Wesco Aircraft Holdings, Inc
Form 10-Q
August 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 001-35253

WESCO AIRCRAFT HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-5441563
(State of Incorporation)	(I.R.S. Employer Identification Number)

24911 Avenue Stanford
Valencia, CA 91355
(Address of Principal Executive Offices and Zip Code)

(661) 775-7200
(Registrant’s Telephone Number, Including Area Code)

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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	
		Smaller reporting company	o
		Emerging growth company	o

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. o

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

The number of shares of common stock (par value $0.001 per share) of the registrant outstanding as of July 26, 2018 was 99,493,882.

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PART I — FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.
Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	June 30, 2018	September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$45,588	$ 61,625
Accounts receivable, net of allowance for doubtful accounts of $3,318 and $3,109 at June 30, 2018 and September 30, 2017, respectively	302,101	256,301
Inventories	893,472	827,870
Prepaid expenses and other current assets	14,498	13,733
Income taxes receivable	2,568	3,617
Total current assets	1,258,227	1,163,146
Property and equipment, net	45,509	50,355
Deferred debt issuance costs, net	3,181	3,676
Goodwill	266,644	266,644
Intangible assets, net	167,151	178,292
Deferred tax assets	74,618	76,038
Other assets	15,062	15,956
Total assets	$1,830,392	$ 1,754,107
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$192,926	$ 184,273
Accrued expenses and other current liabilities	40,003	35,329
Income taxes payable	12,382	3,290
Capital lease obligations, current portion	2,110	2,952
Short-term borrowings and current portion of long-term debt	101,500	75,000
Total current liabilities	348,921	300,844
Capital lease obligations, less current portion	2,500	2,013
Long-term debt, less current portion	775,742	788,838
Deferred income taxes	3,798	3,197
Other liabilities	17,088	9,484
Total liabilities	1,148,049	1,104,376
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value per share: 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value, 950,000,000 shares authorized, 99,493,882 and 99,450,902 shares issued and outstanding at June 30, 2018 and September 30, 2017, respectively	99	99
Additional paid-in capital	442,745	436,522
Accumulated other comprehensive loss	(83,617)	(84,626)
Retained earnings	323,116	297,736
Total stockholders' equity	682,343	649,731

Total liabilities and stockholders' equity	$1,830,392	$1,754,107

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Statements of Earnings and Comprehensive Income
(In thousands, except share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$410,359	$363,907	$1,163,633	$1,067,877
Cost of sales	306,162	273,699	859,277	793,457
Gross profit	104,197	90,208	304,356	274,420
Selling, general and administrative expenses	74,869	66,313	217,260	192,071
Goodwill impairment	—	311,114	—	311,114
Income (loss) from operations	29,328	(287,219)	87,096	(228,765)
Interest expense, net	(12,717)	(9,614)	(36,520)	(29,529)
Other income, net	239	256	391	289
Income (loss) before income taxes	16,850	(296,577)	50,967	(258,005)
(Provision) benefit for income taxes	(6,096)	66,969	(25,587)	58,946
Net income (loss)	10,754	(229,608)	25,380	(199,059)
Other comprehensive (loss) income, net of income taxes	(3,106)	960	1,009	(4,722)
Comprehensive income (loss)	$7,648	$(228,648)	$26,389	$(203,781)
Net income (loss) per share:				
Basic	$0.11	$(2.32)	$0.26	$(2.02)
Diluted	$0.11	$(2.32)	$0.26	$(2.02)
Weighted average shares outstanding:				
Basic	99,180,632	98,869,675	99,137,710	98,558,330
Diluted	99,739,217	98,869,675	99,396,613	98,558,330

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Cash flows from operating activities		
Net income (loss)	$25,380	$(199,059)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	21,909	20,812
Amortization of deferred debt issuance costs	4,300	5,136
Bad debt and sales return reserve	503	(252)
Goodwill impairment	—	311,114
Stock-based compensation expense	6,286	5,958
Inventory provision	10,976	9,109
Deferred income taxes	523	(62,231)
Other non-cash items	(678)	528
Subtotal	69,199	91,115
Changes in assets and liabilities:		
Accounts receivable	(47,008)	(15,972)
Income taxes receivable	995	86
Inventories	(76,884)	(100,708)
Prepaid expenses and other assets	1,608	(1,854)
Accounts payable	9,122	(5,675)
Accrued expenses and other liabilities	14,648	6,905
Income taxes payable	9,255	(6,743)
Net cash used in operating activities	(19,065)	(32,846)
Cash flows from investing activities		
Purchase of property and equipment	(4,009)	(6,831)
Net cash used in investing activities	(4,009)	(6,831)
Cash flows from financing activities		
Proceeds from short-term borrowings	67,500	60,000
Repayment of short-term borrowings	(41,000)	(12,000)
Repayment of long-term debt	(15,000)	(16,344)
Debt issuance costs	(1,900)	(12,796)
Repayment of capital lease obligations	(2,207)	(1,278)
Net proceeds from exercise of stock options	63	2,965
Settlement on restricted stock tax withholding	(126)	(264)
Net cash provided by financing activities	7,330	20,283
Effect of foreign currency exchange rate on cash and cash equivalents	(293)	(611)
Net decrease in cash and cash equivalents	(16,037)	(20,005)
Cash and cash equivalents, beginning of period	61,625	77,061
Cash and cash equivalents, end of period	$45,588	$57,056

See the accompanying notes to the consolidated financial statements

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Wesco Aircraft Holdings, Inc. & Subsidiaries
Notes to the Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Wesco Aircraft Holdings, Inc. and its wholly owned subsidiaries (referred to herein as Wesco or the Company) prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements presented herein have not been audited by an independent registered public accounting firm, but include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for fair statement of the financial position, results of operations and cash flows for the period. However, these results are not necessarily indicative of results for any other interim period or for the full fiscal year. The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. Actual amounts could differ from these estimates. Our financial statements have been prepared under the assumption that our Company will continue as a going concern.

Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted pursuant to the rules of the Securities and Exchange Commission (the SEC). The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on November 29, 2017 (the 2017 Form 10-K).

Certain reclassifications have been made to the amounts in prior periods to conform to the current period’s presentation.

Note 2. Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASUs) to the FASB’s Accounting Standards Codification (ASC).

We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

New Accounting Standards Issued

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which specifies the modification accounting applicable to any entity that changes the terms or conditions of a share-based payment award. ASU 2017-09 is effective for the Company in fiscal year 2019. Early adoption is permitted. We do not anticipate the adoption of ASU 2017-09 will have a significant impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the current requirements for testing goodwill for impairment by eliminating the second step of the two-step impairment test to measure the amount of an impairment loss. ASU 2017-04 is effective for the Company in fiscal year 2021, including interim reporting periods within that reporting period, and all annual and interim reporting periods thereafter. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet a right-of-use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. ASU 2016-02 also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. A modified retrospective transition approach shall be used when adopting ASU 2016-02, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for the Company in fiscal year 2020 and interim periods therein, with early application permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements. As of September 30, 2017, total future minimum payments under our operating leases amounted to $51.4 million.

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 is effective for the Company in fiscal year 2019, with early adoption permitted for certain provisions. We are currently evaluating the impact of ASU 2016-01 related to equity investments and the presentation and disclosure requirements of financial instruments on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20, ASU 2017-10, ASU 2017-13 and ASU 2017-14, which FASB issued in August 2015, March 2016, April 2016, May 2016, May 2016, December 2016, May 2017, September 2017 and November 2017, respectively (collectively, the amended ASU 2014-09). The amended ASU 2014-09 provides a single comprehensive model for the recognition of revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It requires an entity to recognize revenue when the entity transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amended ASU 2014-09 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which includes (1) identifying the contract(s) with the customer, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. The amended ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date for the amended ASU 2014-09 for the Company is fiscal year 2019, including interim reporting periods within that reporting period.

The amended ASU 2014-09 may have an impact on the timing and amount of revenues and cost of sales in our industry due primarily to changes in whether certain performance obligations are accounted for on a gross or net basis, separating service revenue from the related product revenue, reporting costs currently included in operating expense as costs of services, and capitalizing certain up-front costs related to contracts and amortizing them over the service period. We have completed reviewing our contracts to determine the extent to which these and other issues may impact our results after adoption and are in the process of finalizing our findings from such review before establishing our new accounting policy and control procedures for the amended ASU 2014-09, which we plan to adopt on October 1, 2018 using the modified retrospective method.

Adopted Accounting Standards

Effective April 1, 2018, we early adopted ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU 2017-12 expands the eligibility of hedging strategies that qualify for hedge accounting, changes the assessment of hedge effectiveness and modifies the presentation and disclosure of hedging activities. The adoption of ASU 2017-12 did not have a material impact on our consolidated financial statements.
Effective October 1, 2017, we early adopted ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates the requirement that when an investment subsequently qualifies for use of the equity method as a result of an increase in level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. ASU 2016-07 requires that the equity method investor add the cost of acquiring the

additional interest in the investee to the current basis of the investor's previously held interest and to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. In addition, ASU 2016-07 requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The adoption of ASU 2016-07 did not have a material impact on our consolidated financial statements.

Effective October 1, 2017, we adopted ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires an entity to measure inventory at the lower of cost and net realizable value and eliminates current GAAP options for measuring market value. ASU 2015-11 defines realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial statements.

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Note 3. Inventory

Our inventory is comprised solely of finished goods. We record provisions to write down excess and obsolete (E&O) inventory to estimated realizable value.

We continually assess and refine our methodology for evaluating E&O inventory based on current facts and circumstances. Our methodology utilizes factors such as historical demand and subjective judgments and estimates to project future demand of our products. As such, the provisions we record to write down E&O inventory may fluctuate significantly in future periods.

During the three months ended June 30, 2018 and 2017, charges to cost of sales related to provisions for E&O inventory and related items were $6.2 million and $3.8 million, respectively. During the nine months ended June 30, 2018 and 2017, charges to cost of sales related to provisions for E&O inventory and related items were $10.9 million and $9.1 million, respectively. We believe that these amounts appropriately write-down E&O inventory to its net realizable value.

