Florida Development Finance Corporation Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019A

and

Florida Development Finance Corporation Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019B

Annual Report

As of and for the Year Ended December 31, 2019

Virgin Trains USA

Date: April 29, 2020

RE: Officers Certificate for *Virgin Trains USA Florida LLC* (f/k/a Brightline Trains LLC, f/k/a All Aboard Florida Operations, LLC*)*
Annual Report

CUSIP Nos.: *34061YAB6, 34061YAC4, 34061YAD2, 34061TAE0*

I hereby certify that the Annual Report filed on April 29, 2020 constitutes the disclosure of annual financial and operating information with respect to the Company as of December 31, 2019 and for the year then ended in the form and content as required by the Disclosure Dissemination Agent Agreement.

I further certify that the information complies, in all material respects, with the requirements of the Disclosure Dissemination Agent Agreement.

Digital Assurance Certification (DAC) shall be entitled to rely on this certificate.

If you have further questions about this matter, please do not hesitate to call.

Jeff Swiatek

Name Jeff Swiatek
Title Chief Financial Officer
Virgin Trains USA Florida LLC

Virgin Trains USA Passenger Rail Project

Executive Summary

We own and operate an express passenger rail system connecting major population centers in Florida. We are the first new major private passenger intercity railroad in the United States in over a century.

We carried over one million riders in 2019, our first full year of operations. Effective Jan 2, 2019 we increased our schedule to 226 trips per week with 34 daily weekday trips between Miami and West Palm Beach, one of the most heavily traveled and congested regions in the U.S. We believe our passenger rail system offers travel that is faster, safer, more eco-friendly, more reliable, less expensive, more productive and more enjoyable than travel by car. We also commenced construction of the expansion of our Florida passenger rail system to Orlando, which we are on schedule to complete in 2022.

In addition to our Orlando expansion, we have agreements in-place for additional inline stations in Aventura and Boca Raton and commenced early works construction in the first quarter of 2020 for those two stations. We are negotiating definitive agreements with PortMiami for an additional station at the port. Further, the Company is in negotiations with Florida Department of Transportation, CFX and OUC to expand rail service from Orlando to Tampa and has also entered into a memorandum of understanding with Walt Disney Parks and Resorts, Inc ("Disney") for the development of a station on Disney property in Orlando.

Coronavirus Impact

We experienced record ridership from November 2019 to mid-March 2020; however, in light of COVID-19 and the unprecedented impact on travel activity, we reduced our service schedule on March 18th and on March 25th we temporarily suspended our passenger rail service and reduced staffing. On April 1, 2020, the Florida governor issued a 30-day stay-at-home order for the state of Florida. The suspension of service is not expected to have a material net financial impact on our business and we have access to ample operating liquidity to withstand a protracted slowdown in the travel market. We continue to monitor the situation and evaluate an appropriate time to re-open service to resume building on the strong momentum we have established in South Florida. In the meantime, we will focus on developing key new partnerships and business opportunities.

We continue to progress aggressively construction activity, including the build-out to Orlando as well as construction of our new South Florida stations. As of March 2020, over 750 construction workers were actively engaged in the build-out of our system to Orlando and, while we have implemented additional health safety measures, we do not anticipate any adverse impact on our construction timeline.

As we look ahead toward the economic recovery of Florida, projects like ours will help create jobs and a transportation network that will prove even more important to the regional economy than it is today. To that end, we are actively working with public entities that have an interest in leveraging our infrastructure in the expected stimulus program if one is established. We believe labor-intensive, shovel-ready projects in Florida will be attractive candidates to help restart the economy.

2019 Construction and Expansion Plans and Other Material Developments

Construction and Expansion Plans

Construction of the South segment of the project, Miami to West Palm Beach, is substantially complete and remaining South segment construction activities primarily involve enhancements related to positive train control of the system.

During the second quarter of 2019, we commenced construction activities on the North segment of the project between West Palm Beach and Orlando airport ("Phase 2"), which includes development of 170 miles of new track into the completed state-of-the-art intermodal facility located in the new South Terminal at the Orlando International Airport (MCO). Revenue service is scheduled to commence in 2022.

Other Material Developments

New South Segment Stations

The additional inline stations in Aventura and Boca Raton continue to progress. In Aventura, the rail infrastructure and station designs have been well advanced to facilitate construction commencement. We have executed the station construction contract and commenced early works construction. Similarly, our Boca Raton station is well advanced from a design and engineering perspective. In terms of construction in Boca Raton, we have started early work activities, including completing installation of construction fencing and commenced relocating a portion of the community garden. Negotiations on the definitive documentation remain ongoing for the PortMiami station, though at a slower pace due to impact of COVID-19 on the cruise industry.

We believe the three new South segment stations will contribute over 2 million incremental annual passengers once ridership at these stations ramps up and stabilizes. In total, the three new in-line stations will involve the investment of approximately $120 million between Virgin Trains and local governments, of which approximately $90 million will be contributed through grants and government contributions.

Disney Station

During November, the Company entered into a memorandum of understanding ("MOU") with Walt Disney Parks and Resorts, Inc. ("Disney") for the development of a station on Disney property in Orlando. In February 2020, we commenced engineering and design work for the proposed project. The station and related rail infrastructure would provide a direct connection between Disney, the most visited theme park destination in the world, and South Florida. The service would provide a car free travel option to the 126 million visitors to the state, including the over 20 million annual domestic and international visitors arriving into South Florida. With a seamless connection to our planned station at PortMiami, the busiest cruise port in the world, cruise passengers would more conveniently be able to supplement their cruise voyage with a visit to Disney theme parks. The extension of our system from the Orlando airport to the Disney station would also serve as the first phase of a potential future connection to Tampa. Subject to permitting, lease negotiations with state agencies for right of way access, as well as negotiation of a definitive agreement with Disney, we anticipate opening the Disney station shortly after opening the Orlando airport station. Management estimates a Disney station would have rapid ridership adoption to over a million riders annually and that ridership would continue to grow strongly as the new travel option is expected to induce significant additional trips between South Florida and the theme parks.

Financings

On April 18, 2019, we consummated the issuance of $1.75 billion Florida Development Finance Corporation Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019A bonds. This issuance provided funds for the construction of our rail system between Miami and Orlando as well as to extinguish the $600 million Florida Development Finance Corporation Surface Transportation Facility Revenue Bonds (Brightline Passenger Rail Project – South Segment), Series 2017 bonds.

On Thursday June 20, 2019, we consummated the issuance of $950 million Florida Development Finance Corporation Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019B bonds. On March 17, 2020, the Scheduled Mandatory Tender Date, we remarketed its $950 million Series 2019B Bonds. Pursuant to the First Supplemental Senior Loan Agreement, the FDFC loaned the proceeds from the issuance of the Series 2019B Bonds to us. The proceeds from the Series 2019B Bonds were deposited into the Series 2019B Escrow Reserve Redemption Account in the Debt Service Fund and invested in the Escrow Securities. The Escrow Securities will mature on or before the new Scheduled Mandatory Tender Date (June 18, 2020) and are unavailable for use by us before such date. The Escrow Securities are direct obligations of the United States of America (or certain agencies thereof) and are pledged to secure the payment of the principal and interest of the Series 2019B Bonds. The Series 2019B Bonds are not secured by any other assets of the Virgin Trains USA Florida. Additionally, on March 18, 2020, in connection with the remarketing of the Series 2019B Bonds, we extended the commitment letter described in Note 9 through the new Scheduled Mandatory Tender Date.

On December 20, 2019, the United States Court of Appeals for the District of Columbia Circuit affirmed the decision of the United States District Court that the private activity bonds ("PABs") were properly issued and that the Federal Railroad Administration ("FRA") complied with all NEPA requirements with respect to the Environmental Impact Statement. On March 10, 2020, the plaintiffs were granted an extension until May 18, 2020 to file a petition for a writ of certiorari with the United States Supreme Court.

Financial Results 2019 and 2018

During the year ending on December 31, 2019, we carried a total of 1,012,804 passengers and recognized $22.1 million of total revenues, an increase of 75% and 122%, respectively, over the prior year. Average ticket fare was $16.87 for the year and ancillary revenue totaled $5.0 million. The strong year-over-year results are due to the addition of service to Miami in May 2018, the additions to our scheduled service in August 2018 and January 2019, as well as the rapid adoption of our service by repeat customers during the year.

