares of the Company's common stock at \$10.00 per share as merger consideration. The Company's common stock consist of \$0.0001 par value, 200,000,000 shares authorized, of which 42,949,261 shares were issued and outstanding as of June 30, 2021.

Earn-Out Shares

Upon consummation of the Merger and in each case on or prior to the fifth anniversary of the Closing, the pre-closing holders of AerSale Aviation's common stock and the holders of in-the-money SARs (as defined in the Merger Agreement) received a contingent right to receive up to 3,000,000 additional shares of the Company's common stock. Additionally, certain pre-closing holders of AerSale Aviation's common stock received a contingent right to receive 746,876 shares of the Company's common stock. Effective February 8, 2020, the contingency event related to the Minimum Target Earn-Out Shares was met and 1,855,634 shares were issued.

The Company determined the Earn-Out Shares to be classified as equity under ASC Topic 815, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" as the contingent right is indexed to the Company's stock and accordingly, the accrual of the Earn-Out shares as of June 30, 2021 had no impact on the Company's consolidated financial statements.

Unvested Founder Shares

Upon the Merger, certain pre-closing holders of AerSale Corporation's common stock agreed to defer the vesting of an aggregate of 700,000 shares (the "Unvested Founder Shares"), half of which will vest at such time as the Minimum Target (as defined in the Merger Agreement) and the other half of which will vest at the Maximum Target (as defined in the Merger Agreement). Effective February 8, 2021, the contingency event related to the Minimum Target was met and half of the Unvested Founder Shares vested. Unvested Founder Shares that have not vested on or prior to the fifth anniversary of the Closing Date will be forfeited.

2020 Equity Incentive Plan

The Company maintains a 2020 Equity Incentive Plan (the “2020 Plan”) and has registered 4,200,000 shares of common stock issuable under the 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 Plans and any agreements and awards thereunder.

Restricted stock unit activity under the 2020 Plan for the six months ended June 30, 2021 was as follows

	Amount	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2020	—	\$ —	\$ —
Granted	1,702,280	10.10	2.49
Outstanding June 30, 2021	<u>1,702,280</u>	<u>\$ 10.10</u>	<u>\$ 2.49</u>

The Company's restricted stock units include 1,595,000 performance-based awards that have vesting provisions subject to both time vesting and the achievement of certain business milestones, while the remaining 107,280 awards vest over a period ranging from one to three years. As of June 30, 2021, no expense has been recognized for these performance-based awards given that the milestone achievements for these awards have not yet been deemed probable for accounting purposes.

2020 Employee Stock Purchase Plan

The Company also maintains a 2020 Employee Stock Purchase Plan (the “ESPP”) and has registered 500,000 shares of common stock issuable under the ESPP. The Company has not issued shares pursuant to the ESPP as of June 30, 2021.

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 included Part II, Item 7 of AerSale’s Annual Report on Form 10-K for the year ended December 31, 2020 (the 2020 Form 10-K). This discussion contains forward-looking statements about our business, operations and industry that involve risks and uncertainties, such as statements regarding AerSale’s plans, objectives, expectations and intentions. Our 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 Annual Report.

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 Exchange Act.

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 will continue as a wholly owned subsidiary of the Company.

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 footprint 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 Tech Ops, comprised of MRO activities for aircraft and their components, and sales of internally developed engineered solutions products.

We focus on mid-life Flight Equipment and monetize them through its 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. Revenues from this segment are segregated between Aircraft and Engine depending on the asset type that generated the revenue. Lease revenues and the related depreciation from aircraft and engines installed on those aircrafts is recognized under the Aircraft category. Revenues 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 Tech Ops 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/tanker conversions of aircraft, and aircraft storage. The Tech Ops 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 owned 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 have 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 activities.

Impact of COVID-19

COVID-19 has been declared a global health pandemic by the World Health Organization. Early in March 2020, as we began to see the impacts to its customers, the Company took decisive actions to position itself for the short-term impacts of COVID-19, while allowing the Company the flexibility to quickly pursue the opportunities that would follow. The Company cancelled approximately \$20.0 million of feedstock opportunities under negotiation, as it evaluated the impacts of COVID-19 on asset valuations. The Company also reexamined its structure and executed measures in 2020 to adjust the business through strategic headcount reductions and suspension of various other initiatives to reduce costs by over \$20.0 million on an annualized basis.

While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the extent and effectiveness of containment actions, and future restrictions due to different strains, or variants of COVID-19, it has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown.

