

Aircastle LTD  
Form 10-K  
February 29, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2011

or

.. Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to

Commission file number 001-32959

**AIRCASTLE LIMITED**

(Exact name of Registrant as Specified in its Charter)

**Bermuda**  
(State or other Jurisdiction of

**98-0444035**  
(I.R.S. Employer

Incorporation or organization)

Identification No.)

**300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902**

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(203) 504-1020**

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

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<b>Title of Each Class</b>	<b>Name of Each Exchange</b>
Common Shares, par value \$.01 per share	<b>on Which Registered</b> New York Stock Exchange
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2011 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately \$712.7 million. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 15, 2012, there were 72,191,446 outstanding shares of the registrant's common shares, par value \$0.01 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Documents of Which Portions</b>	<b>Parts of Form 10-K into Which Portion</b>
<b>Are Incorporated by Reference</b>	<b>Of Documents Are Incorporated</b>
Proxy Statement for Aircastle Limited	Part III
2012 Annual General Meeting of Shareholders	(Items 10, 11, 12, 13 and 14)

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
PART I	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	10
Item 1B. <u>Unresolved Staff Comments</u>	36
Item 2. <u>Properties</u>	36
Item 3. <u>Legal Proceedings</u>	36
Item 4. <u>Mine Safety Disclosures</u>	37
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	38
Item 6. <u>Selected Financial Data</u>	41
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	43
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	81
Item 8. <u>Financial Statements and Supplementary Data</u>	81
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	82
Item 9A. <u>Controls and Procedures</u>	82
Item 9B. <u>Other Information</u>	84
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	85
Item 11. <u>Executive Compensation</u>	85
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	85
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	85
Item 14. <u>Principal Accounting Fees and Services</u>	86
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	E-1
<u>SIGNATURES</u>	S-1

---

**Table of Contents**

**SAFE HARBOR STATEMENT UNDER THE  
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain items in this Annual Report on Form 10-K (this report), and other information we provide from time to time, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as anticipates, expects, intends, plans, projects, believes, may, will, would, could, should, seeks, estimates and variations on these words and similar expressions are intended to identify forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle Limited can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any forward-looking statements contained in this report. Factors that could have a material adverse effect on our operations and future prospects or that could cause actual results to differ materially from Aircastle Limited's expectations include, but are not limited to, significant capital markets disruption and volatility and the significant contraction in the availability of bank financing, which may adversely affect our continued ability to obtain additional capital to finance our working capital needs; volatility in the value of our aircraft or in appraisals thereof, which may, among other things, result in increased principal payments under our term financings and reduce our cash flow available for investment or dividends; general economic conditions and business conditions affecting demand for aircraft and lease rates; our continued ability to obtain favorable tax treatment in Bermuda, Ireland and other jurisdictions; our ability to pay dividends; high or volatile fuel prices, lack of access to capital, reduced load factors and/or reduced yields, operational disruptions or unavailability of capital caused by political unrest in North Africa, the Middle East or elsewhere, uncertainties in the Eurozone arising from the sovereign debt crisis and other factors affecting the creditworthiness of our airline customers and their ability to continue to perform their obligations under our leases; termination payments on our interest rate hedges; and other risks detailed from time to time in Aircastle Limited's filings with the Securities and Exchange Commission (SEC), including as described in Item 1A. Risk Factors and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle Limited expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

**WEBSITE AND ACCESS TO COMPANY'S REPORTS**

The Company's Internet website can be found at [www.aircastle.com](http://www.aircastle.com). Our annual reports on Forms 10-K and 10-K/A, quarterly reports on Forms 10-Q and 10-Q/A, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under Investors SEC Filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

Statements and information concerning our status as a Passive Foreign Investment Company (PFIC) for U.S. taxpayers are also available free of charge through our website under Investors SEC Filings.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under Investors Corporate Governance. In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902.

The information on the Company's website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

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**Table of Contents**

**PART I.**

**ITEM 1. BUSINESS**

*Unless the context suggests otherwise, references in this report to Aircastle, the Company, we, us, or our refer to Aircastle Limited and its subsidiaries. References in this report to AL refer only to Aircastle Limited. References in this report to Aircastle Bermuda refer to Aircastle Holding Corporation Limited and its subsidiaries. References in this report to Fortress refer to Fortress Investment Group LLC, affiliates of which manage the Fortress funds, and certain of its affiliates and references to the Fortress funds or Fortress Shareholders refer to AL shareholders which are managed by affiliates of Fortress. Throughout this report, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitizations and term financings. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this report are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( US GAAP ).*

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to customers throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2011, our aircraft portfolio consisted of 144 aircraft that were leased to 65 lessees located in 36 countries, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. Our revenues and income from continuing operations for the year ended December 31, 2011 were \$605.2 million and \$124.3 million, respectively, and for the fourth quarter of 2011 were \$156.9 million and \$35.6 million, respectively.