Amounts in the following table are in millions of US dollars, except for passenger and per passenger data.

	Year-to-Date December 31,		
	2019	2018	Change
Ridership	1,012,804	579,205	+75%
Average Fare per passenger	$16.87	$ 13.45	+25%
Ticket Revenue	$ 17.1	$ 7.8	+119%
Ancillary Revenue	$ 5.0	$ 2.2	+131%
Total Revenue	$ 22.1	$ 10.0	+122%

Revenue for the year increased to $22.1 million, a 122% increase from the prior year period, primarily due to a 75% increase in ridership and higher average fare per passenger. Labor costs increased 13% to $14.4 million driven by additional personnel required to staff the additional scheduled train service and support continued growth in ridership. Facilities costs increased by 9% to $10.8 million, primarily due to opening our Miami station in May 2018, increased operating costs for our stations following the first year of operations at our full service schedule and additional ridership. Maintenance of way costs are based on our cost sharing agreement with the Florida East Coast Railroad (FECR), which uses a formula primarily based on ton-miles and train departures and largely in-line with the prior year at $7.5 million. Fuel costs increased by 19% to $2.4 million due to the increased scheduled train frequency and expanded rail network, somewhat offset by efficiency improvements implemented in the third quarter of 2018. Maintenance of equipment decreased 19% in 2019 to $7.0 million due to higher initial training costs recognized in the first quarter of 2018 of $2.5 million, partially offset by higher costs associated with increased scheduled train frequency and expanded rail network. Marketing costs were down 14% from the prior year to $6.7 million due in large part to the campaign timing and cost rationalizations. Other operating expenses of $5 million, a 46% increase, were reflective of the ramp-up of our operations, including food and beverage, information technology and variable expenses associated with the increased ridership and revenues in 2019. Depreciation and amortization expense increased 25% to $32.8 million primarily as a result of the opening of the Miami station in May 2018. Corporate, general and administrative costs increased 10% to $36.8 million, primarily driven by property taxes and additional costs associated with our first full year of operations. Expansion costs of $6.7 million include costs related to our Phase 2 Orlando expansion and are primarily comprised of leases for the Orlando airport station and required construction lay-down areas. Our interest costs increased to $32.7 million due to the issuance of our Series 2019A and 2019B Bonds. We recognized a $48.3 million loss on extinguishment of our Series 2017 Bonds in connection with the issuance of our Series 2019A bonds.

The increase in our total restricted cash to $466.8 million and total investments in marketable securities to $1.2 billion as of December 31, 2019 is attributable to the net proceeds from the issuance of our Series 2019A and 2019B Bonds. Our long-term debt increased by approximately $2.1 billion from 2018 due primarily to the issuance of the Series 2019A and 2019B bonds as discussed above, net of repayments of the Series 2017 Bonds and Siemens debt. Total invested equity of $1,038 million decreased $4.5 million due to our current year net loss of $188.9 million substantially offset by $184.4 million of capital contributions from our parent.

Passenger Ridership, Fare Data and Revenue for the Project

For the years ended December 31, 2019 and 2018, we operated between Miami and West Palm Beach, referred to as the South Segment (the short distance segment). Revenue data for the South Segment in millions of US dollars follows.

	2019	2018
Ridership		
Short distance	1,012,804	579,205
Long distance	–	–
Fare Revenue		
Short distance	$ 17.1	$ 7.8
Long distance	–	–
Revenues:		
Fare revenue	$ 17.1	$ 7.8
Ancillary revenue	5.0	2.2
Total Revenue	$ 22.1	$ 10.0

Debt Service Coverage Data

Debt service coverage data is based on actual reported results as adjusted for certain non-recurring items and other sources of liquidity available to us as of the dates reflected. The financial measures EBITDA, Free Cash Flow from Operations, Cash Available for Debt Service and Cash Available After Debt Service are supplemental measures of the Company's operating performance that are not Generally Accepted Accounting Principles (GAAP) measures and are defined in the related footnotes. These non-GAAP measures have limitations as an analytical tool, are not a measurement of income (loss) from continuing operations and/or net income (loss) and should not be considered as an alternative to net income (loss) as a measure of operating performance.

Amounts in the table below are reflected in millions of US dollars.

	2019	**2018**
EBITDA[1]	$ (123.4)	$ (82.2)
Loss on Extinguishment of Debt (non-recurring)	48.3	–
Capital Expenditures	(8.1)	(0.7)
Free Cash Flow from Operations[2]	(83.2)	(82.9)
Funding from Ramp-up Reserve	15.8	24.0
Funding from Parent	39.2	103.7
Cash Available for Debt Service [3]	(28.3)	44.9
Debt Service, net	–	–
Cash Available after Debt Service[4]	(28.3)	44.9
Debt Service Coverage[5]	n/a	n/a

1 EBITDA is defined as Net Loss excluding interest, taxes based on income, depreciation and amortization.

2 Free Cash Flow from Operations is defined as EBITDA adjusted for the loss on extinguishment of debt less rolling stock, infrastructure, station and other maintenance capital expenditures and Virgin Trains USA rebranding expenditures.

3 Cash Available for Debt Services is defined as Free Cash Flow from Operations plus Ramp-up Reserve Balance, Parent Funding and Incremental Other Debt Borrowing.

4 Cash Available after Debt Service is defined as Cash Available for Debt Service minus Debt Service, net. The Company's definitions and calculation of these non-GAAP measures may differ from the non-GAAP measures or analogous calculations of other companies in the Company's industry and may limit their usefulness as a comparative measure.

5 Debt Service Coverage equals Cash Available for Debt Service divided by Debt Service, net.

Additional Reporting

Virgin Trains USA Florida LLC recently reported ridership of 115,109 passengers for the month ending January 31, 2020, 109,630 passengers for the month ending February 29 and 47,039 passengers for the month ending March 31, 2020.

January: https://emma.msrb.org/ER1313143-ER1023251-ER1429425.pdf
February: https://emma.msrb.org/ER1317450-ER1026542-ER1433062.pdf
March: https://emma.msrb.org/RE1332769-RE1038016-RE1445711.pdf

Virgin Trains USA Florida LLC recently reported the current status of the North Segment construction activity for January, February and March 2020.

January: https://emma.msrb.org/ER1313145-ER1023252-ER1429426.pdf
February: https://emma.msrb.org/ER1317455-ER1026545-ER1433065.pdf
March: https://emma.msrb.org/RE1332773-RE1038018-RE1445715.pdf

VIRGIN TRAINS USA FLORIDA LLC

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Building a better
working world

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Report of Independent Auditors

The Board of Directors
Florida East Coast Industries, LLC

We have audited the accompanying financial statements of Virgin Trains USA Florida LLC, which compromise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, comprehensive loss, member's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virgin Trains USA Florida LLC at December 31, 2018 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 18, 2020

VIRGIN TRAINS USA FLORIDA LLC

STATEMENTS OF OPERATIONS

(Dollars in thousands)

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue		
Passenger and ancillary	$ 20,170	$ 9,185
Other	1,933	776
Total revenue	22,103	9,961
Operating expenses		
Labor	14,381	12,678
Facilities	10,799	9,935
Maintenance of way	7,461	7,535
Maintenance of equipment	6,996	8,622
Fuel	2,422	2,037
Marketing	6,657	7,767
Other operating costs	4,966	3,400
Depreciation and amortization expense	32,771	26,279
Train operating expenses	86,453	78,253
Train operating loss	(64,350)	(68,292)
Corporate, general and administrative	36,801	33,443
Expansion	6,726	6,866
Operating loss	(107,877)	(108,601)
Other (income) expenses		
Interest	32,666	7,778
Loss on extinguishment of debt	48,279	-
Other	30	(158)
Total other expense	80,975	7,620
Net loss	$ (188,852)	$ (116,221)

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

VIRGIN TRAINS USA FLORIDA LLC

STATEMENTS OF COMPREHENSIVE LOSS

(Dollars in thousands)