Note 4. Goodwill

As of June 30, 2018, goodwill consists of the following (in thousands):

	Americas	EMEA	APAC	Total
Goodwill as of September 30, 2017, gross	$773,384	$51,190	$16,955	$841,529
Accumulated impairment	(569,201)	—	(5,684)	(574,885)
Goodwill as of September 30, 2017, net	204,183	51,190	11,271	266,644
Changes during the period	—	—	—	—
Goodwill as of June 30, 2018, gross	773,384	51,190	16,955	841,529
Accumulated impairment	(569,201)	—	(5,684)	(574,885)
Goodwill as of June 30, 2018, net	$204,183	$51,190	$11,271	$266,644

Note 5. Fair Value of Financial Instruments

Derivative Financial Instruments

We use derivative instruments primarily to manage exposures to foreign currency exchange rates and interest rates. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with fluctuations in foreign exchange rates and changes in interest rates. Our derivatives expose us to credit risk to the extent that the counter-parties may be unable to meet the terms of the agreement. We, however, seek to mitigate such risks by limiting our counter-parties to major financial institutions. In addition, the potential risk of loss with any one counter-party resulting from this type of credit risk is monitored. Management does not expect material losses as a result of defaults by counter-parties.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We have three interest rate swap agreements outstanding, which we have designated as a cash flow hedge, in order to reduce our exposure to variability in cash flows related to interest payments on a portion of our outstanding debt. The first interest rate swap agreement (the "First Swap Agreement") has an amortizing notional amount, which was $300.0 million on June 30, 2018, and matures on September 30, 2019, giving us the contractual right to pay a fixed interest rate of 2.2625% plus the applicable margin under the term loan B facility (as defined in Note 6 below; see Note 6 for the applicable margin). The remaining two interest rate swap agreements (the “Remaining Swap Agreements”), entered into on May 14, 2018, have variable notional amounts which initially will increase in amount approximately equal to amortization of the notional amount of the First Swap Agreement and then amortize thereafter. The Remaining Swap Agreements totaled $140.5 million on June 30, 2018, and mature on February 26, 2021, giving us the contractual right to pay a fixed interest rate of 2.79% plus the applicable margin under the term loan B facility (as defined in Note 6 below; see Note 6 for the applicable margin).

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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended June 30, 2018, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. No portion of our interest rate swap agreements is excluded from the assessment of hedge effectiveness.

Amounts reported in AOCI related to derivatives and the related deferred tax are reclassified to interest expense as interest payments are made on our variable-rate debt. As of June 30, 2018, we expect to reclassify $0.7 million from accumulated other comprehensive gain and the related deferred tax to earnings as a decrease to interest expense over the next 12 months when the underlying hedged item impacts earnings.

Non-Designated Derivatives

On October 3 and October 5, 2016, we entered into two foreign currency forward contracts to partially reduce our exposure to foreign currency fluctuations for a subsidiary's net monetary assets, which are denominated in a foreign currency. Both foreign currency forward contracts expired on December 28, 2016. On January 6, 2017, we entered into one foreign currency forward contract to partially reduce our exposure to foreign currency fluctuations for a subsidiary's net monetary assets, which are denominated in a foreign currency. The foreign currency forward contract expired on March 30, 2017. The derivatives were not designated as a hedging instrument. The change in their fair value is recognized as periodic gain or loss in the other income (loss), net line of our consolidated statement of earnings and comprehensive income. We did not have foreign currency forward contracts as of June 30, 2018 and September 30, 2017.

The following table summarizes the notional principal amounts at June 30, 2018, and September 30, 2017 of our outstanding interest rate swap agreements discussed above (in thousands).

	Derivative Notional	
	June 30, 2018	September 30, 2017
Instruments designated as accounting hedges:		
Interest rate swap contracts	$440,500	$ 375,000

The following table provides the location and fair value amounts of our financial instruments, which are reported in our consolidated balance sheets as of June 30, 2018 and September 30, 2017 (in thousands).

	Balance Sheet Locations	Fair Value	
		June 30, 2018	September 30, 2017
Instruments designated as accounting hedge:			
Interest rate swap contracts	Other current assets	$730	$ —
Interest rate swap contracts	Other assets	721	—

Interest rate swap contracts	Accrued expenses and other current liabilities	617	2,462
Interest rate swap contracts	Other liabilities	—	903

The following table provides the losses of our cash flow hedging instruments (net of income tax benefit), which were transferred from AOCI to interest expense on our consolidated statements of earnings and comprehensive income during the three and nine months ended June 30, 2018 and 2017 (in thousands).

Cash Flow Hedge	Location in Consolidated Statements of Earnings and Comprehensive Income	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Interest rate swap contracts	Interest income (expense), net	$20	$(39)	$(841)	$(428)
Total interest expense, net presented in the consolidated statements of earnings and comprehensive income in which the above effects of cash flow hedges are recorded		$(12,717)	$(9,614)	$(36,520)	$(29,529)

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The following table provides the effective portion of the amount of (loss) gain recognized in other comprehensive (loss) income (net of income taxes) for the three and nine months ended June 30, 2018 and 2017 (in thousands).

	Three Months Ended June 30,		Nine Months Ended June 30,	
Cash Flow Hedge	2018	2017	2018	2017
Interest rate swap contracts	$(91)	$(474)	$2,740	$1,976

The following table provides a summary of changes to our AOCI related to our cash flow hedging instrument (net of income taxes) during the three and nine months ended June 30, 2018 (in thousands).

AOCI - Unrealized Gain (Loss) on Hedging Instruments	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2018
Balance at beginning of period	$698	$(2,133)
Change in fair value of hedging instruments	(71)	1,899
Amounts reclassified to earnings	(20)	841
Net current period other comprehensive (loss) income	(91)	2,740
Balance at end of period	$607	$607

The following table provides the pretax effect of our derivative instruments not designated as hedging instruments on our consolidated statements of earnings and comprehensive income for the three and nine months ended June 30, 2018 and 2017 (in thousands).

Instruments Not Designated As Hedging Instruments	Location in Consolidated Statements of Earnings and Comprehensive Income	Three Months Ended June 30,		Nine Months Ended June 30,	
		2018	2017	2018	2017
Foreign currency forward contracts	Other income, net	$ —	$ —	$ —	$ (1,843)

Other Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable and payable, accrued expenses and other current liabilities, and a line of credit. The carrying amounts of these instruments approximate fair value because of their short-term duration. The fair value of the long-term debt instruments is determined using current applicable rates for similar instruments as of the balance sheet date, a Level 2 measurement (as defined below). The principal amounts and fair values of the debt instruments were as follows (in thousands):

	June 30, 2018		September 30, 2017	
	Principal Amount	Fair Value	Principal Amount	Fair Value
Term loan A facility	$365,000	$362,628	$380,000	$376,960
Term loan B facility	440,562	431,311	440,562	428,667
Revolving facility	81,500	81,500	55,000	55,000
Total long-term debt	$887,062	$875,439	$875,562	$860,627

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To determine fair value, we primarily utilize reported market transactions and discounted cash flow analysis. We use a three-tier fair value hierarchy that maximizes the use of observable inputs and

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minimizes the use of unobservable inputs. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels whereby the highest priority is given to Level 1 inputs and the lowest to Level 3 inputs. The three broad categories are:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

The definition of fair value includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counter party or us) will not be fulfilled. For financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly.

There were no transfers between the assets and liabilities under Level 1 and Level 2 during the nine months ended June 30, 2018. The following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring basis in our consolidated balance sheets as of June 30, 2018 and September 30, 2017 (in thousands).

June 30, 2018	Balance Sheet Locations	Total	Level 1	Level 2	Level 3
Instruments designated as accounting hedge:					
Interest rate swap contracts	Other current assets	$730	$ —	$730	$ —
Interest rate swap contracts	Other assets	721	—	721	—
Interest rate swap contracts	Accrued expenses and other current liabilities	617	—	617	—

September 30, 2017	Balance Sheet Locations	Total	Level 1	Level 2	Level 3
Instrument designated as accounting hedge:					
Interest rate	Accrued expenses and other current liabilities	$2,462	$ —	$2,462	$ —

swap contract					
Interest rate swap contract	Other liabilities	903	—	903	—

We use observable market-based inputs to calculate fair value of our interest rate swap agreements and outstanding debt instruments, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Note 6. Long-Term Debt

Long-term debt consists of the following (in thousands):

	June 30, 2018			September 30, 2017		
	Principal Amount	Deferred Debt Issuance Costs	Carrying Amount	Principal Amount	Deferred Debt Issuance Costs	Carrying Amount
Term loan A facility	$365,000	$(6,572)	$358,428	$380,000	$(7,562)	$372,438
Term loan B facility	440,562	(3,248)	437,314	440,562	(4,162)	436,400
Revolving facility	81,500	—	81,500	55,000	—	55,000
	887,062	(9,820)	877,242	875,562	(11,724)	863,838
Less: current portion	101,500	—	101,500	75,000	—	75,000
Non-current portion	$785,562	$(9,820)	$775,742	$800,562	$(11,724)	$788,838

Senior Secured Credit Facilities

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The credit agreement, dated as of December 7, 2012 (as amended, the Credit Agreement), by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto, which governs our senior secured credit facilities, provides for (1) a $400.0 million senior secured term loan A facility (the term loan A facility), (2) a $180.0 million revolving facility (the revolving facility) and (3) a $525.0 million senior secured term loan B facility (the term loan B facility). We refer to term loan A facility, the revolving facility and the term loan B facility, together, as the "Credit Facilities." On November 2, 2017, we entered into the Sixth Amendment to the Credit Agreement (the Sixth Amendment). For additional information about the Sixth Amendment, see "—Sixth Amendment to Senior Secured Credit Facilities" below.

As of June 30, 2018, our outstanding indebtedness under our Credit Facilities was $887.1 million, which consisted of (1) $365.0 million of indebtedness under the term loan A facility, (2) $81.5 million of indebtedness under the revolving facility, and (3) $440.6 million of indebtedness under the term loan B facility. As of June 30, 2018, $98.5 million was available for borrowing under the revolving facility to fund our operating and investing activities without breaching any covenants contained in the Credit Agreement.

During the nine months ended June 30, 2018, we borrowed $67.5 million under the revolving facility, and made our required quarterly payments of $15.0 million on our term loan A facility and voluntary prepayments totaling $41.0 million on our borrowings under the revolving facility.