Critical Accounting Policies and Estimates

The preparation of 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. See *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included in Item 7 of the Annual Report for a discussion of our critical accounting policies and use of estimates. There have been no significant changes to the application of our critical accounting policies during fiscal 2021.

Recent Accounting Pronouncements

The most recent adopted and to be adopted accounting pronouncements are described in Note A to our condensed consolidated financial statements as well as in Item 8, Note B of the Annual Report.

Results of Operations

Three months ended June 30, 2021 and 2020

Sales and gross profit (loss) for our two business segments for the three months ended June 30, 2021 and 2020 were as follows:

(in thousands, except percentages)	Three Months Ended June 30,		Percent Change
	2021	2020	
Revenue			
Asset Management Solutions			
Aircraft	\$ 24,269	\$ 10,602	128.9 %
Engines	36,030	10,249	251.5 %
	<u>\$ 60,299</u>	<u>\$ 20,851</u>	<u>189.2 %</u>
Tech Ops			
MRO	\$ 29,380	\$ 24,355	20.6 %
Product Sales	2,242	150	1,394.7 %
	<u>\$ 31,622</u>	<u>\$ 24,505</u>	<u>29.0 %</u>
Total	\$ 91,921	\$ 45,356	102.7 %

(in thousands, except percentages)	Three Months Ended June 30,		Percent Change
	2021	2020	
Gross Profit (Loss)			
Asset Management Solutions			
Aircraft	\$ 5,178	\$ (9,924)	152.2 %
Engines	13,921	1,017	1,268.8 %
	<u>\$ 19,099</u>	<u>\$ (8,907)</u>	<u>314.4 %</u>
Tech Ops			
MRO	\$ 11,048	\$ 6,793	62.6 %
Product Sales	591	(14)	4,321.4 %
	<u>\$ 11,639</u>	<u>\$ 6,779</u>	<u>71.7 %</u>
Total	\$ 30,738	\$ (2,128)	1,544.5 %

Total revenues increased \$46.5 million or 102.7% to \$91.9 million for the three months ended June 30, 2021, from \$45.4 million for the three months ended June 30, 2020, driven by an increase of \$39.4 million, or 189.2%, within Asset Management Solutions, and an increase of \$7.1 million, or 29.0%, within Tech Ops.

Asset Management Solutions

Sales in the Asset Management Solutions segment increased \$39.4 million or 189.2%, to \$60.3 million for the three months ended June 30, 2021, from \$20.9 million for the three months ended June 30, 2020. This was primarily due to a \$13.6 million, or 128.9%, increase in revenues from Aircraft, and a \$25.8 million, or 251.5%, increase in revenues from Engines. The increase in Aircraft revenues is primarily attributable to increased activity in the B757 product line due to higher trading volume in the amount of \$16.5 million, partially offset by lower leasing activity. The increase in Engines revenues is primarily attributable to increased activity in the RB211 product line as a result of higher trading volume, resulting in an increase of \$23.1 million, and higher USM part sales in the CF6-80, PW4000, and RB211 product lines totaling \$4.7 million, partially offset by lower leasing revenue in the CF6-80, PW4000, V2500, and CFM56 product lines of \$2.0 million. The reductions in leasing revenues is attributable to the global decrease in demand for flight hours in response to the COVID-19 pandemic.

Cost of sales in the Asset Management Solutions segment increased \$11.4 million or 38.5%, to \$41.2 million for the three months ended June 30, 2021, compared to \$29.8 million for the three months ended June 30, 2020. The increase in cost of sales was primarily driven by the sales increase discussed above. Gross profit in the Asset Management Solutions segment increased \$28.0 million, to \$19.1 million for the three months ended June 30, 2021, from a loss of \$8.9 million for the three months ended June 30, 2020. The margin increase is mainly attributable to higher margins generated on flight equipment sales in the amount of \$17.3 million, lower inventory obsolescence reserves of \$8.1 million, and no impairment of flight equipment for the three months ended June 30, 2021.

Aircraft gross profit margins increased to 21.3% for the three months ended June 30, 2021, from a gross loss margin of 93.6% for the three months ended June 30, 2020 due to higher margins generated by flight equipment sales as noted above and lower inventory obsolescence reserves. Engines gross profit margins was 38.6% for the three months ended June 30, 2021, an increase from 9.9% for the three months ended June 30, 2020, which was primarily the result of higher margin on flight equipment sales, no inventory obsolescence reserves and no impairment of flight equipment for the three months ended June 30, 2021.