	Year ended December 31,	
	2019	**2018**
Net loss…………………………………..…………………	$ (188,852)	$ (116,221)
Unrealized gain on available for sale securities..…………..……	6,962	-
Amounts reclassified from accumulated other comprehensive income……..…………………….……………..	(2,408)	-
Comprehensive loss ………………………….....…………….	$ (184,298)	$ (116,221)

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

VIRGIN TRAINS USA FLORIDA LLC

BALANCE SHEETS

(Dollars in thousands)

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ -	$ 104
Restricted cash	96,510	37,667
Investments	56,250	-
Other current assets	16,911	7,301
Total current assets	169,671	45,072
Properties, equipment, and investment in rail, net	2,013,491	1,564,402
Intangible assets, net	226,202	226,515
Restricted cash	370,325	10,000
Investments *(carried at fair value except for $56.3 million carried at historical cost)*	1,181,387	-
Other assets	10,507	17,978
Total assets	$ 3,971,583	$ 1,863,967
Liabilities and member's equity		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 77,079	$ 123,615
Current portion of long-term debt, net	-	24,783
Accrued interest	65,867	16,875
Deposits from Transit Authority	35,445	31,066
Other current liabilities	3,266	5,599
Related party liabilities	59,656	9,972
Total current liabilities	241,313	211,910
Long-term debt, net	2,659,952	581,892
Other liabilities	27,700	27,650
Total liabilities	2,928,965	821,452
Commitments and contingencies		
Member's equity		
Member's equity	1,038,064	1,042,515
Accumulated other comprehensive income	4,554	-
Total member's equity	1,042,618	1,042,515
Total liabilities and member's equity	$ 3,971,583	$ 1,863,967

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

VIRGIN TRAINS USA FLORIDA LLC

STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year ended December 31, 2019	Year ended December 31, 2018
Cash flows from operating activities		
Net loss	$ (188,852)	$ (116,221)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	32,771	26,279
Amortization of deferred financing costs and discount on bonds	1,140	802
Accretion of discount on available for sale securities	(3,626)	-
Straight-line rent expense	49	1,948
Overhead expenses allocated from Parent/FECI	-	4,557
Write-off of deferred debt financing costs	2,562	-
Gain on sale of investments	(2,408)	-
Loss on extinguishment of debt	48,279	-
Changes in assets and liabilities:		
Decrease (increase) in other current assets and other assets	(7,434)	1,314
Increase (decrease) in current liabilities	38,522	18,898
Net cash and restricted cash used in operating activities	(78,997)	(62,423)
Cash flows from investing activities		
Additions of properties, equipment, investment in rail and intangible assets	(469,768)	(178,232)
Purchases of investments	(1,399,994)	-
Proceeds from investments	173,753	-
Deposits received from Transit Authority	4,385	7,562
Net cash and restricted cash used in investing activities	(1,691,624)	(170,670)
Cash flows from financing activities		
Change in member's equity	184,401	103,702
Proceeds from borrowings of long-term debt	2,678,125	8,125
Payments of long-term debt	(655,002)	-
Reimbursement related to Transit Authority for construction	2,567	6,323
Payments of deferred financing costs	(18,773)	(2,610)
Payments of insurance note payable	(1,633)	(3,762)
Net cash and restricted cash provided by financing activities	2,189,685	111,778
Net increase (decrease) in cash and cash equivalents and restricted cash	419,064	(121,315)
Cash and cash equivalents and restricted cash at beginning of period	47,771	169,086
Cash and cash equivalents and restricted cash at end of period	$ 466,835	$ 47,771
Supplemental disclosure of cash flow information:		
Cash paid for interest, exclusive of $29.4 million and $16.9 million capitalized for the year ended December 31, 2019 and 2018, respectively	$ 50,360	$ 18,641
Supplemental disclosures of non-cash investing and financing activities:		
Financing for purchases of rolling stock	$ -	$ 16,875
Other non-cash investing and financing activities	$ -	$ 1,761

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

VIRGIN TRAINS USA FLORIDA LLC

STATEMENTS OF MEMBER'S EQUITY

(Dollars in thousands)

	Total Member's equity	Member's equity	Accumulated other comprehensive income
Balance at December 31, 2017	$ 1,048,716	$ 1,048,716	$ -
Net loss	(116,221)	(116,221)	-
Net contributions from Member	110,020	110,020	-
Balance at December 31, 2018	$ 1,042,515	$ 1,042,515	$ -
Net loss	(188,852)	(188,852)	-
Net contributions from Member	184,401	184,401	-
Other comprehensive income	4,554	-	4,554
Balance at December 31, 2019	$ 1,042,618	$ 1,038,064	$ 4,554

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

Note 1. Business and Basis of Presentation

Business

Virgin Trains USA Florida LLC, a Delaware limited liability company and referred to as the "Company," "we," "us" and "our" throughout these financial statements, is in the business of owning and operating an express passenger rail system connecting major population centers in Florida.

The Company currently operates between Miami and West Palm Beach, one of the most heavily traveled and congested corridors in the United States. In January 2018, we commenced initial operations between Fort Lauderdale and West Palm Beach, and prior to then, we had no operating revenues. We commenced service to and from Miami in May 2018 and have commenced early works construction of the expansion of our Florida passenger rail system to Orlando. We own stations located in the heart of downtown cities and major transit hubs in Miami, Fort Lauderdale and West Palm Beach. The portion of the passenger rail system running between Miami and West Palm Beach is referred to as the "South Segment." The portion of the passenger rail system that will run between West Palm Beach and Orlando is referred to as the "North Segment."

The Company is a wholly-owned subsidiary of Virgin Trains USA LLC ("Parent" or "Member"), who is a controlled subsidiary of Florida East Coast Industries, LLC ("FECI"). We manage our operations as a single operating segment for the purposes of assessing performance and making operating decisions. All of our revenue is earned and assets are maintained in the United States.

Basis of Presentation

These financial statements have been prepared on a stand-alone basis in accordance with U.S. generally accepted accounting principles ("GAAP").

Certain arrangements with FECI

FECI has historically provided us with certain corporate services, and costs associated with those functions have been allocated to us. These allocations are necessary to reflect all of the costs of doing business derived from activities related to corporate development, finance and accounting, legal, information technology, human resources, treasury, and other services, as well as an allocation of share-based compensation attributable to FECI employees providing services to us. The costs of such services have been historically allocated to us on the basis of direct usage when identifiable, with the remainder allocated on the basis of headcount. We have capitalized, on a cumulative basis, approximately $28.3 million of the allocations that were directly related to capitalizable activities for the construction of assets and recorded the amounts in Properties, equipment and investment in rail, net in the balance sheets as of December 31, 2019 and December 31, 2018. As of January 1, 2019, we are no longer charged an allocation as these activities are now predominantly serviced by internal resources of the Company. For the year ended December 31, 2018, an expense portion of these allocations was approximately $4.6 million and is included as a component of Corporate, general and administrative expense in the statements of operations. We believe the basis on which costs have been allocated is a reasonable reflection of the utilization of services provided to, or the benefit received by, the Company for the applicable periods presented. The allocations may not reflect expenses we would have incurred as a stand-alone company for the applicable periods presented. Actual costs that may have been incurred if we had been a stand-alone company would depend on a number of factors, including the chosen organization structure, what functions were outsourced or performed by employees, and other strategic decisions.

Note 2. Summary of Significant Accounting Policies

Use of Accounting Estimates

The preparation of these financial statements is in conformity with GAAP and requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. We review and evaluate our assumptions and estimates on an on-going basis. Changes in estimates are recorded in the period in which they become known. Actual results may materially differ from the reported amounts under different assumptions and estimates.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents in the balance sheets is comprised of cash held in bank accounts of the Company. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted cash consists primarily of deposits held at major financial institutions to meet certain obligations directly related to the construction and development of the North and South Segments, the operation of the South Segment, collateral to undrawn letters of credit, and escrow funds mainly for the payment of interest. See Note 3 to these financial statements for more information.