The interest rate for the term loan A facility is based on our Consolidated Total Leverage Ratio (as such term is defined in the Credit Agreement) as determined in the most recently delivered financial statements, with the respective margins ranging from 2.00% to 3.00% for Eurocurrency loans and 1.00% to 2.00% for ABR loans. The term loan A facility amortizes in equal quarterly installments of 1.25% of the original principal amount of $400.0 million with the balance due on the earlier of (i) 90 days before the maturity of the term loan B facility, and (ii) October 4, 2021. As of June 30, 2018, the interest rate for borrowings under the term loan A facility was 4.99%, which approximated the effective interest rate.

The interest rate for the term loan B facility has a margin of 2.50% per annum for Eurocurrency loans (subject to a minimum Eurocurrency rate floor of 0.75% per annum) or 1.50% per annum for ABR loans (subject to a minimum ABR floor of 1.75% per annum). The term loan B facility amortizes in equal quarterly installments of 0.25% of the original principal amount of $525.0 million, with the balance due at maturity on February 28, 2021. As of June 30, 2018, the interest rate for borrowings under the term loan B facility was 4.80%, which approximated the effective interest rate. We have an interest rate swap agreement relating to this indebtedness, which is described in greater detail in Note 5 above.

The interest rate for the revolving facility is based on our Consolidated Total Leverage Ratio as determined in the most recently delivered financial statements, with the respective margins ranging from 2.00% to 3.00% for Eurocurrency loans and 1.00% to 2.00% for ABR loans. The revolving facility expires on the earlier of (i) 90 days before the maturity of the term loan B facility, and (ii) October 4, 2021. As of June 30, 2018, the weighted-average interest rate for borrowings under the revolving facility was 4.95%.

Our borrowings under the Credit Facilities are guaranteed by us and all of our direct and indirect, wholly-owned, domestic restricted subsidiaries (subject to certain exceptions) and secured by a first lien on substantially all of our assets and the assets of our guarantor subsidiaries, including capital stock of the subsidiaries (in each case, subject to certain exceptions).

The Credit Agreement contains customary negative covenants, including restrictions on our and our restricted subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. As disclosed below in the description of the Sixth Amendment, our borrowings under the Credit Facilities are subject to a financial covenant based upon our Consolidated Total Leverage Ratio, with the maximum ratio set at 6.00 for the quarter ending June 30, 2018. As of June 30, 2018, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was 4.27. Based on our current covenants and forecasts, we expect to be in compliance for the one year period after August 2, 2018. For additional information about our Consolidated Total Leverage Ratio, including an overview of the applicable step-down schedule, see "—Sixth Amendment to Senior Secured Credit Facilities" below.

Sixth Amendment to Senior Secured Credit Facilities

The Sixth Amendment modified the Credit Agreement to increase the Excess Cash Flow Percentage (as such term is defined in the Credit Agreement) to 75%, provided that the Excess Cash Flow Percentage shall be reduced to (i) 50%, if the Consolidated Total Leverage Ratio is less than 4.00 but greater than or equal to 3.00, (ii) 25%, if the Consolidated Total

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Leverage Ratio is less than 3.00 but greater than or equal to 2.50 and (iii) 0%, if the Consolidated Total Leverage Ratio is less than 2.50.

The Sixth Amendment further modified the Credit Agreement to reduce the maximum amount permitted to be incurred under the Capped Incremental Facility (as such term is defined in the Credit Agreement) to zero, unless the Consolidated Total Leverage Ratio (as such term is defined in the Credit Agreement), after giving effect to the incurrence of any incremental loans or commitments and the use of proceeds thereof, on a pro forma basis, would be (i) less than 4.00 but greater than or equal to 3.50, in which case the Capped Incremental Facility would be increased to $75.0 million or (ii) less than 3.50, in which case the Capped Incremental Facility would be increased to $150.0 million.

The Sixth Amendment also modified the Credit Agreement to increase the Consolidated Total Leverage Ratio levels in the financial covenant set forth in the Credit Agreement to a maximum 6.25 for the quarters ending September 30, 2017, December 31, 2017 and March 31, 2018, with step-downs to 6.00 for the quarters ending June 30, 2018 and September 30, 2018; 5.75 for the quarter ending December 31, 2018; 5.50 for the quarter ending March 31, 2019; 5.25 for the quarter ending June 30, 2019; 4.75 for the quarters ending September 30, 2019, December 31, 2019 and March 31, 2020; 4.00 for the quarters ending June 30, 2020, September 30, 2020, December 31, 2020 and March 31, 2021; and 3.00 for the quarter ending June 30, 2021 and thereafter.

As a result of the Sixth Amendment, we incurred $1.9 million in fees that were capitalized and will be amortized over the remaining life of the related debt, $1.3 million of which was related to the term loan A facility and $0.6 million of which was related to the revolving facility. Pursuant to GAAP, the Sixth Amendment is accounted for as a debt modification. As a result, the unamortized deferred debt issuance costs related to the term loan A and the revolving facility prior to the Sixth Amendment were added to the $1.9 million of deferred debt issuance costs related to the Sixth Amendment and will be amortized over the remaining life of the term loan A and the revolving facility. The following table summarizes the total deferred debt issuance costs for the term loan A facility, the term loan B facility and the revolving facility, which will be amortized over their remaining terms.

	Term Loan A Facility	Term Loan B Facility	Revolving Facility	Total
Deferred debt issuance costs as of September 30, 2017	$7,562	$4,162	$ 3,676	$15,400
Deferred debt issuance costs for the Sixth Amendment	1,291	—	609	1,900
Amortization of deferred debt issuance costs	(2,281)	(914)	(1,104)	(4,299)
Deferred debt issuance costs as of June 30, 2018	$6,572	$3,248	$ 3,181	$13,001

UK Line of Credit

Our subsidiary, Wesco Aircraft EMEA, Ltd., has a £5.0 million ($6.6 million based on the June 30, 2018 exchange rate) line of credit that automatically renews annually on October 1 (the UK line of credit). The line of credit bears interest based on the base rate plus an applicable margin of 1.65%. As of June 30, 2018, the full £5.0 million was available for borrowing under the UK line of credit without breaching any covenants contained in the agreements governing our indebtedness.

Note 7. Comprehensive Income

Comprehensive income, which is net of income taxes, consists of the following (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017

Net income (loss)	$10,754	$(229,608)	$25,380	$(199,059)
Foreign currency translation loss	(3,015)	1,434	(1,731)	(6,698)
Unrealized gain on cash flow hedging instruments	(91)	(474)	2,740	1,976
Total comprehensive income (loss)	$7,648	$(228,648)	$26,389	$(203,781)

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Note 8. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share includes the dilutive effect of both outstanding stock options and restricted stock, if any, calculated using the treasury stock method. Assumed proceeds from in-the-money awards are calculated under the “as-if” method as prescribed by ASC 718, Compensation—Stock Compensation. The following table provides our basic and diluted net income (loss) per share for the three and nine months ended June 30, 2018 and 2017 (dollars in thousands except share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$10,754	$(229,608)	$25,380	$(199,059)
Basic weighted average shares outstanding	99,180,632	98,869,675	99,137,710	98,558,330
Dilutive effect of stock options and restricted stock	558,585	—	258,903	—
Dilutive weighted average shares outstanding	99,739,217	98,869,675	99,396,613	98,558,330
Basic net income (loss) per share	$0.11	$(2.32)	$0.26	$(2.02)
Diluted net income (loss) per share	$0.11	$(2.32)	$0.26	$(2.02)

For the three months ended June 30, 2018 and 2017, respectively, 2,367,729 and 3,150,564 shares of common stock equivalents were not included in the diluted calculation due to their anti-dilutive effect. For the nine months ended June 30, 2018 and 2017, respectively, 2,874,825 and 2,715,563 shares of common stock equivalents were not included in the diluted calculation due to their anti-dilutive effect.

Note 9. Segment Reporting

We are organized based on geographical location. We conduct our business through three reportable segments: the Americas, EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific).

We evaluate segment performance based primarily on segment income from operations. Each segment reports its results of operations and makes requests for capital expenditures and working capital needs to our chief operating decision-maker (CODM). Our Chief Executive Officer serves as our CODM.

The following tables present operating and financial information by business segment (in thousands):

	Three Months Ended June 30, 2018				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$333,602	$66,728	$10,029	$ —	$ 410,359
Income (loss) from operations	35,979	4,749	332	(11,732)	29,328
Interest expense, net	(11,115)	(1,578)	(24)	—	(12,717)
Capital expenditures	997	75	28	—	1,100
Depreciation and amortization	6,417	863	88	—	7,368

	Three Months Ended June 30, 2017				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated

Net sales	$290,663	$65,898	$7,346	$ —	$ 363,907
Income (loss) from operations	(285,277)	5,397	(1,960)	(5,379)	(287,219)
Interest expense, net	(8,688)	(900)	(26)	—	(9,614)
Capital expenditures	1,122	1,490	10	—	2,622
Depreciation and amortization	6,430	844	66	—	7,340

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	Nine Months Ended June 30, 2018				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$936,367	$199,113	$28,153	$ —	$1,163,633
Income (loss) from operations	96,867	16,731	2,607	(29,109)	87,096
Interest expense, net	(32,706)	(3,739)	(75)	—	(36,520)
Capital expenditures	3,367	475	167	—	4,009
Depreciation and amortization	19,076	2,598	235	—	21,909

	Nine Months Ended June 30, 2017				
	Americas	EMEA	APAC	Unallocated Corporate Costs	Consolidated
Net sales	$851,626	$194,237	$22,014	$ —	$1,067,877
Income (loss) from operations	(236,174)	22,072	(76)	(14,587)	(228,765)
Interest expense, net	(26,896)	(2,559)	(74)	—	(29,529)
Capital expenditures	4,520	2,287	24	—	6,831
Depreciation and amortization	18,268	2,352	192	—	20,812

	As of June 30, 2018			
	Americas	EMEA	APAC	Consolidated
Total assets	$1,522,008	$254,442	$53,942	$ 1,830,392
Goodwill	204,183	51,190	11,271	266,644

	As of September 30, 2017			
	Americas	EMEA	APAC	Consolidated
Total assets	$1,436,840	$275,445	$41,822	$ 1,754,107
Goodwill	204,183	51,190	11,271	266,644

Note 10. Income Taxes

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
(Provision) benefit for income taxes	$(6,096)	$66,969	$(25,587)	$58,946
Effective tax rate	36.2 %	22.6 %	50.2 %	22.8 %

For the three months ended June 30, 2017, we recorded a consolidated pre-tax loss of $296.6 million which resulted in an income tax benefit yielding an effective tax rate of 22.6%. For the three months ended June 30, 2018, our effective tax rate was 36.2% which reflects (i) an increase in the proportion of pre-tax income from the U.S. with a higher tax rate than foreign jurisdictions, (ii) the accrual of interest expense with respect to an uncertain tax position and (iii) an unfavorable provisional tax adjustment related to the remeasurement of deferred tax assets. The 13.6 percentage point increase of the effective tax rate compared to the same period in the prior year resulted primarily from (i) a $311.1 million goodwill impairment charge, a portion of which is permanently not deductible for tax purposes resulting in a lower income tax benefit and (ii) the establishment of a $10.6 million valuation allowance with respect to deferred tax assets for foreign tax credits resulting in a lower income tax benefit, both of which occurred during the three months ended June 30, 2017. The difference in effective tax rates between years was partially offset in the current year by a decrease of the U.S. federal statutory tax rate from 35% to 21% related to the enactment of the Tax Cuts and Jobs Act (the Tax Act). The tax rate change became effective as of January 1, 2018 and therefore favorably impacts only a portion of our fiscal year ending September 30, 2018.