The commercial air travel and air freight markets have been long-term growth sectors, broadly correlated with world economic activity and expanding at a rate of one to two times the rate of global GDP growth. This development of air travel and air cargo activity has driven a rise in the world aircraft fleet. The worldwide mainline commercial fleet (passenger aircraft with 100 seats or more and freighters) is currently at about 16,500 units and is expected to continue to increase at an average annual rate, net of retirements, of approximately 3.8% to 4.2% through 2030. In addition, aircraft leasing companies own a growing share of the world's commercial jet fleet, and now account for more than a third of this fleet.

Notwithstanding the sector's long-term growth trend, the aviation markets have been, and are expected to remain subject to economic cyclicality. The industry is also susceptible to external shocks, such as regional conflicts, terrorist events and to disruptions caused by severe weather events and other natural phenomena. Mitigating these risks is the portability of the assets, allowing aircraft to be redeployed in locations where demand is higher.

Following the industry's strong recovery during 2010, air traffic data for 2011 evidenced healthy passenger market performance while the air cargo sector shrank slightly. According to the International Air Transport Association, during 2011 global passenger traffic increased by 5.9% while air cargo traffic, measured in freight ton kilometers, decreased 0.7%. Passenger traffic growth began moderating during the second half of the year, as global economic growth rates slowed. The air cargo market, which is more economically sensitive than the passenger sector, began softening at the end of the first quarter of 2011, and continued to deteriorate until the very end of the year, when there was a slight up-tick. Driving the air cargo market result was overall economic weakness and uncertainty in many of the world's major economies as well as the effects of the tsunami in Japan and flooding in Thailand on the electronics and automotive industries' supply chains.

There are significant regional variations in both passenger and cargo demand. Emerging market economies such as China, Brazil, India and Turkey, among others, are experiencing significant increases in air traffic, driven

**Table of Contents**

by rising levels of per capita air travel. In contrast, more mature markets such as North America and Western Europe are likely to grow more slowly. Additionally, airlines operating in areas with political instability, such as those in North Africa and the Middle East, have seen more modest growth and their outlook is more uncertain. In aggregate, we believe that passenger and cargo traffic will likely increase over time, and as a result, we expect demand for high-utility aircraft will continue to remain strong over the long-term.

While capital availability for aircraft has improved over the past year, particularly in the US capital markets, there are growing debt financing pressures as the European banking sector continues to contract and to grapple with funding cost and regulatory challenges. Thanks in part to an elevated level of export credit agency ( ECA )-backed support for new deliveries, financing for newer aircraft transactions remains adequate; however, financing for used aircraft is much more limited. These trends have been exacerbated by the sovereign debt crisis in Europe. We believe the scarcity of capital should generate attractive new investment and trading opportunities upon which we are well placed to capitalize given our access to the U.S. bond market.

We intend to pay quarterly dividends to our shareholders based on the company's sustainable earnings levels; however, our ability to pay quarterly dividends will depend upon many factors, including those described in Item 1A. Risk Factors and elsewhere in this report. The table below is a summary of our quarterly dividend history for the years ended December 31, 2009, 2010 and 2011, respectively. These dividends may not be indicative of the amount of any future dividends.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount (Dollars in Thousands)	Record Date	Payment Date
December 22, 2008	\$ 0.100	\$ 7,862	December 31, 2008	January 15, 2009
March 13, 2009	\$ 0.100	7,923	March 31, 2009	April 15, 2009
June 10, 2009	\$ 0.100	7,923	June 30, 2009	July 15, 2009
September 10, 2009	\$ 0.100	7,924	September 30, 2009	October 15, 2009
December 14, 2009	\$ 0.100	7,955	December 31, 2009	January 15, 2010
March 12, 2010	\$ 0.100	7,951	March 31, 2010	April 15, 2010
May 25, 2010	\$ 0.100	7,947	June 30, 2010	July 15, 2010
September 21, 2010	\$ 0.100	7,947	September 30, 2010	October 15, 2010
December 6, 2010	\$ 0.100	7,964	December 31, 2010	January 14, 2011
March 8, 2011	\$ 0.100	7,857	March 31, 2011	April 15, 2011
June 27, 2011	\$ 0.125	9,364	July 7, 2011	July 15, 2011
September 14, 2011	\$ 0.125	9,035	September 30, 2011	October 14, 2011
November 7, 2011	\$ 0.150	10,839	November 30, 2011	December 15, 2011