The following table summarizes our cash and cash equivalents and restricted cash balances as of December 31, 2019 and 2018 *(dollars in thousands)*:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ -	$ 104
Restricted cash (current)	96,510	37,667
Restricted cash (noncurrent)	370,325	10,000
Total	$ 466,835	$ 47,771

With regards to cash management, cash is managed centrally through bank accounts controlled by us, our Parent, or FECI. Transfers of cash both to and from our Parent or FECI, which are not trade or operating items expected to be settled in the near term, such as the related party receivable balance disclosed in Note 5, are reflected within our member's equity line in our balance sheets.

Investments

Our investments in debt securities presented within our Investments line items on our balance sheet as of December 31, 2019 have been classified and accounted for as available-for-sale and are comprised of investments in U.S. Treasury securities which are carried at fair value. Unrealized gains and losses on these investments are recognized as a component of other comprehensive income/(loss) ("OCI") as presented on our statements of invested equity. See Note 7 for additional information.

Properties, Equipment and Investment in Rail, Net

Properties, equipment and investment in rail, net is stated at acquisition cost and includes construction-in-progress, land and land improvements, buildings and building improvements, rail infrastructure, investment in rail, rolling stock and other assets. Investment in rail consists of rail assets and equipment for the rehabilitation and improvement of existing track infrastructure and the construction and installation of rail related capital improvements necessary to build the passenger rail system. We capitalize the cost of major additions and improvements and expense the cost for maintenance and repairs that do not extend the life of the asset by greater than one year. Construction-in-progress is comprised of costs and interest related to projects that are not yet completed. Depreciation expense is presented entirely within the Depreciation and amortization expense line item in our statements of operations and begins in the period in which the asset is placed into service.

Depreciation is computed using the straight-line method over the estimated lives of the assets, as follows:

	Useful Life (Years)
Buildings and building improvements	15-39
Rail infrastructure	30-80
Investment in rail	45
Rolling stock	35
Furnitures and fixtures	3-7
Machinery and equipment and replacement parts	3-35
Computer hardware and software	2-5

Intangible Assets

We have indefinite-lived and definite-lived intangible assets. Our indefinite-lived intangible asset is comprised of our right-of-way for passenger rail service from Miami to Cocoa, Florida. Our definite-lived intangible assets include third-party rail line property easements in Florida (see Note 6 for additional information). Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets. We evaluate the useful lives of our intangible assets with definite lives at each reporting period. Definite-lived intangible assets are stated at cost less accumulated amortization.

Impairment

We perform an impairment review of our intangible asset with an indefinite-life annually as of April 1, or more frequently if events or circumstances indicate the carrying value may be impaired. Our indefinite-lived intangible asset is assessed for impairment by initially performing a qualitative assessment before performing quantitative impairment testing to determine whether it is more likely than not the asset has been impaired. To the extent an indefinite-lived intangible asset is impaired, the impairment loss is measured as the excess of the carrying value over the estimated fair value of the asset. The asset's fair value is determined by using a discounted present value model based on expected future cash flows.

We review the carrying value of our properties and equipment, investment in rail, and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset or asset grouping may not be recoverable. Recoverability is measured by comparing the carrying value of an asset, or group of assets, to the estimated future undiscounted cash flows expected to be generated by the asset or group of assets. If these comparisons indicate that the carrying value of the asset or group of assets is not recoverable, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds its estimated fair value.

There were no impairment losses recognized for any of our assets during the years ended December 31, 2019 and 2018.

Cost Capitalization

Capitalized costs relate to the acquisition of land, construction of buildings and other infrastructure for our stations and office space, as well as investment in rail and rolling stock. Capitalization of costs, including interest, ceases when an asset is substantially complete or no longer undergoing activities to prepare it for its intended use.

The interest costs associated with qualified expenditures for assets under construction are capitalized and included in the cost of the asset. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of our outstanding borrowings. Total capitalized interest costs were approximately $43.5 million and $27.5 million for the years ended December 31, 2019 and 2018, respectively.

Equity Method Investment

Our 50% investment in Florida DispatchCo LLC ("DispatchCo") is accounted for pursuant to the equity method of accounting as we have the ability to exercise significant influence, but not control, over DispatchCo. This investment is recorded at its initial carrying value and is adjusted for capital contributions, dividends received and our proportionate share of the investee's earnings or losses. This investment is reported as a component of Other assets in the balance sheets and amounted to $2 million as of December 31, 2019 and 2018. Equity in earnings for the periods presented were not significant.

DispatchCo is responsible for providing dispatch services to Florida East Coast Railway, L.L.C. ("FECR") and the Company pursuant to the Dispatching Services Agreement. DispatchCo charges for dispatching services based on cost-plus pricing, charged equally to both parties.

Deferred Financing Costs

Deferred financing costs are directly attributable to issuing debt and are recorded as a direct deduction from the carrying value of the associated debt liability in our balance sheets. We amortize these costs to interest expense in our statements of operations over the term of the related debt using the effective interest method.

Deferred financing costs are presented as an asset within Other assets in our balance sheets until the associated debt is issued. If and at the time it is probable that the associated debt instrument will not be issued, the deferred financing costs are written-off to Other (income) expenses in our statements of operations.

Total unamortized deferred financing costs related to debt were $18.9 million and $21.6 million as of December 31, 2019 and 2018, respectively. We classified $18.7 million and $18.1 million, net of accumulated amortization, of the total balance as a direct deduction from the carrying value of total debt (long-term and current portion) in the balance sheets as of December 31, 2019 and 2018, respectively. Deferred financing costs related to debt that had not yet been issued is reported in Other assets in our balance sheets and was negligible as of December 31, 2019 and $3.4 million as of December 31, 2018.

Additionally, during 2019 we wrote-off $2.6 million of deferred financing costs related to unissued debt which was no longer probable of being issued. This write-off is presented within the Other line item on our statement of operations for the year ended December 31, 2019.

Revenue Recognition

As of January 1, 2019, we adopted ASU 2014-09, *Revenue from contracts with customers (Topic 606),* and related subsequent ASUs amending ASU 2014-09 (collectively "ASC 606"). The core principle of the guidance in ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We recognize all revenue related to contracts with customers in accordance with ASC 606. We elected to apply ASC 606 using the modified retrospective adoption method; however, there was no impact to our fiscal year 2018 financial statements as a result of the adoption of this standard.

Passenger and ancillary revenue in our statements of operations includes revenue related to the sale of passenger tickets, food and beverage, merchandise, parking and other ancillary services, and are presented exclusive of taxes. These revenues are recognized when we satisfy the related performance obligations as the services are performed or goods are sold. Amounts received in advance for passenger tickets are deferred in Other current liabilities in our balance sheets until the ticket is used or expires. Customer incentives, which are primarily promotional pricing and discounts offered to passengers, are recorded as a reduction to passenger and ancillary revenue, as applicable.

Other revenue primarily consists of revenue generated from advertising and sponsorship activities as well as third-party rentals of space at our stations (rental revenue). In general, other revenues are recognized when services are performed or contractual obligations are met. Rental revenue is recognized on a straight-line basis over the contractual term of the lease arrangement. Other revenues received in advance, which in general do not exceed 12 months, are contract liabilities which are deferred in Other current liabilities in the balance sheets and are recognized ratably over the contract period or period of benefit of each respective agreement.

The following table disaggregates our revenue by major type of activity for the years ended December 31, 2019 and 2018 *(dollars in thousands):*

	Year ended December 31,	
	2019	2018
Passenger ticket revenue	$ 17,091	$ 7,793
Passenger food and beverage revenue	1,761	877
Ancillary passenger revenue	1,318	515
Sponsorship and advertising revenue	1,933	776
Total revenue	$ 22,103	$ 9,961

Additionally, there have been no impairment losses recognized on any receivables or contract assets (if any) arising from contracts with customers during the periods presented herein.

Consideration Received from Vendors

We receive funds from certain vendors in the normal course of business, principally as a result of purchase volumes, sales or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs incurred to sell the vendors' product. Therefore, these funds are treated as a reduction in the cost of inventory as the amounts are accrued, and recognize these funds as a reduction of cost of sales when the inventory is sold. Funds from vendors that are determined to be reimbursements of specific, incremental and identifiable costs incurred related to vendors' products are recorded as an offset to the related expense.