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For the nine months ended June 30, 2017, we recorded a consolidated pre-tax loss of $258.0 million which resulted in an income tax benefit yielding an effective tax rate of 22.8%. For the nine months ended June 30, 2018, our effective tax rate was 50.2%. The 27.4 percentage point increase of the effective tax rate compared to the same period in the prior year resulted primarily from (i) a $311.1 million goodwill impairment charge, a portion of which is permanently not deductible for tax purposes resulting in a lower income tax benefit and (ii) the establishment of a $10.6 million valuation allowance with respect to deferred tax assets for foreign tax credits resulting in a lower income tax benefit, both of which occurred during the nine months ended June 30, 2017 as well as (iii) an unfavorable provisional tax adjustment related to the enactment of the Tax Act, as further described below, which occurred during the nine months ended June 30, 2018. The difference in effective tax rates between years was partially offset in the current year by a decrease of the U.S. federal statutory tax rate from 35% to 21% related to the enactment of the Tax Act. The tax rate change became effective as of January 1, 2018 and therefore favorably impacts only a portion of our fiscal year ending September 30, 2018.

For the three months ended December 31, 2017, the Company recorded as a result of the Tax Act (1) a provisional $37.7 million of charge to tax expense related to the remeasurement of deferred tax assets and liabilities, (2) a provisional $37.7 million tax benefit related to the partial reversal of a deferred tax liability for unremitted foreign earnings and (3) a provisional $9.1 million charge to tax expense related to the imposition of a one-time repatriation tax on accumulated earnings of our foreign subsidiaries. For the three months ended June 30, 2018, the Company reported a $0.2 million unfavorable adjustment related to the remeasurement of deferred tax assets and liabilities. The determination of the impact of the income tax effects of the items reflected as provisional amounts may change, possibly materially, following review of historical records, refinement of calculations, modifications of assumptions and further interpretation of the Tax Act based on U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities. The Company will report revised provisional amounts in accordance with SAB 118 when additional information and guidance has become available.

Note 11. Commitments and Contingencies

We are involved in various legal matters that arise in the ordinary course of business. Our management, after consulting with outside legal counsel, believes that the ultimate outcome of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows. There can be no assurance, however, that such actions will not be material or adversely affect our business, financial position, results of operations or cash flows.

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

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q.

The statements in this discussion regarding industry trends, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on November 29, 2017 (the 2017 Form 10-K), as supplemented by Part II, Item 1A. “Risk Factors” in the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended December 31, 2017 and March 31, 2018, which were filed with the SEC on February 9, 2018 (the Q1 2018 10-Q) and May 4, 2018 (the Q2 2018 10-Q), respectively, and “—Cautionary Note Regarding Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Unless otherwise noted in this Quarterly Report on Form 10-Q, the term “Wesco Aircraft” means Wesco Aircraft Holdings, Inc., our top-level holding company, and the terms “Wesco,” “the Company,” “we,” “us,” “our” and “our company” mean Wesco Aircraft and its subsidiaries. References to “fiscal year” mean the year ending or ended September 30. For example, “fiscal year 2018” or “fiscal 2018” means the period from October 1, 2017 to September 30, 2018.

Executive Overview

We are one of the world’s leading distributors and providers of comprehensive supply chain management services to the global aerospace industry, based on annual sales. Our services range from traditional distribution to the management of supplier relationships, quality assurance, kitting, just-in-time (JIT) delivery, chemical management services (CMS), third-party logistics (3PL) or fourth-party logistics (4PL) programs and point-of-use inventory management. We supply over 565,000 active stock-keeping units (SKUs), including C-class hardware, chemicals, electronic components, bearings, tools and machined parts. We serve our customers under both (1) long-term contractual arrangements (Contracts), which include JIT contracts that govern the provision of comprehensive outsourced supply chain management services and long-term agreements (LTAs) that typically set prices for specific products, and (2) ad hoc sales.

Founded in 1953 by the father of our current Chairman of the Board of Directors, we have grown to serve over 7,000 customers, which are primarily in the commercial, military and general aviation sectors, including the leading original equipment manufacturers (OEMs) and their subcontractors, through which we support nearly all major Western aircraft programs, and also sell products to airline-affiliated and independent maintenance, repair and overhaul providers. We also service customers in the automotive, energy, health care, industrial, pharmaceutical and space sectors.

Industry Trends Affecting Our Business

We rely on demand for new commercial and military aircraft for a significant portion of our sales. Commercial aircraft demand is driven by many factors, including the global economy, industry passenger volumes and capacity utilization, airline profitability, introduction of new models and the lifecycle of current fleets. Demand for business jets is closely correlated to regional economic conditions and corporate profits, but also influenced by new models and changes in ownership dynamics. Military aircraft demand is primarily driven by government spending, the timing of orders and evolving U.S. Department of Defense strategies and policies.

Aftermarket demand is affected by many of the same trends as those in OEM channels, as well as requirements to maintain aging aircraft and the cost of fuel, which can lead to greater utilization of existing planes. Demand in the military aftermarket is further driven by changes in overall fleet size and the level of U.S. military operational activity domestically and overseas.

Supply chain service providers and distributors have been aided by these trends along with an increase in outsourcing activities, as OEMs and their suppliers focus on reducing their capital commitments and operating costs.

Commercial Aerospace Market

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Over the past three years, major airlines have ordered new aircraft at a robust pace, aided by strong profits and increasing passenger volumes. At the same time, volatile fuel prices have led to greater demand for fuel-efficient models and new engine options for existing aircraft designs. The rise of emerging markets has added to the growth in overall demand at a stronger pace than seen historically. Large commercial OEMs have indicated that they expect a high level of deliveries, primarily due to continued demand and their unprecedented level of backlogs. Business aviation has lagged the larger commercial market, reflecting a deeper downturn in the last recession, changes in corporate spending patterns and an uncertain economic outlook. Overall business aviation production levels remain below their pre-recession peak, though newer models have seen a greater acceptance in the marketplace than older and previously owned aircraft.

Military Aerospace Market

Military production has fluctuated for many aircraft programs in the past few years. We believe the diversity of the military aircraft programs we support can help mitigate the impact of new program delays, changes or cancellations. In particular, we believe the services we provide the Joint Strike Fighter program will benefit our business as production for that program increases. Increased sales for other established aircraft programs that directly benefit from such changes also help moderate build-rate declines.

Other Factors Affecting Our Financial Results

Fluctuations in Revenue

There are many factors, such as changes in customer aircraft build rates, customer plant shut downs, variation in customer working days, changes in selling prices, the amount of new customers' consigned inventory and increases or decreases in customer inventory levels, that can cause fluctuations in our financial results from quarter to quarter. To normalize for short-term fluctuations, we tend to look at our performance over several quarters or years of activity rather than discrete short-term periods. As such, it can be difficult to determine longer-term trends in our business based on quarterly comparisons. Ad hoc business tends to vary based on the amount of disruption in the market due to changes in aircraft build rates, new aircraft introduction, customer or site consolidations and other factors. Fluctuations in our ad hoc business tend to be partially offset by our Contract business as most of our ad hoc revenue comes from our Contract customers.

We will continue our strategy of seeking to expand our relationships with existing ad hoc customers by transitioning them to Contracts, as well as expanding relationships with our existing Contract customers to include additional customer sites, additional SKUs and additional levels of service. New Contract customers and expansion of existing Contract customers to additional sites and SKUs sometimes leads to a corresponding decrease in ad hoc sales as a portion of the SKUs sold under Contracts were previously sold to the same customer as ad hoc sales. We believe this strategy serves to mitigate some of the fluctuations in our net sales. Our sales to Contract customers may fail to meet our expectations for a variety of reasons, in particular if industry build rates are lower than expected or, for certain newer JIT customers, if their consigned inventory, which must be exhausted before corresponding products are purchased directly from us, is greater than we expected.

If any of our customers are acquired or controlled by a company that elects not to utilize our services, or attempt to implement in-sourcing initiatives including through the acquisition of any of our competitors, it could have a negative effect on our strategy to mitigate fluctuations in our net sales. Additionally, although we derive a significant portion of our net sales from the building of new commercial and military aircraft, we have not typically experienced extreme fluctuations in our net sales when sales for an individual aircraft program decrease, which we believe is attributable to our diverse base of customers and programs.

Fluctuations in Margins

Our gross margins are impacted by changes in product mix. Generally, our hardware products have higher gross profit margins than chemicals and electronic components.

We also believe that our strategy of growing our Contract sales and converting ad hoc customers into Contract customers could negatively affect our gross profit margins, as gross profit margins tend to be higher on ad hoc sales than they are on Contract-related sales. However, we believe any potential adverse impact on our gross profit margins is outweighed by the benefits of a more stable long-term revenue stream attributable to Contract customers.

Our Contracts generally provide for fixed prices, which can expose us to risks if prices we pay to our suppliers rise due to increased raw material or other costs. However, we believe our expansive product offerings and inventories, our ad hoc sales and, where possible, our longer-term agreements with suppliers have enabled us to mitigate this risk. Some of our Contracts are

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denominated in foreign currencies and fixed prices in these Contracts can expose us to fluctuations in foreign currency exchange rates with the U.S. dollar.