Tech Ops

Our revenue from Tech Ops increased by \$7.1 million or 29.0%, to \$31.6 million for the three months ended June 30, 2021, compared to \$24.5 million for the three months ended June 30, 2020. The increase was primarily driven by increased demand for maintenance and storage programs, including preservation work, as a result of the increase in fleet groundings due to reduced passenger flight volume related to COVID-19.

Cost of sales in Tech Ops increased \$2.3 million or 12.7%, to \$20.0 million for the three months ended June 30, 2021, from \$17.7 million for the three months ended June 30, 2020, which is directly related to higher revenues noted above. Gross profit in Tech Ops increased \$4.9 million or 71.7%, to \$11.6 million for the three months ended June 30, 2021, compared to \$6.8 million for the three months ended June 30, 2020. The increase in gross profit is primarily attributable to increased contributions from maintenance and storage programs. Gross profit margin increased to 36.8% for the three months ended June 30, 2021 compared to 27.7% for the three months ended June 30, 2020, and was largely attributable to an overall change in the product mix of the segment as a result of the COVID-19 pandemic.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$3.0 million, or 20.9% to \$17.0 million for the three months ended June 30, 2021, as compared to \$14.0 million for the three months ended June 30, 2020. The increase was mostly related to the adjustment of cost saving initiatives previously implemented in response to the COVID-19 pandemic in 2020, of which some were temporary in nature and have been adjusted to support the increased volume during 2021.

Payroll Support Program Proceeds

The Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020 and is intended to assist the economy by issuing a relief package to preserve jobs in industries adversely impacted by the COVID-19 outbreak. On June 8, 2020, the Company entered into an agreement with the U.S. Department of the Treasury to receive \$16.4 million in emergency relief through the CARES Act Payroll Support Program to be paid in installments. The proceeds of the grant are recorded within accrued expenses when received and are recognized as payroll support program proceeds in the condensed consolidated statement of operations over the periods that the funds are intended to compensate. During the three months ended June 30, 2021, no amounts were received or recognized under this program.

As part of the Payroll Support Program Extension Law, we entered into a new agreement with the U.S. Department of the Treasury on March 4, 2021 for the receipt of relief funds of \$5.5 million, which had been fully received prior to the three-month period ended June 30, 2021. During the three months ended June 30, 2021, \$2.9 million was recognized as payroll support program proceeds.

As part of the American Rescue Plan Act of 2021 (“ARP”), we entered into a new agreement with the U.S. Department of the Treasury on April 16, 2021 for the receipt of relief funds of an additional \$5.5 million. During the three months ended June 30, 2021, the full amount has been received and recognized as payroll support program proceeds.

In connection with the financial assistance we have received under the Payroll Support Program, we are required to comply with certain provisions of the CARES Act and ARP, 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. In addition, we are subject to provisions prohibiting the repurchase of common stock and the payment of common stock dividends through September 30, 2022, as well as limitations on the payment of certain employee compensation through April 1, 2023. These restrictions may affect our operations and if we do not comply with these provisions, we may be required to reimburse up to 100% of any previously received relief funds.

Interest Expense

Interest expense decreased to \$0.3 million for the three months ended June 30, 2021, as compared to \$0.5 million for the three months ended June 30, 2020 and was primarily related to unused balance fees on the Revolving Credit Agreement as well as interest on the outstanding balance under this facility during the three month ended June 30, 2020.

Income Taxes

The effective tax rate from continuing operations for the three months ended June 30, 2021 was 23.7% compared to 22.3% for the three months ended June 30, 2020

Six months ended June 30, 2021 and 2020

Sales and gross profit (loss) for our two business segments for the six months ended in June 30, 2021 and 2020 were as follows:

(in thousands, except percentages)	Six Months Ended June 30,		Percent Change
	2021	2020	
Revenue			
Asset Management Solutions			
Aircraft	\$ 34,721	\$ 24,840	39.8 %
Engines	54,830	26,842	104.3 %
	<u>\$ 89,551</u>	<u>\$ 51,682</u>	<u>73.3 %</u>
Tech Ops			
MRO	\$ 56,433	\$ 47,677	18.4 %
Product Sales	4,372	3,132	39.6 %
	<u>\$ 60,805</u>	<u>\$ 50,809</u>	<u>19.7 %</u>
Total	\$ 150,356	\$ 102,491	46.7 %