Operating Leases

Leases are evaluated at inception to determine whether the lease will be accounted for as an operating or capital lease. The term of the lease used for this evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured, including consideration of the failure to exercise such option would result in an economic penalty. In addition, the commencement date of the lease term is the earlier of the date when we are legally obligated for the rent payments or the date when we take possession of the premises.

If the lease is deemed to be operating, we recognize rent expense, including lease incentives, premiums and minimum rent expenses, on a straight-line basis over the expected lease term. The lease term would include cancelable option periods where failure to exercise such options would result in an economic penalty determined at the inception of the lease to be reasonably assured. Rent abatements and escalations are considered in the calculation of minimum lease payments in our operating versus capital lease analysis and in determining straight-line rent expense for operating leases.

Advertising

Advertising costs are charged to expense as incurred and are approximately $5.8 million and $6.2 million for the years ended December 31, 2019 and 2018, respectively. These costs are included within Marketing expenses in our statements of operations.

Fair Value Disclosures of Financial Instruments

We account for financial instruments at fair value or the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are recorded at fair value are classified and disclosed in one of the following three categories:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The classification of assets and liabilities in the fair value hierarchy is based upon the lowest level input that is significant to the fair value measurement in its entirety.

Cash and cash equivalents and restricted cash are carried at historical cost which approximates fair value, determined in accordance with a Level 1 fair value measurement. The Company's investments in marketable securities consist of investments in U.S. Treasury securities which are carried at fair value on our balance sheet as of December 31, 2019 using Level 1 inputs.

The fair value of our Senior Loan Agreements is estimated using a discounted cash flow analysis based on current market interest rates for debt issuances with similar remaining years to maturity and adjusted for credit risk, which represents a Level 3 measurement. The carrying value of our other long-term debt (refer to Note 9 of these financial statements) approximates fair value given the recency of those issuances and their relatively short maturity periods (Level 3). As of December 31, 2019 and 2018, the estimated fair value of total debt outstanding approximated $2.7 billion and $0.6 billion, respectively.

There were no transfers of assets or liabilities between the fair value hierarchy levels during the years ended December 31, 2019 and 2018.

Employee Benefit Plans

Eligible employees of our Parent which provide services to the Company participate in FECI's 401(k) Savings Plan. The plan provides for salary reduction contributions on behalf of the participants and provide for employer matching pursuant to the terms of the plan. Matching contributions under the plan related to these employees performing services for the Company total $0.5 million and $0.3 million for the years ended December 31, 2019 and 2018, respectively. These expenses are recorded either within Labor or Corporate, general and administrative expenses in our statements of operations based on the employee classification (train operations versus corporate).

Contingencies

Contingent obligations are accrued when a liability is probable and the amount is reasonably estimable. Contingent obligations are primarily the result of claims, assessments and lawsuits resulting from our operations. We review and evaluate the facts and circumstances to determine whether a liability is probable and reasonably estimable and, based on that assessment, recognize the estimated liability in our financial statements. In determining the measurement and appropriateness of contingent obligations, we use assumptions and estimates and, in certain circumstances, may consider the professional judgment obtained from independent third-parties and outside counsel to assist in evaluating the facts and circumstances. Adjustments to contingency reserves are recorded in the financial statements as facts concerning contingencies become known. Actual resolution results may differ from the reported amounts of these contingencies.

Expansion

Expansion expenses presented in our statements of operations is comprised of costs incurred in connection with our North Segment development activities, including lease expense related to our station at Orlando International Airport.

Recently Issued Accounting Standards

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during 2019 and 2018 that are of significance, or potential significance, to the Company as of December 31, 2019. The following summary of recent accounting pronouncements is not intended to be an exhaustive description of the respective pronouncement.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* The update provides guidance for determining if a cloud computing arrangement is within the scope of internal-use software guidance, and would require capitalization of certain implementation costs. The standard will be effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, with earlier adoption permitted. We are currently evaluating the effect this guidance will have on our financial statements; however, we do not anticipate at this time there will be a material impact at adoption.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds, and modifies certain disclosure requirements on fair value measurements in Topic 820. The standard will be effective for interim and annual periods beginning after December 15, 2019, with earlier adoption permitted. We continue to evaluate the effect this guidance will have on our financial statements upon becoming effective; however, we do not anticipate at this time there will be a material impact at adoption.

In January 2018, the FASB issued ASU 2018-01, *Land easement practical expedient for transition to Topic 842* ("ASU 2018-01"), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under Topic 840, Leases. The standard will be effective concurrent with the adoption of ASU 2016-02, discussed below. We continue to evaluate the effect this guidance will have on our financial statements upon becoming effective; however, we do not anticipate at this time there will be a material impact at adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. This ASU introduces new guidance for the accounting for credit losses. For receivables, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which reflects losses that are probable. The standard will be effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. We continue to evaluate the effect this guidance will have on our financial statements upon becoming effective; however, we do not anticipate at this time there will be a material impact at adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by recognizing rights and obligations resulting from leases as lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The update requires lessees to recognize for all leases with a term of 12 months or more at the commencement date: (a) a lease liability or a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset or a lessee's right to use or control the use of a specified asset for the lease term. Under the update, lessor accounting remains largely unchanged. The update requires a modified retrospective transition approach for leases existing at, or entered into after the beginning of the earliest comparative period presented in the financial statements and do not require any transition accounting for leases that expire before the earliest comparative period presented. After the issuance of ASU 2019-10 in December of 2019, which delayed the effective date of this ASU by one year, this standard becomes effective retrospectively for private companies for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021, with early adoption permitted. We continue to evaluate the effect this guidance will have on our financial statements upon becoming effective; however, we anticipate the predominant impact will be to our balance sheet which will reflect the establishment of lease liabilities and right-of-use assets as discussed above.

Note 3. Restricted Cash

As of December 31, 2019, total restricted cash was approximately $466.8 million and is summarized as follows:

- $389.2 million was restricted to meet certain obligations directly related to construction, development and operation of the North and South Segments. Of this amount, $360.3 million is restricted specifically for construction and development of long-term assets and, consequently, is included within non-current restricted cash on our balance sheet.
- $67.7 million was held as escrow funds mainly for the payment of interest or servicing our long-term debt within the next twelve months. Consequently, this amount is included within current restricted cash in our balance sheet.
- $10.0 million which pertains to collateral held for outstanding undrawn multi-year letters of credit with an equal aggregate face amount and, consequently, is included within non-current restricted cash in our balance sheet.

As of December 31, 2018, total restricted cash was approximately $47.7 million, of which approximately $3.9 million was restricted to meet certain obligations directly related to construction, development and operation of the South Segment, approximately $33.8 million was held as escrow funds mainly for the payment of interest or servicing of debt and $10.0 million which is presented as a non-current asset on our balance sheet as of December 31, 2018 that pertains to collateral held for outstanding undrawn multi-year letters of credit with an equal aggregate face amount.

Restricted cash potentially subjects the Company to significant concentrations of credit risk. Substantially all restricted cash is deposited in accounts with financial institutions we believe are of high credit quality. As such, the funds are considered to be subject to minimal credit risk. Such deposits have exceeded, and will continue to exceed, federally insured limits. We have not experienced any losses on our cash deposits historically.

Note 4. Properties, Equipment and Investment in Rail, Net

Properties, equipment and investment in rail, net consisted of the following *(dollars in thousands):*

	December 31, 2019	December 31, 2018
Construction-in-progress	$ 848,762	$ 558,324
Land and land improvement	53,944	19,330
Buildings and building improvements	328,934	179,988
Rail infrastructure	474,353	472,853
Investment in rail	29,123	29,123
Rolling stock	289,167	289,147
Machinery and equipment and replacement parts	28,275	27,769
Other	20,054	14,544
Total properties and equipment and investment in rail	2,072,612	1,591,078
Less accumulated depreciation	(59,121)	(26,676)
Total	$ 2,013,491	$ 1,564,402

The line item titled Other in the table above is primarily comprised of furniture and fixtures and computer hardware and software. The increase in construction-in-progress during 2019 pertains primarily to our ongoing North Segment development activities, partly offset by approximately $147.0 million that was transferred into service (Buildings line item above) in 2019 pertaining to the remaining portion of our South Segment Miami station which was certified for occupancy in the period. The increase in Land and land improvements pertains to various land parcels purchased from our Parent in 2019 in connection with our North Segment development activities (see Note 10).