Our gross margins also may be affected by expense we record to write-down excess and obsolete inventory. As also described below under "—Fluctuations in Cash Flow", our inventory purchases and inventory levels are affected by several variables including expected sales demand and fluctuations in our markets, as well as supply factors including product availability, supplier delivery lead times, supplier manufacturing capacity constraints, purchase prices including volume discounts, and supplier delivery performance. As we endeavor to mitigate our exposure to excess and obsolete inventory, our purchase and inventory strategies consider all these variables.

Fluctuations in Cash Flow

Our cash flows are affected by fluctuations in our inventory. When we are awarded new programs, we generally increase our inventory to prepare for expected sales related to the new programs, which often take time to materialize, and to achieve minimum stock requirements, if any. As a result, if certain programs for which we have procured inventory are delayed or if certain newer JIT customers' consigned inventory is larger than we expected, we may experience a more sustained inventory increase.

Inventory fluctuations may also be attributable to general industry trends. Factors that may contribute to fluctuations in inventory levels in the future could include (1) strategic purchases (a) to take advantage of favorable pricing, (b) made in anticipation of the expected industry growth cycle, (c) to support new customer Contracts or (d) to acquire high-volume products that are typically difficult to obtain in sufficient quantities; (2) changes in supplier lead times and the timing of inventory deliveries; (3) purchases made in anticipation of future growth; and (4) purchases made in connection with the expansion of existing Contracts. While effective inventory management is an ongoing challenge, we continue to take steps to enhance the sophistication of our procurement practices to mitigate the negative impact of inventory buildups on our cash flow.

Our accounts receivable balance as a percentage of net sales may fluctuate from quarter to quarter. These fluctuations are primarily driven by changes, from quarter to quarter, in the timing of sales within the quarter and variation in the time required to collect the payments. The completion of customer Contracts and related payment terms can also contribute to these quarter-to-quarter fluctuations. Similarly, our accounts payable may fluctuate from quarter to quarter, which is primarily driven by the timing of purchases or payments made to our suppliers.

Segment Presentation

We conduct our business through three reportable segments: the Americas, EMEA, and APAC. We evaluate segment performance based primarily on segment income or loss from operations. Each segment reports its results of operations and makes requests for capital expenditures and working capital needs to our chief operating decision maker (CODM). Our Chief Executive Officer serves as our CODM.

Key Components of Our Results of Operations

The following is a discussion of the key line items included in our financial statements for the periods presented below under the heading "Results of Operations." These are the measures that management utilizes to assess our results of operations, anticipate future trends and evaluate risks in our business.

Net Sales

Our net sales include sales of hardware, chemicals, electronic components, bearings, tools and machined parts, and eliminate all intercompany sales. We also provide certain services to our customers, including quality assurance, kitting, JIT delivery, CMS, 3PL or 4PL programs and point-of-use inventory management. However, these services are provided by us contemporaneously with the delivery of the product, and as such, once the product is delivered, we do not have a post-delivery obligation to provide services to the customer. Accordingly, the price of such services is generally included in the price of the products delivered to the customer, and revenue is recognized upon delivery of the product, at which point, we have satisfied our obligations to the customer. We do not account for these services as a separate element, as the services generally do not have stand-alone value and cannot be separated from the product element of the arrangement.

We serve our customers under Contracts, which include JIT contracts and LTAs, and with ad hoc sales. Under JIT contracts, customers typically commit to purchase specified products from us at a fixed price, on an as-needed basis, and we are responsible for maintaining stock availability of those products. LTAs are typically negotiated price lists for customers or

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individual customer sites that cover a range of pre-determined products, purchased on an as-needed basis. Ad hoc purchases are made by customers on an as-needed basis and are generally supplied out of our existing inventory. Contract customers often purchase products that are not captured under their Contract on an ad hoc basis.

Income (loss) from Operations

Income (loss) from operations is the result of subtracting the cost of sales and selling, general and administrative (SG&A) expenses from net sales, and is used primarily to evaluate our performance and profitability.

The principal component of our cost of sales is product cost, which was 94.4% and 94.3% of our total cost of sales for the three months ended June 30, 2018 and 2017, respectively, and 94.4% of our total cost of sales for both the nine months ended June 30, 2018 and 2017. The remaining components are freight and expediting fees, import duties, tooling repair charges, packaging supplies and physical inventory adjustment charges.

Product cost is determined by the current weighted average cost of each inventory item, except for chemical parts for which the first-in, first-out method is used, and the provision, if any, for excess and obsolete (E&O) inventory. The inventory provision is calculated to write-down the value of excess and obsolete inventory to its net realizable value. We review inventory for excess quantities and obsolescence quarterly. For a description of our E&O inventory policy, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Inventories" in the 2017 Form 10-K. During the three months ended June 30, 2018 and 2017, we recorded charges to cost of sales of $6.2 million and $3.8 million, respectively, and during the nine months ended June 30, 2018 and 2017, we recorded charges to cost of sales of $10.9 million and $9.1 million, respectively, for the E&O provision and related items.

The principal components of our SG&A expenses are salaries, wages, benefits and bonuses paid to our employees; stock-based compensation; commissions paid to outside sales representatives; travel and other business expenses; training and recruitment costs; marketing, advertising and promotional event costs; rent; bad debt expense; professional services fees (including legal, audit and tax); and ordinary day-to-day business expenses. Depreciation and amortization expense is also included in SG&A expenses, and consists primarily of scheduled depreciation for leasehold improvements, machinery and equipment, vehicles, computers, software and furniture and fixtures. Depreciation and amortization also includes intangible asset amortization expense.

Other Expenses

Interest Expense, Net. Interest expense, net consists of the interest we pay on our long-term debt, fees on our revolving facility (as defined below under "—Liquidity and Capital Resources—Credit Facilities") and our line-of-credit and deferred debt issuance costs, net of interest income.

Other Income, Net. Other income, net is primarily comprised of foreign exchange gain or loss associated with transactions denominated in currencies other than the respective functional currency of the reporting subsidiary.

Critical Accounting Policies and Estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate, and different assumptions or estimates about the future could change our reported results. For a description of our critical accounting policies and estimates, see Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in the 2017 Form 10-K.

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Results of Operations

Consolidated Results of Operations	Three Months Ended June 30, 2018	2017	Nine Months Ended June 30, 2018	2017
	(dollars in thousands)			
Net sales	$410,359	$363,907	$1,163,633	$1,067,877
Gross profit	$104,197	$90,208	$304,356	$274,420
Selling, general & administrative expenses	74,869	66,313	217,260	192,071
Goodwill impairment charge	—	311,114		311,114
Income (loss) from operations	29,328	(287,219)	87,096	(228,765)
Interest expense, net	(12,717)	(9,614)	(36,520)	(29,529)
Other income, net	239	256	391	289
Income (loss) before income taxes	16,850	(296,577)	50,967	(258,005)
(Provision) benefit for income taxes	(6,096)	66,969	(25,587)	58,946
Net income (loss)	$10,754	$(229,608)	$25,380	$(199,059)

(as a percentage of net sales, numbers rounded)	Three Months Ended June 30, 2018	2017	Nine Months Ended June 30, 2018	2017
Net sales	100 %	100 %	100.0 %	100.0 %
Gross profit	25.4 %	24.8 %	26.2 %	25.7 %
Selling, general & administrative expenses	18.3 %	18.2 %	18.7 %	18.0 %
Goodwill impairment charge	—	85.5 %	— %	29.1 %
Income (loss) from operations	7.1 %	(78.9)%	7.5 %	(21.4)%
Interest expense, net	(3.1)%	(2.6)%	(3.1)%	(2.8)%
Other income, net	0.1 %	— %	— %	— %
Income (loss) before income taxes	4.1 %	(81.5)%	4.4 %	(24.2)%
(Provision) benefit for income taxes	(1.5)%	18.4 %	(2.2)%	5.6 %
Net income (loss)	2.6 %	(63.1)%	2.2 %	(18.6)%

Three Months Ended June 30, 2018 compared with Three Months Ended June 30, 2017

Net Sales

Consolidated net sales increased $46.5 million, or 12.8% to $410.4 million for the three months ended June 30, 2018 compared to $363.9 million for the same period in the prior year. The $46.5 million increase was largely due to an increase in chemical product sales and Contract sales of hardware products, which together added $29.5 million of net sales and reflect both new business and a net increase for existing Contracts, partially offset by declines from Contract expirations. Ad hoc sales for the three months ended June 30, 2018 also increased $17.0 million when compared with the same period in the prior year, reflecting growth at several key customers. Ad hoc and Contract sales as a percentage of net sales represented 24% and 76%, respectively, for the three months ended June 30, 2018 as compared to 24% and 76%, respectively, for the same period in the prior year. The $46.5 million increase in net sales included one-time sales of $10.8 million related to contract claims.

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Income (Loss) from Operations

Consolidated income from operations increased $316.5 million to $29.3 million for the three months ended June 30, 2018 compared to a loss of $287.2 million for the same period in the prior year. The $316.5 million increase in income from operations resulted primarily from a non-cash goodwill impairment charge of $311.1 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations increased $5.4 million compared with the same period in the prior year. The $5.4 million increase is comprised of higher gross profit of $14.0 million, partially offset by an increase in SG&A expenses of $8.6 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales increased 0.6 percentage points compared with the same period in the prior year.

The higher gross profit was primarily driven by increases in Ad Hoc, hardware Contract and chemical product sales compared with the same period in the prior year. Average gross margins increased 0.6 percentage points, primarily due to a stronger sales mix and higher margins on ad hoc and hardware Contract sales, partially offset by lower chemical margins, compared with the same period in the prior year.

The $8.6 million increase in SG&A expenses largely reflected increases in payroll and other personnel related costs of $2.9 million, professional fees of $5.0 million and stock-based compensation expense of $1.9 million. The higher payroll and other personnel related costs were due in part to increased staffing in the second half of fiscal 2017 to implement new sales contracts and to improve overall service to customers. Higher professional fees primarily reflected costs for outside consultants assisting with the Company’s previously announced “Wesco 2020” initiative, which is designed to broaden and institutionalize improvements already made to the business during fiscal 2018 and further improve the Company’s service excellence, inventory management, productivity and profitability. These increases were partially offset by $1.5 million of lower expense for rent, travel expense and restructuring. SG&A as a percent of sales increased 0.1 percentage point.