**Competitive Strengths**

We believe that the following competitive strengths will allow us to capitalize on future growth opportunities in the global aviation industry:

**Diversified portfolio of high-utility aircraft.** We have a portfolio of high-utility aircraft that is diversified with respect to lessees, geographic markets, end markets (i.e., passenger and freight), lease maturities and aircraft type. As of December 31, 2011, our aircraft portfolio consisted of 144 aircraft comprising a variety of passenger and freighter aircraft types that were leased to 65 lessees located in 36 countries. We owned 119 passenger aircraft, representing approximately 69% of the net book value of flight equipment, while our 25 freighter aircraft account for 31% of our portfolio value. Our lease expirations are well dispersed, with a weighted average remaining lease term of 4.9 years for aircraft we owned at December 31, 2011. Over the next two years, only approximately 16% of our fleet by net book value has scheduled lease expirations, after taking into account lease and sales commitments, providing the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.

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**Table of Contents**

***Experienced management team with significant expertise.*** Our management team has significant experience in the acquisition, leasing, financing, technical management, restructuring/repossession and sale of aviation assets. This experience enables us to access a wide array of placement opportunities throughout the world and also evaluate a broad range of potential investments and sales opportunities in the global aviation industry. With extensive industry contacts and relationships worldwide, we believe our management team is highly qualified to manage and grow our aircraft portfolio and to address our long-term capital needs. In addition, our senior management personnel have extensive experience managing lease restructuring and aircraft repossessions, which we believe is critical to mitigate our customer default exposure.

***Access to a wide range of financing sources.*** Aircastle is a publicly listed company trading on the New York Stock Exchange. We have a \$1 billion shelf registration statement on Form S-3 in effect and, through this, would expect to have relatively efficient and quick access to additional equity or debt capital. The Company secured corporate credit ratings from Standard & Poor's and Moody's Investors Services and completed a \$300.0 million unsecured bond offering in August of 2010 and an additional \$150.0 million unsecured bond offering in December 2011. In addition to demonstrating access to the export credit agency-backed, commercial bank and securitization markets for secured debt, we believe having access to the unsecured bond market is a competitive differentiator which allows us to pursue a more flexible and opportunistic investment strategy.

***Disciplined acquisition approach and broad sourcing network.*** We evaluate the risk and return of any potential acquisition first as a discrete investment and then from a portfolio management perspective. To evaluate potential acquisitions, we employ a rigorous due diligence process focused on (i) cash flow generation with careful consideration of macro trends, industry cyclicality and product life cycles; (ii) aircraft specifications and maintenance condition; (iii) when applicable, lessee credit worthiness and the local jurisdiction's rules for enforcing a lessor's rights; and (iv) other legal and tax implications. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, financial institutions and other aircraft owners. Since our formation in 2004, we have built our aircraft portfolio through more than 80 transactions with more than 60 counterparties.

***Existing fleet financed on a long-term basis with limited future funding commitments.*** Our aircraft are currently financed under secured and unsecured debt financings with the earliest maturity date being in 2015, thereby limiting our near-term financial markets exposure on our owned aircraft portfolio. In addition, we have only one remaining aircraft from our A330 Program which is scheduled to delivery during Q2 2012. As such, we are free to deploy our capital base flexibly to take advantage of what we anticipate will be more attractive investment environment.

***Global and scalable business platform.*** We operate through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our facilities, systems and personnel currently in place are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.

**Business Strategy**

The availability of equity and debt capital remains limited for the type of aircraft investments we are currently pursuing. However, we plan to grow our business and profits over the long-term by continuing to employ our fundamental business strategy by:

***Selectively investing in additional commercial jet aircraft and other aviation assets when attractively priced opportunities and cost effective financing are available.*** We believe the large and growing aircraft market will continue to provide significant acquisition opportunities over the long-term. We also believe the contraction in traditional aviation bank debt lending capacity will offer attractive near-term investment opportunities. We regularly evaluate potential aircraft acquisitions and expect to continue our investment program through additional passenger and cargo aircraft purchases when attractively priced opportunities and cost effective financing are available.