For the years ended December 31, 2019 and 2018, we recognized depreciation expense of approximately $32.4 million and $26.0 million, respectively.

Note 5. Other Current Assets

Other current assets consisted of the following *(dollars in thousands):*

	December 31, 2019	December 31, 2018
Prepaid expenses	$ 13,918	$ 2,205
Inventory	355	221
Receivable from Transit Authority	-	2,567
Other current assets	2,638	2,308
Total	$ 16,911	$ 7,301

The increase in prepaid expenses since December 31, 2018 primarily pertains to insurance policies secured in connection with the commencement of our North Segment construction activities. Other current assets is predominantly comprised of trade accounts receivable balances.

Note 6. Intangible Assets

Intangible assets consisted of the following *(dollars in thousands)*:

	December 31, 2019	December 31, 2018
Indefinite life intangible asset:		
Passenger rail right-of-way (easement)…………………………	$ 195,480	$ 195,480
Definite life intangible assets:		
Passenger rail rights-of-way (easements)…………………………	$ 32,012	$ 32,002
Less accumulated amortization…………………………	(1,290)	(967)
	30,722	31,035
Total intangible assets, net…………………………	$ 226,202	$ 226,515

With regards to our definite-lived intangible assets, the remaining weighted-average amortization period for the rail line property easements is approximately 95.08 years as of December 31, 2019. We recognized amortization expense of approximately $0.3 million for each of the years ended December 31, 2019 and 2018. With regards to the next five fiscal years, we expect to recognize $0.3 million of amortization expense related to these definite-lived intangibles.

Note 7. Investments

In connection with the issuance of our Series 2019 Bonds (see Note 9), we have invested a portion of those proceeds in time deposits and available-for-sale U.S. Treasury securities for the purpose of partly offsetting debt servicing costs. The proceeds from the maturities of these investments are restricted and unavailable for use by the Company for any purpose other than to service the respective bonds. Consequently, we have classified these investments on our balance sheet as either current or noncurrent assets based on their respective maturity and bond interest payment dates.

The amortized cost and fair value amounts related to our investments as of December 31, 2019 are summarized as follows:

	December 31, 2019			
	Amortized cost (before unrealized gains / losses)	Gross realized gains	Gross unrealized gains	Fair value
	(Dollars in thousands)			
Time deposits…………………………	$ 112,500	$ -	$ -	$ 112,500
U.S. Treasury securities…………………	1,120,583	2,408	4,554	1,125,137
Total…………………………	$ 1,233,083	$ 2,408	$ 4,554	$ 1,237,637

Gross realized gains of $2.4 million were recognized at time of sale of the respective investments and is presented within the Other line item in our statement of operations for the year ended December 31, 2019.

The contractual maturities of these investments as of December 31, 2019 are summarized as follows *(dollars in thousands):*

	Amortized cost		Fair value	
Matures within one year	$	1,060,550	$	1,061,255
Matures after one year but within five years		172,533		176,382
Total	$	1,233,083	$	1,237,637

We did not record any other-than-temporary impairments related to our available-for-sale securities for the year ended December 31, 2019.

Note 8. Other Assets

Other assets consisted of the following *(dollars in thousands)*:

	December 31, 2019		December 31, 2018	
Equity method investment	$	2,044	$	2,000
Materials and supplies		2,441		2,441
Deferred financing costs (capital raise)[a]		-		8,810
Deferred financing costs (unissued debt)		239		3,448
Accrued interest receivable on U.S. Treasury securities (see Note 7)		4,593		-
Other assets		1,190		1,279
Total	$	10,507	$	17,978

(a) Costs incurred pertain to incremental legal, printing and other professional services fees which were deferred with the expectation of offsetting against proceeds upon consummation of a capital offering of our Parent's common equity interest. Such proceeds were being raised for the direct benefit of the Company's ongoing development of the Florida system. However, in February 2019, it was determined this capital offering was no longer probable of occurring and, consequently, our Parent wrote-off a portion of these deferred financing costs in the period, with the remaining portion reclassified and attributed to the issuance of our Series 2019A Bonds in April 2019 (see Note 9 for more information).

Note 9. Debt

Long-term debt consisted of the following *(dollars in thousands)*:

	December 31, 2019	December 31, 2018
Senior Loan Agreement for 6.50% Series 2019A Bonds, net of unamortized discount of $12.2 million	$ 987,796	$ -
Senior Loan Agreement for 6.375% Series 2019A Bonds, net of unamortized discount of $6.1 million	493,898	-
Senior Loan Agreement for 6.25% Series 2019A Bonds, net of unamortized discount of $3.1 million	246,949	-
Senior Loan Agreement for 1.90% Series 2019B Bonds	950,000	-
Senior Loan Agreement for 5.625% Series 2017 Bonds	-	600,000
Siemens Credit Agreement	-	25,000
Deferred financing costs	(18,691)	(18,325)
	2,659,952	606,675
Less current portion of long-term debt, net	-	(24,783)
Total long-term debt, net of current portion	$ 2,659,952	$ 581,892

Total interest costs before capitalization were approximately $100.5 million and $35.2 million, inclusive of amortization of deferred financing costs and debt issuance costs of approximately $1.1 million and $0.8 million, for the years ended December 31, 2019 and 2018, respectively.

Total interest costs of approximately $43.5 million and $27.5 million were capitalized and included within construction in progress as a component of Properties, equipment and investment in rail, net for the years ended December 31, 2019 and 2018, respectively. Refer to Note 11 of these financial statements for a tabular presentation of the aggregate maturities of our debt instruments for each of the next five years and thereafter.

Series 2019 Bonds

In its role as a conduit lender, the Florida Development Finance Corporation (the "FDFC") provides qualifying projects with access to capital to support, enhance, and promote economic development in the state of Florida. The FDFC and the Company, entered into two senior loan agreements (collectively the "Senior Loan Agreements") whereby FDFC loaned the proceeds from the Series 2019A Bonds and Series 2019B Bonds to Virgin Trains USA Florida, which agreed to pay all principal and interest on these bond issuances.

Series 2019A Bonds

On April 18, 2019, the FDFC issued $1.75 billion aggregate principal amount of Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019A (the "Series 2019A Bonds"), with Deutsche Bank National Trust Company serving as trustee (the "Trustee"). The $1.75 billion of aggregate principal amount is comprised of three bonds with par values of $250 million, $500 million and $1 billion, which bear interest rates of 6.25%, 6.375% and 6.50%, respectively. Pursuant to a Senior Loan Agreement, the FDFC loaned the proceeds from the issuance of the Series 2019A Bonds to the Company and we agreed to pay all principal and interest on the Series 2019A Bonds when due, as well as comply with various covenants for the benefit of the Trustee and the owners of the Series 2019A Bonds.

The proceeds from the Series 2019A Bonds were used for the redemption, satisfaction, and discharge of the then outstanding $600.0 million Series 2017 Bonds (including a $30 million prepayment premium) and the repayment of the Siemens Credit Agreement, the funding of certain reserves, and additional financing for the design, development, acquisition, construction, installation, equipping, ownership and operation of the segment from Miami to Orlando, Florida. The Series 2019A Bonds were issued, pursuant to an indenture, to qualified institutional buyers in the U.S. pursuant to Rule 144A under the Securities Act as fully registered bonds. Pursuant to the underlying loan agreement, the Company is required to comply with various covenants for the benefit of the Trustee and the holders of the Series 2019A Bonds, such as a limitation on the ability to incur additional indebtedness subject to certain limitations set forth in the Senior Loan Agreement, and limitations on the payment of dividends or distributions. We were in compliance with applicable debt covenants as of December 31, 2019. The Company's payment obligations with respect to the Series 2019A Bonds and the Senior Loan Agreements are secured by mortgage liens encumbering substantially all of the real property interests for the North and South Segments (including the stations), substantially all personal property of Virgin Trains USA Florida, and a pledge by AAF Operations Holdings LLC, a wholly-owned subsidiary of our Parent, of the membership interests in Virgin Trains USA Florida.