Changes in unallocated corporate costs are included above, which were $6.4 million higher than the three months ended June 30, 2017 primarily driven by increases in professional fees of $5.2 million mainly reflecting costs for outside consultants assisting with the Company's "Wesco 2020" initiative and $1.0 million higher expense for stock-based compensation and payroll and other personnel related costs.

Interest Expense, Net

Interest expense, net was $12.7 million for the three months ended June 30, 2018 compared to $9.6 million for the same period in the prior year. The increase was primarily due to an increase in both short-term borrowings and interest rates.

(Provision) benefit for Income Taxes

The income tax provision for the three months ended June 30, 2018 was $6.1 million, compared to $67.0 million income tax benefit for the same period in the prior year. For the three months ended June 30, 2017, we recorded a consolidated pre-tax loss of $296.6 million which resulted in an income tax benefit yielding an effective tax rate of 22.6%. For the three months ended June 30, 2018, our effective tax rate was 36.2% which reflects (i) an increase in the proportion of pre-tax income from the U.S. with a higher tax rate than foreign jurisdictions, (ii) the accrual of interest expense with respect to an uncertain tax position and (iii) an unfavorable provisional tax adjustment related to the remeasurement of deferred tax assets. The 13.6 percentage point increase of the effective tax rate compared to the same period in the prior year resulted primarily from (i) a $311.1 million goodwill impairment charge, a portion of which is permanently not deductible for tax purposes resulting in a lower income tax benefit and (ii) the establishment of a $10.6 million valuation allowance with respect to deferred tax assets for foreign tax credits resulting in a lower income tax benefit, both of which occurred during the three months ended June 30, 2017. The difference in effective tax rates between years was partially offset by a decrease of the U.S. federal statutory tax rate from 35% to 21% related to the enactment of the Tax Act. The tax rate change became effective as of January 1, 2018 and therefore favorably impacts only a portion of our fiscal year ending September 30, 2018.

Net Income (Loss)

Net income for the three months ended June 30, 2018 was $10.8 million, compared to a net loss of $229.6 million for the same period in the prior year. The increase in net income primarily reflects a goodwill impairment charge of $311.1 million in the three months ended June 30, 2017, as well as a current year increase in gross profit of $14.0 million, partially offset by a current year increase in SG&A expenses of $8.6 million, higher interest expense of $3.1 million and an increase in the income tax provision, as discussed above.

Nine Months Ended June 30, 2018 compared with Nine Months Ended June 30, 2017

Net Sales

Consolidated net sales increased $95.8 million, or 9.0%, to $1,163.6 million for the nine months ended June 30, 2018, compared to $1,067.9 million for the same period in the prior year. The $95.8 million increase was largely due to an increase in both chemical product sales and Contract sales for hardware products, which together added $64.4 million of net sales and reflect both new business and a net increase for existing Contracts, partially offset by declines from Contract expirations. Ad hoc sales were also higher, increasing $31.4 million when compared with the same period in the prior year, reflecting growth at several key customers. Ad hoc and Contract sales as a percentage of net sales represented 24% and 76%, respectively, for the nine months ended June 30, 2018, which was unchanged from the same period in the prior year. The $95.8 million increase in net sales included one-time sales of $10.8 million related to contract claims.

Income (loss) from Operations

Consolidated income from operations increased $315.9 million to $87.1 million for the nine months ended June 30, 2018, compared to a loss from operations of $228.8 million for the same period in the prior year. The $315.9 million increase in income from operations resulted primarily from a non-cash goodwill impairment charge of $311.1 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations increased $4.8 million compared with the same period in the prior year. The $4.8 million increase is comprised of higher gross profit of $30.0 million which was partially offset by an increase in SG&A expenses of $25.2 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales declined 0.2 percentage points compared with the same period in the prior year.

The increase in gross profit was primarily driven by increases in ad hoc, hardware Contract and chemical product sales compared with the same period in the prior year. Average gross margins increased 0.5 percentage points, primarily due to higher margins on ad hoc sales and a stronger sales mix, partially offset by lower margins on chemical product sales, compared with the same period in the prior year.

The $25.2 million increase in SG&A expenses largely reflected increases in payroll and other personnel related costs of $12.5 million, professional fees of $11.5 million, depreciation expense of $1.1 million, bad debt expense of $0.8 million, rent of $0.3 million and stock-based compensation expense of $0.3 million. The higher payroll and other personnel related costs were due in part to increased staffing in the second half of fiscal 2017 to implement new Contracts and to improve overall service to customers. Higher professional fees primarily reflect costs for outside consultants assisting with the Company's "Wesco 2020" initiative. These increases were partially offset by lower IT related costs of $0.5 million and restructuring costs of $0.6 million. Higher SG&A costs are reflected in a 0.7 percentage point increase in SG&A measured as a percent of net sales.

Changes in unallocated corporate costs are included above, which were $14.5 million higher than the nine months ended June 30, 2017, primarily driven by increases in professional fees of $11.5 million mainly reflecting costs for outside consultants assisting with the Company's "Wesco 2020" initiative, payroll and other personnel related costs of $1.4 million and stock-based compensation expense of $1.1 million.

Interest Expense, Net

Interest expense, net was $36.5 million for the nine months ended June 30, 2018, compared to $29.5 million for the same period in the prior year. The increase was primarily due to both higher short-term borrowings and interest rates, partially offset by a lower amortization of deferred debt issuance costs when compared with the same period in the prior year which included a $2.3 million write off of deferred debt issuance costs.

(Provision) benefit for Income Taxes

The income tax provision for the nine months ended June 30, 2018 was $25.6 million, compared to $58.9 million income tax benefit for the same period in the prior year. For the nine months ended June 30, 2017, we recorded a consolidated pre-tax loss of $258.0 million which resulted in an income tax benefit yielding an effective tax rate of 22.8%. For the nine months ended June 30, 2018, our effective tax rate was 50.2%. The 27.4 percentage point increase of the effective tax rate compared to the same period in the prior year resulted primarily from (i) a $311.1 million goodwill impairment charge, a portion of which is permanently not deductible for tax purposes resulting in a lower income tax benefit and (ii) the establishment of a $10.6 million valuation allowance with respect to deferred tax assets for foreign tax credits resulting in a lower income tax benefit, both of which occurred during the nine months ended June 30, 2017 as well as (iii) an unfavorable

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provisional tax adjustment related to the enactment of the Tax Act which occurred during the nine months ended June 30, 2018. The difference in effective tax rates between years was partially offset in the current year by a decrease of the U.S. federal statutory tax rate from 35% to 21% related to the enactment of the Tax Act. The tax rate change became effective as of January 1, 2018 and therefore favorably impacts only a portion of our fiscal year ending September 30, 2018.

Net Income (Loss)

Net income for the nine months ended June 30, 2018 was $25.4 million, compared to a net loss of $199.1 million for the same period in the prior year. The increase in net income was primarily driven by a non-repeating goodwill impairment charge of $311.1 million in the nine months ended June 30, 2017 and a current year increase in gross profit of $30.0 million, partially offset by current year increases in SG&A expenses of $25.2 million, interest expense of $7.0 million and the provision for income taxes, as discussed above.

Americas Segment

	Three Months Ended June 30,		Nine Months Ended June 30,	
Americas Results of Operations	2018	2017	2018	2017
	(dollars in thousands)			
Net sales	$333,602	$290,663	$936,367	$851,626
Gross profit	$85,532	$71,246	$244,863	$214,431
Selling, general & administrative expenses	49,553	48,120	147,996	142,202
Goodwill impairment charge	—	308,403	—	308,403
Income (loss) from operations	$35,979	$(285,277)	$96,867	$(236,174)
	(as a percentage of net sales, numbers rounded)			
Net sales	100 %	100 %	100 %	100 %
Gross profit	25.6%	24.5 %	26.2%	25.2 %
Selling, general & administrative expenses	14.8%	16.6 %	15.9%	16.7 %
Goodwill impairment charge	— %	106.1 %	— %	36.2 %
Income (loss) from operations	10.8%	(98.1)%	10.3%	(27.7)%

Three Months Ended June 30, 2018 compared with Three Months Ended June 30, 2017

Net Sales

Net sales for our Americas segment increased $42.9 million, or 14.8%, to $333.6 million for the three months ended June 30, 2018, compared to $290.7 million for the same period in the prior year. The $42.9 million increase in net sales for the three months ended June 30, 2018 was due primarily to an increase in ad hoc sales, chemical product sales and Contract sales of hardware products. The $42.9 million increase in net sales included one-time sales of $10.8 million related to contract claims.

Income (Loss) from Operations

Income from operations increased $321.3 million to $36.0 million for the three months ended June 30, 2018, compared to a loss from operations of $285.3 million for the same period in the prior year. The $321.3 million increase in income from operations primarily resulted from a non-cash goodwill impairment charge of $308.4 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations increased $12.9 million compared with the same period in the prior year. The $12.9 million increase is comprised of higher gross profit of $14.3 million, offset partially by an

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increase in SG&A expenses of $1.4 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales increased 2.9 percentage points, compared with the same period in the prior year.

The $14.3 million increase in gross profit was primarily driven by increases in ad hoc, hardware Contract and chemical product sales compared with the same period in the prior year. Average gross margins increased 1.1 percentage points, due primarily to higher margins for ad hoc sales, offset partially by lower margins for chemical product sales compared with the same period in the prior year.

The $1.4 million increase in SG&A expenses largely reflected increases in payroll and other personnel related costs of $1.6 million and stock-based compensation expense of $1.2 million. These increases were partially offset by $1.3 million decline in rent, travel and restructuring. The increase in payroll and other personnel related costs was due in part to increased staffing required to implement new Contracts and improve overall service to customers. SG&A as a percent of net sales declined 1.8 percentage points.

Nine Months Ended June 30, 2018 compared with Nine Months Ended June 30, 2017

Net Sales

Net sales for our Americas segment increased $84.7 million, or 10.0%, to $936.4 million for the nine months ended June 30, 2018, compared to $851.6 million for the same period in the prior year. The $84.7 million increase in net sales for the nine months ended June 30, 2018 was due primarily to an increase in ad hoc sales, chemical product sales and Contract sales of hardware products. The $84.7 million increase in net sales included one-time sales of $10.8 million related to contract claims.