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## **Table of Contents**

***Maintaining an efficient capital structure by using various long-term financing structures to obtain cost effective financing and leveraging the efficient operating platform and strong operating track record we have established.*** We have financed our aircraft acquisitions using various long-term debt structures obtained through several different markets to obtain cost effective financing. In this regard, we believe having corporate credit ratings from Standard & Poor's and Moody's enables us to access a broader pool of capital than many of our peers. Notwithstanding the contraction in traditional aviation bank lending capacity, we expect capital to continue to be available, thus allowing us to acquire additional aircraft and other aviation assets to optimize the return on our investments and to grow our business and profits. We will also seek opportunities to increase our profits by leveraging the efficient operating platform we have established.

***Reinvesting a portion of the cash flows generated by our business in additional aviation assets and/or our own debt and equity securities.*** Aircraft have a finite useful life and through a strategy of reinvesting a portion of our cash flows from operations and asset sales in our business, we will generally seek to maintain and grow our asset base and earnings base.

***Selling assets when attractive opportunities arise and for portfolio management purposes.*** We pursue asset sales as opportunities over the course of the business cycle with the aim of realizing profits and reinvesting proceeds where more accretive investments are available. We also use asset sales for portfolio management purposes such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types.

We also believe our team's capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities as capital becomes available for such activities. We intend to continue to focus our efforts on investment opportunities in areas where we believe we have competitive advantages and on transactions that offer attractive risk/return profiles after taking into consideration available financing options. In any case, there can be no assurance that we will be able to access capital on a cost-effective basis, and a failure to do so could have a material adverse effect on our business, financial condition or results of operations.

## **Acquisitions and Disposals**

We originate acquisitions and disposals through well-established relationships with airlines, other aircraft lessors, financial institutions and brokers, as well as other sources. We believe that sourcing such transactions both globally and through multiple channels provides for a broad and relatively consistent set of opportunities.

Our objective is to develop and maintain a diverse and stable operating lease portfolio; however, we review our operating lease portfolio periodically to sell aircraft opportunistically and to manage our portfolio diversification. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Acquisitions and Disposals.

We have an experienced acquisitions and sales team based in Stamford, Connecticut; Dublin, Ireland and Singapore that maintains strong relationships with a wide variety of market participants throughout the world. We believe that our seasoned personnel and extensive industry contacts facilitate our access to acquisition and sales opportunities and that our strong operating track record facilitates our access to debt and equity capital markets.

Potential investments and disposals are evaluated by teams comprised of marketing, technical, credit, financial and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including its price, specification/configuration, age, condition and maintenance history, operating efficiency, lease terms, financial condition and liquidity of the lessee, jurisdiction, industry trends and future redeployment potential and values, among other factors. We believe that utilizing a cross-functional team of experts to consider the investment parameters noted above will help us assess more completely the overall risk



## Table of Contents

and return profile of potential acquisitions and will help us move forward expeditiously on letters of intent and acquisition documentation. Our letters of intent are typically non-binding prior to internal approval, and upon internal approval are binding subject to the fulfillment of customary closing conditions.

### Finance

We intend to fund new investments through cash on hand and potentially through medium to longer-term financings on a secured or unsecured basis. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Secured Debt Financings and Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Unsecured Debt Financings.

### Segments

We operate in a single segment.

### Aircraft Leases

Typically, we lease our aircraft on an operating lease basis. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft upon expiration or early termination of the lease. Operating leasing can be an attractive alternative to ownership for airlines because leasing (i) increases fleet flexibility, (ii) requires a lower capital commitment for the airline, and (iii) significantly reduces aircraft residual value risk for the airline. Under our leases, the lessees agree to lease the aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or, in rare cases, terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2011, our three largest customers, Martinair (including its affiliates, KLM, Transavia and Transavia France), U.S. Airways, Inc., and Hainan Airlines Company, accounted for 11%, 7% and 6%, respectively.

The scheduled maturities of our aircraft leases by aircraft type grouping currently are as follows, taking into account lease placement and renewal commitments as of December 31, 2011:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Off- Lease <sup>(1)</sup>	Total
A319/A320/A321	2	3	4	8	10	3							1	31
A330-200/200F/300	1		2		1	8	1		1	4	2	1		21
737-300/300QC/400	3	2	6	4									1	16
737-700/800	5	10	10		4	2	1							32
747-400BCF/400ERF/400BDSF/400F			1		1	4	5		1				2	14
757-200	1	5	4	1	1									12
767-200ER/300ER	4	4	2	1										11
777-200ER/300ER						1	1							2
Other Aircraft Types	1	2		2										5
<b>Total</b>	<b>17</b>	<b>26</b>	<b>29</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>8</b>		<b>2</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>144</b>

- (1) Includes two Boeing Model 747-400 aircraft being converted from passenger to freighter configuration, one of these was delivered to a customer in North America in January 2012 and we have a commitment to lease the other aircraft post-conversion to a customer in North America, one Airbus Model A320-200 aircraft for which we have a commitment to lease, and one Boeing Model 737-400 aircraft which we sold in January 2012.