The Series 2019A Bonds have a maturity date of January 1, 2049 and bear interest at rates noted in the above table during an initial Term Rate Period which ends on December 31, 2023, December 31, 2025 and December 31, 2028 for the Series 2019A 6.25% bonds, 6.375% bonds, and 6.5% bonds, respectively. Interest is payable semi-annually on January 1 and July 1 of each year, commencing on July 1, 2019. Accrued interest was approximately $56.3 million as of December 31, 2019.

During the initial Term Rate Period, the Series 2019A Bonds are subject to redemption, in whole, at our option at any time on or after January 1, 2020 to December 31, 2023, at a redemption price equal to the principal outstanding plus a premium and accrued and unpaid interest. The redemption premium is 4% for the Series 2019A 6.25% bonds, and 5% for the Series 2019A 6.375% and 6.50% bonds, if such redemption occurs on or after January 1, 2020, and on or prior to December 31, 2020. These redemption premiums decrease by 100 basis points for each calendar year thereafter.

The Series 2019A Bonds are subject to mandatory sinking fund redemption prior to maturity, in part, at a redemption price equal to the principal amount redeemed, plus accrued and unpaid interest to the redemption date, beginning on January 1, 2026 and every year thereafter on January 1 through the final maturity on January 1, 2049. The principal amounts to be redeemed through maturity are as follows:

	Principal Amount *(Dollars in thousands)*		
Redemption Date (January 1)	**Series 2019A 6.250% Bonds**	**Series 2019A 6.375% Bonds**	**Series 2019A 6.5% Bonds**
2026	6,000	-	-
2027	6,400	-	-
2028	6,800	-	-
2029	7,200	-	-
2030	7,600	12,000	25,155
Thereafter through 2049[(a)]	8,000 – 13,600	12,000 – 36,500	27,630 – 96,080

(a) Range represents increasing annual amounts through 2049 maturity date.

Series 2019B Bonds

On June 20, 2019, the FDFC issued $950 million aggregate principal amount of Surface Transportation Facility Revenue Bonds (Virgin Trains USA Passenger Rail Project), Series 2019B (the "Series 2019B Bonds"). Pursuant to the First Supplemental Senior Loan Agreement, the FDFC loaned the proceeds from the issuance of the Series 2019B Bonds to the Company.

The proceeds from the Series 2019B Bonds were deposited into the Series 2019B Escrow Reserve Redemption Account in the Escrow Debt Service Fund and invested in the Escrow Securities. The Escrow Securities will mature on or before the Scheduled Mandatory Tender Date (March 17, 2020) and are unavailable for use by the Company before the Series 2019B bonds are tendered. The Escrow Securities are direct obligations of the United States of America (or certain agencies thereof) and are pledged to secure the payment of the principal and interest of the Series 2019B Bonds. The Series 2019B Bonds are not secured by any other assets of the Company. See Note 12 for additional information regarding the remarketing of the Series 2019B Bonds.

Additionally, on June 28, 2019, we entered into a commitment letter with a financial institution to purchase up to $950 million of aggregate principal amount of Series 2019B Bonds on or prior to the Schedule Mandatory Tender Date in the event we are unable to remarket these bonds by such date. In March of 2020, we amended this commitment letter to extend the timing of such commitment through June 18, 2020, concurrent with the mandatory tender date discussed in Note 12.

The Series 2019B Bonds have a maturity date of January 1, 2049 and interest is payable on the Scheduled Mandatory Tender Date. Accrued interest was approximately $9.6 million as of December 31, 2019.

Series 2017 Bonds

On December 19, 2017, the FDFC issued $600.0 million aggregate principal amount of its Surface Transportation Facility Revenue Bonds (Brightline Passenger Rail Project – South Segment), Series 2017 (the "Series 2017 Bonds"). The Series 2017 Bonds were issued, pursuant to an indenture, to qualified institutional buyers in the U.S.

In April 2019, we redeemed the Series 2017 Bonds in connection with the issuance of our Series 2019A Bonds, as discussed above. In connection with the redemption of these bonds, we recorded a $48.0 million loss on early extinguishment of debt for the year ended December 31, 2019 pertaining to the 5% premium paid at redemption and a write-off of unamortized deferred financing costs related to these bonds.

Siemens Credit Agreement

In July 2018, we entered into the Siemens Credit Agreement with Siemens Financial Services, Inc., as lender and administrative agent, providing for a $25.0 million delayed draw term loan credit facility to be used for working capital purposes (including for the acquisition of rolling stock). In April 2019, we repaid the outstanding balance on this term loan in connection with the issuance of our Series 2019A Bonds, as discussed above, and recorded $0.3 million loss on early extinguishment of debt for the year ended December 31, 2019.

Note 10. Related Parties

Transactions and Agreements with our Parent and FECI

Miami Office Lease

In December 2017, the Company, as lessee, entered into a lease agreement with a subsidiary of FECI, as lessor, for certain of FECI's properties in Miami, Florida (the "Miami Office Lease"). The Miami Office Lease has an original term of 60 months with a monthly base rent of approximately $54,000, subject to escalation of 3.0% per year, and a monthly tenant parking space rent payable of approximately $7,000, subject to escalation of not more than 10% per year. In April 2019, this lease was amended with FECI to extend the original term to 96 months. The Miami Office Lease provides an option to renew the lease for two additional terms of 60 months each, subject to the then fair market rental rate (as defined). Lease payments commenced at the inception of the lease at the end of December 2017. In April 2019, FECI sold this asset and, consequently, as of December 31, 2019 this agreement is no longer a related party arrangement.

We recognized approximately $0.1 million and $0.9 million of rent expense to FECI for the years ended December 31, 2019 and 2018, respectively, which is reported as a component of Corporate, general and administrative in our statements of operations.

Miami Garage Lease

In September 2016, the Company, as lessee, entered into a lease agreement, which was amended in December 2017 and May 2018, with a subsidiary of FECI, as lessor, for certain of FECI's properties in Miami, Florida (the "Miami Garage Lease"). The Miami Garage Lease has an original term of 240 months with a monthly base rent of approximately $125,000 for the initial 180 months of the original term and approximately $138,000 for the remaining 60 months of the original term. The Miami Garage Lease provides for an option to renew the lease for three additional terms of 60 months each, subject to a 10% increase in base rent upon each renewal term. The lease agreement contained a provision for a 6-month rent holiday after the lease commencement in March 2018. In April 2019, FECI sold this asset and, consequently, as of December 31, 2019 this agreement is no longer a related party arrangement.

We recognized approximately $0.4 million and $1.8 million in rent expense to FECI for the years ended December 31, 2019 and 2018, which is reported as a component of Facilities expense in our statements of operations.

Fort Lauderdale Garage Lease

In August 2016, the Company, as lessee, entered into a lease agreement, which was amended in December 2017 and March 2018, with a subsidiary of FECI, as lessor, for certain of FECI's properties in Fort Lauderdale, Florida (the "FLL Garage Lease"). The FLL Garage Lease has an original term of 240 months with a monthly base rent of approximately $112,000. The FLL Garage Lease provides an option to renew the lease for three additional renewal terms of 60 months each, subject to a 10% increase in base rent for each renewal term. The lease agreement contains a provision for a 6-month rent holiday after the lease commencement in August 2017. Lease payments commenced in February 2018. We recognized approximately $1.5 million and $1.3 million for the year ended December 31, 2019 and 2018, respectively which is reported as a component of Facilities expense in our statements of operations.

West Palm Beach Garage Lease

In August 2016, the Company, as lessee, entered into a lease agreement, which was amended in December 2017 and May 2018, with a subsidiary of FECI, as lessor, for certain of FECI's properties in West Palm Beach, Florida (the "WPB Garage Lease"). The WPB Garage Lease has an original term of 240 months with a monthly base rent payable to the Virgin Trains Stockholder of approximately $98,000. The WPB Garage Lease provides an option to renew the lease for three additional renewal terms of 60 months each, subject to a 10% increase in base rent for each renewal term. The lease agreement contains a provision for a 4-month rent holiday after the lease commencement in January 2018. Lease payments commenced in May 2018. We recognized approximately $1.1 million and $1.3 million for the year ended December 31, 2019 and 2018, respectively.