Income (Loss) from Operations

Income from operations increased $333.0 million to $96.9 million for the nine months ended June 30, 2018, compared to a loss from operations of $236.2 million for the same period in the prior year. The $333.0 million increase in income from operations primarily resulted from a non-cash goodwill impairment charge of $308.4 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations increased $24.6 million compared with the same period in the prior year. The $24.6 million increase is comprised of higher gross profit of $30.4 million partially offset by an increase in SG&A expenses of $5.8 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales increased 1.8 percentage points compared with the same period in the prior year.

The $30.4 million increase in gross profit was primarily driven by increases in ad hoc, hardware Contract and chemical product sales compared with the same period in the prior year. Average gross margins increased 1.0 percentage point, due primarily to higher margins for ad hoc and hardware Contract sales, offset partially by lower margins for chemical product sales, compared with the same period in the prior year.

The $5.8 million increase in SG&A expenses reflected increases in payroll and other personnel related costs of $6.9 million, bad debt expense of $1.0 million and depreciation expense of $0.8 million. These increases were partially offset by lower stock-based compensation expense of $0.8 million, IT related costs of $0.5 million, restructuring costs of $0.2 million and net fluctuations of other SG&A expenses. The increase in payroll and other personnel related costs was due in part to increased staffing required to implement new Contracts and improve overall service to customers. SG&A as a percent of net sales declined 0.8 percentage points.

EMEA Segment

EMEA Results of Operations	Three Months Ended June 30, 2018	2017	Nine Months Ended June 30, 2018	2017
	(dollars in thousands)			
Net sales	$66,728	$65,898	$199,113	$194,237
Gross profit	$16,571	$17,043	$52,354	$54,050
Selling, general & administrative expenses	11,822	11,646	35,623	31,978
Income from operations	$4,749	$5,397	$16,731	$22,072

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	(as a percentage of net sales, numbers rounded)			
Net sales	100 %	100 %	100 %	100 %
Gross profit	24.8%	25.9%	26.3%	27.8%
Selling, general & administrative expenses	17.7%	17.7%	17.9%	16.4%
Income from operations	7.1 %	8.2 %	8.4 %	11.4%

Three Months Ended June 30, 2018 compared with Three Months Ended June 30, 2017

Net Sales

Net sales for our EMEA segment increased $0.8 million, or 1.3%, to $66.7 million for the three months ended June 30, 2018, compared to $65.9 million for the same period in the prior year. The higher net sales for the three months ended June 30, 2018, reflects an increase in chemical sales, which was offset partially by a decline in hardware Contract sales compared with the same period in the prior year.

Income from Operations

Income from operations declined $0.7 million, or 12.0%, to $4.7 million for the three months ended June 30, 2018, compared to $5.4 million for the same period in the prior year. The $0.7 million decline in income from operations was comprised of a decline in gross profit of $0.5 million and an increase in SG&A expenses of $0.2 million. Income from operations as a percentage of net sales was 7.1% for the three months ended June 30, 2018, compared to 8.2% for the same period in the prior year, a decline of 1.1 percentage points.

The $0.5 million decline in gross profit was primarily driven by lower hardware Contract sales, partially offset by increases in ad hoc and chemical sales compared with the same period in the prior year. Average gross margins declined 1.1 percentage points, due primarily to lower margins on Contract sales of hardware products, partially offset by higher margins for chemical product and ad hoc sales compared with the same period of the prior year.

The $0.2 million increase in SG&A expenses was due to an increase in the exchange rate between the British Pound and the U.S. dollar contributing to $0.7 million increase in SG&A expenses compared with the same period of the prior year. The $0.7 million increase was partially offset by a lower restructuring costs of $0.3 million and travel expense of $0.2 million compared with the same period in the prior year. SG&A as a percent of net sales remained unchanged compared with the same period in the prior year.

Nine Months Ended June 30, 2018 compared with Nine Months Ended June 30, 2017

Net Sales

Net sales for our EMEA segment increased $4.9 million, or 2.5%, to $199.1 million for the nine months ended June 30, 2018, compared to $194.2 million for the same period in the prior year. The increase in net sales for the nine months ended June 30, 2018 reflects higher chemical product sales, which was partially offset by a decline in hardware Contract sales.

Income from Operations

Income from operations declined $5.3 million, or 24.2%, to $16.7 million for the nine months ended June 30, 2018, compared to $22.1 million for the same period in the prior year. The $5.3 million decline in income from operations was comprised of a decrease in gross profit of $1.7 million and an increase in SG&A expenses of $3.6 million. Income from operations as a percentage of net sales was 8.4% for the nine months ended June 30, 2018, compared to 11.4% for the same period in the prior year, a decline of 3.0 percentage points.

The $1.7 million decline in gross profit was primarily driven by lower Contracts sales of hardware products and a weaker sales mix, partially offset by higher chemical product sales compared with the same period in the prior year. Average gross margins declined 1.5 percentage points, due primarily to a weaker sales mix and lower margins for Contract sales of hardware products and chemical product sales compared with the same period in the prior year.

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The $3.6 million increase in SG&A expenses primarily reflected increases in payroll and other personnel related costs of $3.3 million and depreciation expense of $0.3 million compared with the same period in the prior year. The increase in exchange rate between the British Pound and the U.S. dollar contributed to an approximate $2.5 million increase in SG&A expenses compared with the same period of the prior year. SG&A as a percent of net sales increased 1.5 percentage points.

APAC Segment

APAC Results of Operations	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
	(dollars in thousands)		(dollars in thousands)	
Net sales	$ 10,029	$ 7,346	$ 28,153	$ 22,014
Gross profit	$ 2,094	$ 1,919	$ 7,139	$ 5,939
Selling, general & administrative expenses	1,762	1,168	4,532	3,304
Goodwill impairment charge	—	$ 2,711	—	2,711
Income (loss) from operations	$ 332	$ (1,960)	$ 2,607	$ (76)
	(as a percentage of net sales, numbers rounded)			
Net sales	100 %	100 %	100 %	100 %
Gross profit	20.9%	26.1 %	25.4%	27.0 %
Selling, general & administrative expenses	17.6%	15.9 %	16.1%	15.0 %
Goodwill impairment charge	— %	36.9 %	— %	12.3 %
Income (loss) from operations	3.3 %	(26.7)%	9.3 %	(0.3)%

Three Months Ended June 30, 2018 compared with Three Months Ended June 30, 2017

Net Sales

Net sales for our APAC segment increased $2.7 million, or 36.5%, to $10.0 million for the three months ended June 30, 2018, compared to $7.3 million for the same period in the prior year. The $2.7 million increase in net sales for the three months ended June 30, 2018 primarily reflects increases in Contract sales of hardware products and chemical sales, partially offset by a decrease in ad hoc sales compared with the same period in the prior year.

Income (Loss) from Operations

Income from operations increased $2.3 million to $0.3 million for the three months ended June 30, 2018, compared to a loss from operations of $2.0 million for the same period in the prior year. The $2.3 million increase in income from operations primarily resulted from a non-repeating goodwill impairment charge of $2.7 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations declined $0.4 million compared with the same period in the prior year. The $0.4 million decline is due primarily to an increase in SG&A expenses of $0.6 million, partially offset by an increase in gross profit of $0.2 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales declined 6.9 percentage points compared with the same period in the prior year.

The $0.2 million increase in gross profit was primarily driven by increases in Contract sales of hardware products and chemical product sales, offset by weaker mix of sales, compared with the same period in the prior year. Average gross margins declined 5.2 percentage points due primarily to lower margins for chemical product sales, Contract sales of hardware products and ad hoc sales compared with the same period in the prior year.

The $0.6 million increase in SG&A expenses was due primarily to increases in payroll and other personnel related costs. SG&A as a percent of net sales increased 1.7 percentage points.

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Nine Months Ended June 30, 2018 compared with Nine Months Ended June 30, 2017

Net Sales

Net sales for our APAC segment increased $6.1 million, or 27.9%, to $28.2 million for the nine months ended June 30, 2018, compared to $22.0 million for the same period in the prior year. The $6.1 million increase in net sales for the nine months ended June 30, 2018 primarily reflects an increase in ad hoc sales, and to a lesser degree, an increase in Contract sales of hardware products and chemical product sales.

Income (Loss) from Operations

Income from operations increased $2.7 million to $2.6 million for the nine months ended June 30, 2018, compared to a loss from operations of $0.1 million for the same period in the prior year. The $2.7 million increase in income from operations primarily resulted from a non-repeating goodwill impairment charge of $2.7 million in the three months ended June 30, 2017. Excluding the goodwill impairment charge, income from operations was unchanged when compared to the same period in the prior year. Gross profit increased $1.2 million, which was offset by an increase in SG&A expenses of $1.2 million. Excluding the goodwill impairment charge, income from operations as a percentage of net sales declined 2.7 percentage points compared with the same period in the prior year.

The $1.2 million increase in gross profit was primarily driven by increases in ad hoc sales and Contract sales of hardware products, a stronger sales mix and a lower E&O provision, partially offset by lower chemical product sales compared with the same period in the prior year. Average gross margins declined 1.6 percentage points due primarily to lower gross margins in ad hoc sales, Contract sales of hardware products and chemical product sales, offset partially by a stronger sales mix and a lower E&O provision, compared with the same period of the prior year.

The $1.2 million increase in SG&A expenses was due primarily to increases in payroll and other personnel related costs. SG&A as a percent of net sales increased 1.1 percentage points.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash flow from operations and available borrowings under our revolving facility. We have historically funded our operations, debt payments, capital expenditures and discretionary funding needs from our cash from operations. We had total available cash and cash equivalents of $45.6 million and $61.6 million as of June 30, 2018 and September 30, 2017, respectively, of which $21.3 million, or 46.8%, and $48.7 million, or 79.0%, was held by our foreign subsidiaries as of June 30, 2018 and September 30, 2017, respectively. None of our cash and cash equivalents consisted of restricted cash and cash equivalents as of June 30, 2018 or September 30, 2017. All of our foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies.

As previously disclosed, during the three months ended September 30, 2017, we reassessed the potential need to repatriate foreign earnings based on our current long-range outlook, the current imbalance between cash generated and used in the U.S. and the increase in the percentage of excess cash that must be used to repay debt under the Credit Agreement. We determined it was likely that we would, in the future, repatriate approximately $126.5 million of previously earned and undistributed earnings. Accordingly, we recognized a $38.7 million deferred tax liability for U.S. taxes that would become due upon such repatriation net of foreign tax credits estimated to be available in the years when we expected to repatriate the previously undistributed earnings. With the enactment of the Tax Act, we reduced the deferred tax liability by $37.7 million to $1.0 million during the three months ended December 31, 2017 (see Note 10 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q).