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**Table of Contents**

**2011 Lease Expirations and Lease Placements**

*Lease expirations and terminations placements.* In early 2011 we had 11 aircraft with scheduled lease expirations during the year. During the course of 2011, we had an additional eight aircraft to place, due to early lease terminations or acquisitions of off-lease aircraft. For all 19 aircraft, we executed new leases or lease commitments, lease extensions or sales.

*Aircraft acquisitions placements.* We acquired two off-lease aircraft in 2011, both Boeing Model 747-400 passenger aircraft that we inducted into a freighter conversion modification program. One of these aircraft completed its conversion process and was delivered on-lease to a customer in North America in January 2012. The other is scheduled to complete its conversion process late in the first quarter of 2012 and is committed for lease to the same customer.

**2012 Lease Expirations and Lease Placements**

*Scheduled Lease expirations placements.* We have 17 aircraft with scheduled lease expirations in 2012 and have lease or sale commitments or letters of intent for five of these aircraft, leaving us with 12 such aircraft that we are marketing for lease or sale in 2012. Those 12 aircraft represented 6% of our total net book value at December 31, 2011. We are also marketing two Boeing Model 747-400SF aircraft on lease to World Airways. World Airways and its affiliated companies filed for protection under Chapter 11 of the U.S. Bankruptcy Code and World Airways filed a motion seeking approval to reject the leases for both aircraft.

*Aircraft acquisitions placements.* We are scheduled to take delivery of one new A330 aircraft (the New A330 Aircraft ) from Airbus S.A.S. in the second quarter of 2012, and the aircraft is committed for lease to Virgin Australia Airlines.

**2013-2015 Lease Expirations and Lease Placements**

*Scheduled lease expirations placements.* Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2013-2015 representing the percentage of our net book value of flight equipment held for lease at December 31, 2011 specified below:

2013: 26 aircraft, representing 10%;

2014: 29 aircraft, representing 14%; and

2015: 16 aircraft, representing 7%.

*Lease Payments and Security.* Each of our leases requires the lessee to pay periodic rentals during the lease term. As of December 31, 2011, rentals on more than 98% of our leases then in effect, as a percentage of net book value, are fixed and do not vary according to changes in interest rates. For the remaining leases, rentals are payable on a floating interest-rate basis. Most lease rentals are payable either monthly or quarterly in advance, and all lease rentals are payable in U.S. dollars.

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which would normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges, certain taxes, licenses, consents and approvals, aircraft registration and insurance premiums. Typically, under an operating lease, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Our determination of whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made

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monthly, depends on a variety of factors, including the creditworthiness of the lessee, the amount of security deposit which may be provided by the lessee and market conditions at the time. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually shortly following completion of the relevant work.

## **Table of Contents**

Many of our leases also contain provisions requiring us to pay a portion of the cost of modifications to the aircraft performed by the lessee at its expense, if such modifications are mandated by recognized airworthiness authorities. Typically, these provisions would set a threshold, below which the lessee would not have a right to seek reimbursement and above which we may be required to pay a portion of the cost incurred by the lessee. The lessees are obliged to remove liens on the aircraft other than liens permitted under the leases.

Our leases generally provide that the lessees' payment obligations are absolute and unconditional under any and all circumstances and require lessees to make payments without withholding payment on account of any amounts the lessor may owe the lessee or any claims the lessee may have against the lessor for any reason, except that under certain of the leases a breach of quiet enjoyment by the lessor may permit a lessee to withhold payment. The leases also generally include an obligation of the lessee to gross up payments under the lease where lease payments are subject to withholding and other taxes, although there may be some limitations to the gross up obligation, including provisions which do not require a lessee to gross up payments if the withholdings arise out of our ownership or tax structure. In addition, changes in law may result in the imposition of withholding and other taxes and charges that are not reimbursable by the lessee under the lease or that cannot be so reimbursed under applicable law. Lessees may fail to reimburse us even when obligated under the lease to do so. Our leases also generally require the lessee to indemnify the lessor for tax liabilities relating to the leases and the aircraft, including in most cases, value added tax and stamp duties, but excluding income tax or its equivalent imposed on the lessor.