West Palm Beach Property Lease Agreement

In June 2017 we leased land from our Parent adjacent to our running repair facility in West Palm Beach. The lease term is in effect until December 31, 2033, with three 60-month renewal options. Monthly lease payments payable to FECI are approximately $23,000.

We recognized approximately $0.3 million in rent expense attributed to the WPB Property Lease Agreement as a related party as a component of Facilities expense in our statement of operations for the each of the years ended December 31, 2019 and 2018.

Other related party liabilities

Additionally, on our balance sheets as of December 31, 2019 and 2018 we carry $59.7 million and $10.0 million, respectively, of related party liabilities representing amounts owed to our Parent or FECI pertaining to a variety of operating costs settled on our behalf or services performed for the Company, such as payroll related costs for our Parent's employees performing services on our behalf, as well as $32.1 million as of December 31, 2019 pertaining to various land parcels acquired from our Parent related to our North Segment development activities. With regards to these land purchases, Management has concluded the terms and conditions of these transactions were commercially reasonable and substantially similar to those that would be available on an arm's-length basis with unaffiliated third parties.

This related party balance is presented net of receivables and liabilities with our Parent or FECI given there exists a right of offset with these entities.

Other Agreements with Previous Related Parties

FECR was a related party prior to June 30, 2017. After a sale by its parent company on June 30, 2017, FECR was no longer an affiliate and related party. For arrangements that were not assigned, the terms and conditions specified within the arrangements with FECR described below remained in effect.

Shared Services and Other Arrangements

In 2015, the Company and FECR entered into various shared services, joint use, operating, infrastructure, maintenance and other related arrangements, certain of which have been periodically amended, extended or terminated (collectively, the "Shared Services Arrangements"), whereby each party provides support to the other for certain activities at cost plus a markup to support the construction, development and operation of passenger rail service and for other purposes. The Shared Services Arrangements also provide for the rehabilitation and improvement of existing track infrastructure and the construction and installation of rail related capital improvements, necessary for the passenger rail service. Pursuant to these arrangements, certain equipment and other assets installed on existing rail will be funded by us and jointly used by the parties. On June 30, 2017, when FECR ceased to be a related party, we amended the Shared Services Arrangements with FECR to continue the joint use agreement as unrelated third parties.

Transit Improvement Agreement with FECR and Transit Authority

In August 2016, the Company and FECR entered into various construction, operating and other related agreements with a Florida public transit authority (the "Transit Authority") to provide access from (collectively, the "Transit Improvement Agreement") the Transit Authority's existing commuter rail line and public transport service to the Miami Station (the "Transit Rail"). Pursuant to the Transit Improvement Agreement, the Transit Authority pays us to design and construct common area improvements at our Miami Station and for the right to use the improvements that will be shared with the Transit Authority (the "Shared Assets"), as well as to construct improvements to existing rail transportation corridors which will be used exclusively by the Transit Authority (the "Exclusive Assets"). The Transit Improvement Agreement obligates the Transit Authority to reimburse certain infrastructure costs.

We carry approximately $35.4 million and $31.1 million as of December 31, 2019 and 2018, respectively, as Deposits from Transit Authority in our balance sheets.

We recognized approximately $24.8 million as of December 31, 2019 and 2018, respectively, as a component of Other liabilities for amounts reimbursable from the Transit Authority for the Shared Assets that are recorded in Properties, equipment and investment in rail, net in the balance sheets.

Of these amounts, we recorded $2.6 million as of December 31, 2018, as a component of Other current assets in our balance sheets related to costs that were not yet reimbursed by the Transit Authority. As of December 31, 2019, all costs have been reimbursed.

Note 11. Commitments and Contingencies and Other

Litigation, Legal Proceedings and Contingencies

We have been a party to a dispute pertaining to construction services and supplied building materials attributed to change orders, which is capitalized as a component of construction-in-progress and is included in Properties, equipment and investment in rail, net in our balance sheets. In connection with this matter, we had accrued $3.8 million as of 2018. During the fourth quarter of 2019, we settled this matter for $2.5 million and, consequently, the remaining estimated accrual for this matter was relieved on our balance sheet as of December 31, 2019.

Siemens Maintenance Agreement

We are a party to a contract with Siemens for all warranty repairs and maintenance on our rolling stock. This 30-year contract, entered into in December 2014, as amended in June 2018, ensures regular preventative maintenance, as well as capital maintenance over the life of the contract at a set price with an established cost escalator. Our monthly service payment obligations began on January 13, 2018, with the commencement of passenger rail service, and will continue over the term of the contract. We recognized approximately $6.0 million and $8.1 million for the years ended December 31, 2019 and 2018, respectively, as a component of Maintenance of equipment in our statements of operations.

Off-Balance Sheet Arrangements

We have outstanding undrawn irrevocable letters of credit commitments, fully collateralized by restricted cash, with an aggregate face amount of $10.0 million as of December 31, 2019 and 2018.

Contractual Obligations

In the normal course of business, we enter into contracts and commitments that obligate us to make payments in the future. The table below summarizes our obligations for indebtedness, purchase, lease, and other contractual obligations as of December 31, 2019.

(Dollars in thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Total debt (long-term and current portion)………................................…	$ -	$ -	$ -	$ -	$ -	$2,700,000	$2,700,000
Interest on total debt[(1)]........................	143,749	174,250	174,250	174,250	174,250	2,953,217	3,793,966
Lease commitments and other obligations[(2)]……………....................	10,272	10,234	10,241	9,236	9,258	253,670	302,911
Service agreements[(3)]………………...	8,893	18,302	14,694	16,632	15,436	120,043	194,000
Total……………………………...…	$162,914	$202,786	$199,185	$200,118	$198,944	$6,026,930	$6,990,877

(1) Reflects interest on our debt instruments as of December 31, 2019 at interest rates and maturity terms detailed in Note 9. Additionally, with regards to the commitment letter on the Series 2019B Bonds discussed in Note 9, if purchases were to occur pursuant to this arrangement, there would be certain incremental contingent transaction fees owed at that time.

(2) Represents future minimum lease payments under non-cancelable operating leases for office space, parking garages, equipment, our passenger rail rights-of-way leased from governmental agencies, including those commencing after December 31, 2019, as well other operating obligations. Additionally, in April 2019, the executed lease agreement with GOAA related to the North Segment became effective upon satisfaction of all escrow conditions. Consequently, such future minimum non-cancelable lease payments pursuant to that lease agreement with GOAA are included herein.

(3) In June 2018, we amended our 30-year equipment maintenance service agreement with Siemens to attribute services between our North and South Segment, as well as enable us to terminate the contract at any time throughout the term of the agreement, subject to a 90-day written notice and payment of penalties of $5.0 million in 2019 and declining to $1.0 million in 2042 and $0.0 million in 2048. Also, amount includes certain minimum payments related to our reservation booking system.

Note 12. Subsequent Events

We have evaluated subsequent events through March 18, 2020, the date on which these financial statements were available to be issued.

On March 17, 2020, the Scheduled Mandatory Tender Date, the Company remarketed its $950 million Series 2019B Bonds. Pursuant to the First Supplemental Senior Loan Agreement, the FDFC loaned the proceeds from the issuance of the Series 2019B Bonds to the Company. The proceeds from the Series 2019B Bonds were deposited into the Series 2019B Escrow Reserve Redemption Account in the Debt Service Fund and invested in the Escrow Securities. The Escrow Securities will mature on or before the new Scheduled Mandatory Tender Date (June 18, 2020) and are unavailable for use by the Company before such date. The Escrow Securities are direct obligations of the United States of America (or certain agencies thereof) and are pledged to secure the payment of the principal and interest of the Series 2019B Bonds. The Series 2019B Bonds are not secured by any other assets of the Company. Additionally, on March 18, 2020, in connection with the remarketing of the Series 2019B Bonds, we extended the commitment letter described in Note 9 through the new Scheduled Mandatory Tender Date.