(in thousands, except percentages)	Six Months Ended June 30,		Percent Change
	2021	2020	
Gross Profit (Loss)			
Asset Management Solutions			
Aircraft	\$ 9,641	\$ (6,262)	254.0 %
Engines	23,045	9,122	152.6 %
	<u>\$ 32,686</u>	<u>\$ 2,860</u>	<u>1,042.9 %</u>
Tech Ops			
MRO	\$ 16,074	\$ 9,137	75.9 %
Product Sales	1,813	1,161	56.2 %
	<u>\$ 17,887</u>	<u>\$ 10,298</u>	<u>73.7 %</u>
Total	\$ 50,573	\$ 13,158	284.4 %

Total revenues increased \$47.9 million or 46.7% to \$150.4 million for the six months ended June 30, 2021, from \$102.5 million for the six months ended June 30, 2020, driven by an increase of \$37.9 million, or 73.3%, within Asset Management Solutions, and an increase of \$10.0 million, or 19.7%, within Tech Ops.

Asset Management Solutions

Sales in the Asset Management Solutions segment increased \$37.9 million, or 73.3%, to \$89.6 million for the six months ended June 30, 2021, from \$51.7 million for the six months ended June 30, 2020. This was primarily due to a \$9.9 million, or 39.8%, increase in revenues from Aircraft, and a \$28.0 million, or 104.3%, increase in revenues from Engines. The increase in Aircraft revenues is primarily attributable to increased activity in the B757 product line due to higher trading volume in the amount of \$20.4 million and an increase in USM part sales in the B767 and other various product lines, partially offset by lower leasing activity primarily in the B747 product line. The increase in Engines revenues is primarily attributable to increased activity in the RB211 and PW4000 product line as a result of higher trading volume and USM part sales, resulting in an increase of \$34.8 million, partially offset by lower leasing and USM part sales in the CF6-80, V2500, and CFM56 product lines totaling \$7.2 million. The reductions in leasing and USM part sales are attributable to the global decrease in demand for flight hours in response to the COVID-19 pandemic.

Cost of sales in the Asset Management Solutions segment increased \$8.1 million or 16.5%, to \$56.9 million for the six months ended June 30, 2021, compared to \$48.8 million for the six months ended June 30, 2020. The increase in cost of sales was primarily driven by the sales increase discussed above. Gross profit in the Asset Management Solutions

segment increased \$29.8 million or 1,042.9%, to \$32.7 million for the six months ended June 30, 2021, from \$2.9 million for the six months ended June 30, 2020. The margin increase is mainly attributable to higher margins generated on flight equipment sales in the amount of \$24.8 million, lower obsolescence reserves on inventory of \$8.1 million, and no impairment of flight equipment for the six months ended June 30, 2021.

Aircraft gross profit margins increased to 27.8% for the six months ended June 30, 2021, from a gross loss reported of 25.2% for the six months ended June 30, 2020 due to higher margins generated by flight equipment sales as noted above and lower inventory obsolescence reserves. Engines gross profit margins was 42.0% for the six months ended June 30, 2021, an increase from 34.0% for the six months ended June 30, 2020, which was primarily the result of higher margins generated by flight equipment sales as noted above, no inventory obsolescence reserves and no flight equipment impairment for the six months ended June 30, 2021.

Tech Ops

Our revenue from Tech Ops increased by \$10.0 million or 19.7%, to \$60.8 million for the six months ended June 30, 2021, compared to \$50.8 million for the six months ended June 30, 2020. The increase was primarily driven by increased demand for maintenance and storage programs, including preservation work, as a result of the increase in fleet groundings due to reduced passenger flight volume related to COVID-19.

Cost of sales in Tech Ops increased \$2.4 million or 5.9%, to \$42.9 million for the six months ended June 30, 2021, from \$40.5 million for the six months ended June 30, 2020, which is directly related to improved margins on the heavy MRO business. Gross profit in Tech Ops increased \$7.6 million or 73.7%, to \$17.9 million for the six months ended June 30, 2021, compared to \$10.3 million for the six months ended June 30, 2020. The increase in gross profit was primarily attributable to increased contributions from maintenance and storage programs. Gross profit margin increased to 29.4% for the six months ended June 30, 2021 compared to 20.3% for the six months ended June 30, 2020, and was largely attributable to an overall change in the product mix of the segment as a result of the COVID-19 pandemic.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$3.0 million, or 11.2% to \$30.3 million for the six months ended June 30, 2021, as compared to \$27.2 million for the six months ended June 30, 2020. The increase was mostly related to the adjustment of cost saving initiatives previously implemented in response to the COVID-19 pandemic in 2020, of which some were temporary in nature and have been adjusted to support the increased volume during 2021.