## **Portfolio Risk Management**

Our objective is to build and maintain an operating lease portfolio which is balanced and diversified and delivers returns commensurate with risk. We have portfolio concentration objectives to assist in portfolio risk management and highlight areas where action to mitigate risk may be appropriate, and take into account the following:

individual lessee exposures;

average portfolio credit quality;

geographic concentrations;

end market (i.e., passenger and freighter) concentrations;

lease maturity concentrations; and

aircraft type concentrations.

We have a risk management team which undertakes detailed credit due diligence on lessees when aircraft are being acquired with a lease already in place and for placement of aircraft with new lessees following lease expiration or termination.

## **Lease Management and Remarketing**

Our aircraft re-leasing strategy is to develop opportunities proactively, well in advance of scheduled lease expiration, to enable consideration of a broad set of alternatives, including both passenger and freighter deployments, and to allow for reconfiguration or maintenance lead times where needed. We also take a proactive approach to monitoring the credit quality of our customers, and seek early return and redeployment of aircraft if we feel that a lessee is unlikely to perform its obligations under a lease. We have invested significant resources in developing and implementing what we consider to be a state-of-the-art lease management information system to enable efficient management of aircraft in our portfolio.

## **Other Aviation Assets and Alternative New Business Approaches**

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As of December 31, 2011, our overall portfolio of assets consists of commercial jet aircraft. We believe the lack of traditional aviation bank debt capacity with respect to financing mid-age, current technology aircraft may

## **Table of Contents**

present attractive aircraft and debt investment opportunities, including our own securities, although financing for such acquisitions may be limited and more costly than in the past. Additionally, we believe that investment opportunities may arise in such sectors as jet engine and spare parts leasing and financing, aviation facility financings or ownership, and commercial turboprop aircraft and helicopter leasing and financing. In the future, we may make opportunistic investments in these or other sectors or in other aviation related assets and we intend to continue to explore other income-generating activities and investments that leverage our experience and contacts, provided that capital is available to fund such investments on attractive terms. We believe we have a world class servicing platform and may also pursue opportunities to capitalize on these capabilities such as providing aircraft management services for third party aircraft owners.

## **Competition**

The aircraft leasing industry is highly competitive with more than 35 significant participants, of which more than 20 are major operators that are regularly active in the leasing and aircraft trading markets. A number of these participants place speculative orders for new aircraft, to be placed on operating lease upon delivery from the manufacturer in competition with new and used aircraft offered by other lessors.

We face competition from these participants for the acquisition of aircraft from airlines and other aircraft investors, for the placement of aircraft on lease with airlines and for the investors who have an interest in acquiring aircraft assets which we may wish to divest.

The recent global economic recession and the general market liquidity crisis impacted the aircraft trading market causing many large participants to restructure or revisit their investment strategies. Typically, our competition for aircraft acquisitions has come from established aircraft leasing companies such as GE Commercial Aviation Services, International Lease Finance Corporation, Air Lease Corporation, BOC Aviation, AerCap Holdings NV, CIT Aerospace, AWAS, Macquarie Aircraft Leasing, FLY Leasing Ltd., Sumitomo Mitsui Financial Group and Aviation Capital Group. However, we are also seeing increased activity from recent market entrants such as the leasing affiliates of China Development Bank, HNA Group and Industrial and Commercial Bank of China. In addition, several new private equity funded start-ups with significant capital bases, such as Avolon and Jackson Square, have recently entered the market with a focus on new aircraft. Similarly, AerSale and RPK Capital are among several new market participants with private equity capital commitments, though these ventures are focusing on older aircraft and part-out oriented investments.

Competition for leasing or re-leasing of aircraft, as well as aircraft sales is based principally upon the availability, type and condition of aircraft, lease rates, prices and other lease terms. Aircraft manufacturers, airlines and other operators, distributors, equipment managers, leasing companies, financial institutions and other parties engaged in leasing, managing, marketing or remarketing aircraft compete with us, although their focus may be on different market segments and aircraft types.

Some of our competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. However, we believe that we are able to compete favorably in aircraft acquisition, leasing and sales activities due to the reputation and experience of our management, our extensive market contacts and our expertise in sourcing and acquiring aircraft.

## **Employees**

We operate in a capital intensive, rather than a labor intensive, business. As of December 31, 2011, we had 82 employees. None of our employees are covered by a collective bargaining agreement and we believe that we maintain excellent employee relations. We provide certain employee benefits, including retirement, health, life, disability and accident insurance plans.