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Our primary uses of cash currently are for:

- operating expenses;
- working capital requirements to fund the growth of our business;
- capital expenditures that primarily relate to IT equipment and our warehouse operations; and
- debt service requirements for borrowings under the Credit Facilities (as defined below under "—Credit Facilities").

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it is necessary from time to time to borrow under our revolving facility to meet cash demands. Provided we are in compliance with applicable covenants, we can borrow up to $180.0 million on our revolving credit facility of which $98.5 million was available as of June 30, 2018. We anticipate that cash provided by operating activities, cash and cash equivalents and borrowing capacity under our revolving facility will be sufficient to meet our cash requirements for the next twelve months. For additional information about our revolving facility, see "—Credit Facilities" below. As of June 30, 2018, we did not have any material capital expenditure commitments.

Cash Flows

Our cash and cash equivalents declined by $16.0 million during the nine months ended June 30, 2018. The decrease was primarily due to cash used in operating activities, offset partially by cash provided by financing activities.

A summary of our operating, investing and financing activities are shown in the following table (in thousands):

	Nine Months Ended June 30,	
Consolidated statements of cash flows data:	2018	2017
Net income (loss)	$25,380	$(199,059)
Adjustments to reconcile net income (loss) to net cash used in operating activities	43,819	290,174
Subtotal	69,199	91,115
Changes in assets and liabilities	(88,264)	(123,961)
Net cash used in operating activities	$(19,065)	$(32,846)
Net cash used in investing activities	(4,009)	(6,831)
Net cash provided by financing activities	7,330	20,283

Operating Activities

Our cash flows from operating activities fluctuates based on the level of profitability during the period as well as the timing of investments in inventory, collections of cash from our customers, payments of cash to our suppliers and other changes in working capital accounts, such as changes in our prepaid expenses and accrued liabilities or the timing of our tax payments.

Our operating activities used $19.1 million of cash in the nine months ended June 30, 2018, $13.7 million lower than the $32.8 million of cash used in operating activities for the same period in the prior year. The $13.7 million decline in net cash used in operating activities reflects a $21.9 million decline in cash provided from net income excluding non-cash items, which was more than offset by a series of year-over-year differences in balance sheet changes reducing cash used for operations by $35.6 million, which includes a smaller inventory increase of $23.8 million, a $14.8 million favorable difference in the change of accounts payable and a $28.1 million favorable difference in the balance change for remaining working capital assets and liabilities, including a $9.1 million non-cash provisional transition tax for our foreign earnings as part of our income tax provision for the nine months ended June 30, 2018. These favorable changes in our working assets and liabilities were offset partially by a $31.0 million unfavorable difference in the change of accounts receivable balance during the nine months ended June 30, 2018 as compared with the same period in the prior year. See Note 10 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for further discussion about the transition tax provision for our foreign earnings under the Tax Act.

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Investing Activities

Our investing activities used $4.0 million of cash during the nine months ended June 30, 2018 as compared to $6.8 million used during the nine months ended June 30, 2017. Investing activities consist primarily of software development and implementation projects and the purchase of property and equipment.

Financing Activities

Our financing activities generated $7.3 million of cash during the nine months ended June 30, 2018, which consisted primarily of $67.5 million of short-term borrowings, partially offset by $41.0 million and $15.0 million for repayments of our borrowings under our revolving facility and long-term debt, respectively, $2.2 million for repayments of our capital lease obligations and a $1.9 million payment for debt issuance costs (see Note 6 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q).

Our financing activities generated $20.3 million of cash during the nine months ended June 30, 2017, which consisted primarily of $60.0 million of short-term borrowings and $2.9 million of proceeds received in connection with the exercise of stock options, partially offset by $12.0 million for repayments of short-term borrowings, $15.0 million for repayments of long term debt and a voluntary prepayment of $1.3 million on term loan A facility. We also repaid $1.3 million in capital lease obligations and paid $12.8 million of debt issuance costs.

Credit Facilities

The credit agreement, dated as of December 7, 2012 (as amended, the Credit Agreement), by and among the Company, Wesco Aircraft Hardware Corp. and the lenders and agents party thereto, which governs our senior secured credit facilities, provides for (1) a $400.0 million senior secured term loan A facility (the term loan A facility), (2) a $180.0 million revolving facility (the revolving facility) and (3) a $525.0 million senior secured term loan B facility (the term loan B facility). We refer to the term loan A facility, the revolving facility and the term loan B facility, together, as the “Credit Facilities.” See Note 6 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for a summary of the Credit Facilities and the Credit Agreement.

As of June 30, 2018, our outstanding indebtedness under our Credit Facilities was $887.1 million, which consisted of (1) $365.0 million of indebtedness under the term loan A facility, (2) $81.5 million of indebtedness under the revolving facility, and (3) $440.6 million of indebtedness under the term loan B facility. As of June 30, 2018, $98.5 million was available for borrowing under the revolving facility to fund our operating and investing activities without breaching any covenants contained in the Credit Agreement.

As disclosed in Note 6 of the Notes to the Consolidated Financial Statements in Part 1, Item 1. of this Quarterly Report on Form 10-Q, our borrowings under the Credit Facilities are subject to a financial covenant based upon our Consolidated Total Leverage Ratio, with the maximum ratio set at 6.00 for the quarter ended June 30, 2018. In addition, the Excess Cash Flow Percentage (as such term is defined in the Credit Agreement) is 75%, provided that the Excess Cash Flow Percentage shall be reduced to (i) 50%, if the Consolidated Total Leverage Ratio is less than 4.00 but greater than or equal to 3.00, (ii) 25%, if the Consolidated Total Leverage Ratio is less than 3.00 but greater than or equal to 2.50, and (iii) 0%, if the Consolidated Total Leverage Ratio is less than 2.50.

The Credit Agreement also contains customary negative covenants, including restrictions on our and our restricted subsidiaries’ ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, optionally prepay or modify terms of any junior indebtedness or enter into transactions with affiliates. As of June 30, 2018, we were in compliance with all of the foregoing covenants, and our Consolidated Total Leverage Ratio was

4.27.

A breach of the Consolidated Total Leverage Ratio covenant or any of other covenants contained in the Credit Agreement could result in an event of default in which case the lenders may elect to declare all outstanding amounts to be immediately due and payable. If the debt under the Credit Facilities were to be accelerated, our available cash would not be sufficient to repay our debt in full.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

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Recent Accounting Pronouncements

See Note 2 of the Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for a summary of recent accounting pronouncements.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements (including within the meaning of the Private Securities Litigation Reform Act of 1995) concerning Wesco and other matters. These statements may discuss goals, intentions and expectations as to future plans, trends, events, results of operations or financial condition, or otherwise, based on current beliefs of management, as well as assumptions made by, and information currently available to, management. Forward-looking statements may be accompanied by words such as "achieve," "aim," "anticipate," "believe," "can," "continue," "could," "drive," "estimate," "expect," "forecast," "future," "grow," "improve," "inc "outlook," "plan," "possible," "potential," "predict," "project," "should," "target," "will," "would" or similar words, phrases or These forward-looking statements are subject to various risks and uncertainties, many of which are outside our control. Therefore, you should not place undue reliance on such statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: general economic and industry conditions; conditions in the credit markets; changes in military spending; risks unique to suppliers of equipment and services to the U.S. government; risks associated with our long-term, fixed-price agreements that have no guarantee of future sales volumes; risks associated with the loss of significant customers, a material reduction in purchase orders by significant customers or the delay, scaling back or elimination of significant programs on which we rely; our ability to effectively compete in our industry; our ability to effectively manage our inventory; our suppliers' ability to provide us with the products we sell in a timely manner, in adequate quantities and/or at a reasonable cost; our ability to maintain effective information technology systems; our ability to retain key personnel; risks associated with our international operations, including exposure to foreign currency movements; risks associated with assumptions we make in connection with our critical accounting estimates (including goodwill, excess and obsolete inventory and valuation allowance of our deferred tax assets) and legal proceedings; changes in U.S. tax law; changes in trade policies; our dependence on third-party package delivery companies; fuel price risks; fluctuations in our financial results from period-to-period; environmental risks; risks related to the handling, transportation and storage of chemical products; risks related to the aerospace industry and the regulation thereof; risks related to our indebtedness; and other risks and uncertainties.

The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect our business, including those described under Part I, Item 1A. "Risk Factors" in the 2017 Form 10-K, as supplemented by both the Q1 2018 10-Q and the Q2 2018 10-Q, and the other documents we file from time to time with the SEC, including this Quarterly Report on Form 10-Q. All forward-looking statements included in this Quarterly Report on Form 10-Q (including information included or incorporated by reference herein) are based upon information available to us as of the date hereof, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our exposure to market risks, see Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in the 2017 Form 10-K. There have been no material changes to our market risks since September 30, 2017, except as already disclosed in the 2017 Form 10-K under the sub-heading "Interest Rate Risk" regarding the Sixth Amendment.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2018 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 involved in various legal matters that arise in the ordinary course of our business. We believe that the ultimate outcome of such matters will not have a material adverse effect on our business financial condition or results of operations. However, there can be no assurance that such actions will not be material or adversely affect our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Part I, Item 1A. “Risk Factors” of the 2017 Form 10-K, as supplemented by the Q1 2018 10-Q and the Q2 2018 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2018, we repurchased 2,541 shares of common stock in connection with shares surrendered to satisfy statutory minimum tax withholding obligations in connection with the vesting of restricted stock awards under the Wesco Aircraft Holdings, Inc. 2014 Incentive Award Plan. We expended approximately $27,000 to repurchase these shares.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
April 1, 2018 - April 30, 2018	—	$ —	—	$ —
May 1, 2018 - May 31,	2,541	10.50	—	—

2018					
June 1, 2018 - June 30, 2018	—	—	—		—
Total	2,541	$ 10.50	—	$	—

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

Date: August 2, 2018	WESCO AIRCRAFT HOLDINGS, INC.	
	By:	/s/ Todd S. Renehan Name: Todd S. Renehan Title: Chief Executive Officer
Date: August 2, 2018	By:	/s/ Kerry A. Shiba Name: Kerry A. Shiba Title: Executive Vice President and Chief Financial Officer