Payroll Support Program Proceeds

As part of the CARES Act, we received and recognized payroll support program proceeds of \$3.7 million during the six months ended June 30, 2021.

As part of the Payroll Support Program Extension Law, we received and recognized payroll support program proceeds of \$5.5 million during the six months ended June 30, 2021.

As part of the American Rescue Plan Act of 2021, we received and recognized payroll support program proceeds of \$5.5 million during the six months ended June 30, 2021.

Interest Expense

Interest expense decreased to \$0.5 million for the six months ended June 30, 2021, as compared to \$1.0 million for the six months ended June 30, 2020 and was primarily related to unused balance fees on the Revolving Credit Agreement as well as interest on the outstanding balance under that facility during the six months ended June 30, 2020.

Income Taxes

The effective tax rate from continuing operations for the six months ended June 30, 2021 was 22.3% compared to 22.1% for the six months ended June 30, 2020.

Financial Position, Liquidity and Capital Resources

As of June 30, 2021, we had \$41.8 million of cash and cash equivalents. We finance our growth through cash flows generated from operations and borrowings secured by our assets. There were no borrowings during the six months ended June 30, 2021. We had no outstanding balance on the Company credit facility as of June 30, 2021, and we had \$137.1 million of availability thereunder. We generated cash flows from operations of \$8.6 million for the six months ended June 30, 2021, and generated cash flows from investing activities of \$3.6 million for the six months ended June 30, 2021.

Cash Flows— six months ended June 30, 2021 compared to six months ended June 30, 2020

Cash Flows from Operating Activities

Net cash provided by operating activities was \$8.6 million for the six months ended June 30, 2021, compared to cash provided from operating activities of \$38.3 million for the same period in 2020. The decrease of \$29.7 million was primarily attributable to the timing of inventory purchases, which was mostly driven by the acquisition of Flight Equipment, as well as lower collections of trade receivables.

Cash Flows from Investing Activities

Net cash provided by investing activities was \$3.6 million for the six months ended June 30, 2021, compared to cash used of \$15.2 million in the same period for 2020. Cash provided from investing activities during the six months ended June 30, 2021 is primarily related to the sale of flight equipment totaling \$4.4 million, compared to cash used to acquire the ACT business unit during the six months ended June 30, 2020 for a total of \$17.0 million.

Cash Flows from Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2021 was \$0.3 million, compared to cash used of \$3.4 million in the same period for 2020. The cash provided by financing activities for the six months ended June 30, 2021 is driven by proceeds from the exercise of warrants. The cash used in financing activities for the six months ended June 30, 2020 is primarily driven by repayment of long-term debt from available cash.

Debt Obligations and Covenant Compliance

Our amended and restated revolving credit agreement (the “Revolving Credit Agreement”) provided commitments for a \$110.0 million revolving credit facility and includes a \$10.0 million sub facility for letters of credit and for borrowings on same-day notice referred to as “swingline loans.” 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.

Effective March 12, 2021, we amended our Revolving Credit Agreement to increase to \$150.0 million aggregate amount of revolver commitments subject to borrowing base limitations and extend the maturity date to March 12, 2024, subject to certain conditions.

As of June 30, 2021, there was no outstanding balance under the Revolving Credit Agreement and we had \$137.1 million of availability thereunder. We were in compliance with our debt covenants as of June 30, 2021.

Contractual Obligations

Repayments of our gross debt obligations primarily consist of scheduled installments due under our lease commitments and are funded by the use of unrestricted cash reserves and from cash flows from ongoing operations. The table below summarizes our contractual commitments at December 31, 2020:

	Total	Payment due by period (in thousands)			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
\$150.0 million Senior Secured Revolving Credit Facility	\$ —	\$ —	\$ —	\$ —	\$ —
Revolving Credit Facility - Interest	—	—	—	—	—
Operating Lease Commitments	19,857	4,945	8,655	6,257	—
Capital Lease Commitments	197	181	16	—	—
	<u>\$ 20,054</u>	<u>\$ 5,126</u>	<u>\$ 8,671</u>	<u>\$ 6,257</u>	<u>\$ —</u>

We believe our equity base, internally generated funds, and existing availability under its debt facility are sufficient to maintain our level of operations through June 30, 2022. 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.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2021.