## **Insurance**

We require our lessees to carry with insurers in the international insurance markets the types of insurance which are customary in the air transportation industry, including airline general third party legal liability

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## **Table of Contents**

insurance, all-risk aircraft hull insurance (both with respect to the aircraft and with respect to each engine when not installed on our aircraft) and war-risk hull and legal liability insurance. We are named as an additional insured on liability insurance policies carried by our lessees, and we or one of our lenders would typically be designated as a loss payee in the event of a total loss of the aircraft. Coverage under liability policies generally is not subject to deductibles except those as to baggage and cargo that are standard in the airline industry, and coverage under all-risk aircraft hull insurance policies is generally subject to agreed deductible levels. We maintain contingent hull and liability insurance coverage with respect to our aircraft which is intended to provide coverage for certain risks, including the risk of cancellation of the hull or liability insurance maintained by any of our lessees without notice to us, but which excludes coverage for other risks such as the risk of insolvency of the primary insurer or reinsurer.

We maintain insurance policies to cover risks related to physical damage to our equipment and property (other than aircraft), as well as with respect to third-party liabilities arising through the course of our normal business operations (other than aircraft operations). We also maintain limited business interruption insurance to cover a portion of the costs we would expect to incur in connection with a disruption to our main facilities, and we maintain directors and officers insurance providing indemnification for our directors, officers and certain employees for certain liabilities.

Consistent with industry practice, our insurance policies are subject to deductibles or self-retention amounts.

We believe that the insurance coverage currently carried by our lessees and by Aircastle provides adequate protection against the accident-related and other covered risks involved in the conduct of our business. However, there can be no assurance that we have adequately insured against all risks, that lessees will at all times comply with their obligations to maintain insurance, that our lessees' insurers and re-insurers will be or will remain solvent and able to satisfy any claims, that any particular claim will ultimately be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

## **Government Regulation**

The air transportation industry is highly regulated; however, we generally are not directly subject to most of these regulations because we do not operate aircraft. In contrast, our lessees are subject to extensive, direct regulation under the laws of the jurisdiction in which they are registered and under which they operate. Such laws govern, among other things, the registration, operation and maintenance of our aircraft. Our customers may also be subject to noise or emissions regulations in the jurisdictions in which they operate our aircraft. For example, the United States and other jurisdictions impose more stringent limits on nitrogen oxide ( NO<sub>x</sub> ), carbon monoxide ( CO ) and carbon dioxide ( CO<sub>2</sub> ) emissions from engines. In addition, European countries generally have more strict environmental regulations and, in particular, the European Parliament has included aviation is to be included in the European Emissions Trading Scheme ( ETS ) effective January 1, 2012, although the United States, China and other countries continue to oppose the inclusion of aviation emissions in ETS.

Most of our aircraft are registered in the jurisdiction in which the lessee of the aircraft is certified as an air operator. As a result, our aircraft are subject to the airworthiness and other standards imposed by such jurisdictions. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft and related equipment are continuously maintained under a program that will enable safe operation of the aircraft. Most countries' aviation laws require aircraft to be maintained under an approved maintenance program having defined procedures and intervals for inspection, maintenance, and repair.

Our lessees are sometimes obligated by us to obtain governmental approval to import and lease our aircraft, to operate our aircraft on certain routes and to pay us in U.S. dollars. Usually, these approvals are obtained prior to lease commencement as a condition to our delivery of the aircraft. Governmental leave to deregister and/or re-export an aircraft at lease expiration or termination may also be required and may not be available in advance of the lease expiration or termination, although in such a case, we would normally require powers of attorney or other documentation to assist us in effecting deregistration or export, if required.



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## **Table of Contents**

We are also subject to U.S. regulations governing the lease and sale of aircraft to foreign entities. Specifically, the U.S. Department of Commerce (through its Bureau of Industry and Security) and the U.S. Department of the Treasury (through its Office of Foreign Assets Control) impose restrictions on the operation of U.S.-made goods, such as aircraft and engines, in sanctioned countries, and also impose restrictions on the ability of U.S. companies to conduct business with entities in certain countries and with certain individuals. We monitor our aircraft lease and sale transactions to ensure compliance with these restrictions.

### **Inflation**

Inflation affects our lease rentals, asset values and costs, including SG&A expenses and other expenses. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

### **Subsequent Events**

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2011 through the date of this filing, the date on which the consolidated financial statements included in this Form 10-K were issued.