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 our Amended and Restated Credit Agreement, or the Credit Facility, which has variable interest rates tied to LIBOR. As of June 30, 2021, we had no outstanding variable rate borrowings under our Credit Facility. Therefore, a ten percent increase in the average interest rate affecting our variable rate debt outstanding as of June 30, 2021 would not have had a material impact on our interest expense, financial position or continuing operations.

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 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 months ended June 30, 2021.

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 June 30, 2021.

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 June 30, 2021.

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 June 30, 2021 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

We are not subject to any material legal proceedings.

ITEM 1A RISK FACTORS

There are no material changes in the information reported under Part I – Item 1A “Risk Factors” contained in the Annual Report.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Equity Securities

None.

Use of Proceeds

On February 7, 2019, Monocle consummated its initial public offering (the “Monocle IPO”), generating total gross proceeds of \$172.5 million. Simultaneously with the consummation of the Monocle IPO, Monocle also consummated a private placement (the “Monocle Private Placement”), generating total proceeds of \$7,175,000.

The proceeds from the IPO and the Private Placement were placed in a trust account, the remainder of which following the payment of closing costs was transferred to our balance sheet. As of the date of this Quarterly Report on Form 10-Q, the proceeds of these transactions have been fully applied.

After deducting payments to existing shareholders of \$165.8 million in connection with their exercise of redemption rights and the payment of \$10.2 million of expenses paid from the trust account, the remainder of the trust account is now held on our balance sheet to fund our operations and continued growth. There has been no material change in the expected use of net proceeds.

Issuer Purchases of Equity Securities

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

None.

ITEM 6 EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Second 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	
2.2	Amendment No. 1 to the Second 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.					*
3.4	Amended and Restated Bylaws 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	

[Table of Contents](#)

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed/ Furnished Herewith
		Form	File No.	Exhibit		
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
101.INS	Inline XBRL Instance 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 contined in Exhibits 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: August 09, 2021

By: /s/ Nicolas Finazzo
Nicolas Finazzo
Chairman, Chief Executive Officer, Division President,
TechOps and Director
(*Principal Executive Officer*)

Date: August 09, 2021

By: /s/ Martin Garmendia
Martin Garmendia
Chief Financial Officer, Treasurer and Secretary
(*Principal Financial and Accounting Officer*)

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "AERSALE CORPORATION", FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF JUNE, A.D. 2021, AT 12:09 O`CLOCK P.M.


Jeffrey W. Bullock, Secretary of State

7723637 8100
SR# 20212478583
You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 203471556
Date: 06-17-21

**CERTIFICATE OF AMENDMENT
TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF
AERSALE CORPORATION**

AerSale Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "General Corporation Law"), does hereby certify as follows:

- FIRST: That Section 5.4 of Article V of the Amended and Restated Certificate of Incorporation of the Corporation, as amended (the "Restated Certificate") is hereby amended and restated to read, in its entirety, as follows:
- "Section 5.4 Removal. Subject to Section 5.5 hereof, any or all of the directors may be removed from office at any time, with or without cause, by the affirmative vote of holders of a majority of the voting power of all then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class."
- SECOND: That Section 5.3 of Article V of the Restated Certificate is hereby amended and restated to read, in its entirety, as follows:
- "Section 5.3 Newly Created Directorships and Vacancies. Subject to Section 5.5 hereof, newly created directorships resulting from an increase in the number of directors and any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal or other cause may be filled solely and exclusively by a majority vote of the remaining directors then in office, even if less than a quorum, or by a sole remaining director (and not by stockholders), and any director so chosen shall hold office until the next annual meeting of stockholders and until his or her successor has been elected and qualified, subject, however, to such director's earlier death, resignation, retirement, disqualification or removal."
- THIRD: That, at an annual meeting of stockholders of the Corporation, the aforesaid amendments were duly adopted by the stockholders of the Corporation.
- FOURTH: That, the aforesaid amendments were duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law.

State of Delaware
Secretary of State
Division of Corporations
Delivered 12:09 PM 06/17/2021
FILED 12:09 PM 06/17/2021
SR 20212478583 - File Number 7723637

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its Chief Executive Officer on this 17th day of June, 2021.

AERSALE CORPORATION

By: /s/ Nicolas Finazzo

Name: Nicolas Finazzo

Title: Chief Executive Officer

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: August 09, 2021

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

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: August 09, 2021

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

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

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