## **ITEM 1A. RISK FACTORS**

### **Risks Related to Our Business**

#### **Risks related to our operations**

*Volatile financial market conditions and the European sovereign debt crisis may adversely impact our liquidity, our access to capital and our cost of capital or our ability to pay dividends to our shareholders, and may adversely impact the airline industry and the financial condition of our lessees.*

The financial crisis that began in the second half of 2008 resulted in significant global market volatility and disruption and a lack of liquidity. While the capital markets intermittently have shown signs of improvement, it is not clear whether the lease-backed securitization market and other long-term credit markets will be consistently available in sufficient volume and acceptable terms to satisfy the future financing and refinancing needs of the aviation industry. The availability of, and pricing of, capital in the bank market and in the unsecured bond market can be significantly impacted by global events, including for example the sovereign debt crisis, and there is no assurance that we will be able to raise capital in the unsecured bond market at any particular time to fund future growth or for other purposes.

In Europe, countries such as Greece, Italy, Spain, Portugal and Ireland have been particularly affected by the recent financial and economic conditions, creating a heightened perceived risk of default on the sovereign debt of those countries, with the possibility of a Greek default and rising concerns about the contagion effect it would have on other European Union economies and the ongoing viability of the euro currency and the European Monetary Union. The European Union, the European Central Bank and the International Monetary Fund have prepared rescue packages for some of the affected countries, but we cannot predict whether these packages or other rescue plans, if any, would be successful, including with respect to maintaining the viability of the euro currency or the European Monetary Union. We do not have any direct European sovereign debt exposure, nor do we have any customers based in Greece, but a very substantial part of our portfolio is leased into Europe, as further described in **Risks Related to Our Lessees – European Concentration**, below, and it is difficult to predict with any certainty the impact that a sovereign debt default or a breakup of the European Monetary Union would have on our lessees, but the continuing sovereign debt crisis, increasing yields on sovereign debt, the austerity packages being put into place by a number of European countries and other related effects are likely to have an adverse effect on growth in Europe which may have an adverse impact, which may be material, on the business, financial condition and results of operations of our customers based in Europe and our customers operating to or within Europe. Concerns about sovereign debt defaults also puts pressure on banks holding such debt, leading some banks to reduce lending in order to shore up their balance sheets, making bank debt more difficult to access within our industry and more generally.

**Table of Contents**

In August 2011, Standard & Poor's Ratings Group, Inc., (Standard & Poor's), lowered its long-term sovereign credit rating on the U.S. from AAA to AA+, reflecting Standard & Poor's view that the fiscal consolidation plan adopted by U.S. government was insufficient to stabilize the U.S. government's medium term debt dynamics, which could adversely impact the financial markets and economic conditions in the U.S. and elsewhere around the globe.

Any of these risks could have an adverse effect, which may be material, on our ability to access capital, on our cost of capital or on our business, financial condition, results of operations or our ability to pay dividends to our shareholders.

***Risks affecting the airline industry may adversely affect our customers and have a material adverse impact on our financial results.***

We operate as a supplier to airlines and are indirectly impacted by all the risks facing airlines today. The ability of each lessee to perform its obligations under the relevant lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

passenger and air cargo demand;

competition;

passenger fare levels and air cargo rates;

the continuing availability of government-funded programs, including military cargo or troop movement contracts, or other forms of government support, whether through subsidies, loans, guarantees, equity investments or otherwise;

availability of financing and other circumstances affecting airline liquidity, including covenants in financings, terms imposed by credit card issuers, collateral posting requirements contained in fuel hedging contracts and the ability of airlines to make or refinance principal payments as they come due;

geopolitical and other events, including war, acts or threats of terrorism, outbreaks of epidemic diseases and natural disasters;

aircraft accidents;

operating costs, including the price and availability of jet fuel, labor costs and insurance costs and coverages;

restrictions in labor contracts and labor difficulties;

economic conditions, including recession, financial system distress and currency fluctuations in the countries and regions in which the lessee operates or from which the lessee obtains financing;

losses on investments; and

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governmental regulation of, or affecting the air transportation business, including noise regulations, emissions regulations, climate change initiatives, and age limitations.

These factors, and others, may lead to defaults by our customers, delay or prevent aircraft deliveries or transitions, result in payment or other restructurings, and increase our costs from repossessions and reduce our revenues due to downtime or lower re-lease rates, which would have an adverse impact on our financial results or our ability to pay dividends to our shareholders.

***We bear the risk of re-leasing and selling our aircraft in order to meet our debt obligations, finance our growth and operations, pay dividends and, ultimately, realize upon the investment in the aircraft in our portfolio.***

We bear the risk of re-leasing and selling or otherwise disposing of our aircraft in order to continue to generate sufficient revenues to meet our debt obligations, to finance our growth and operations, to pay dividends

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**Table of Contents**

on our common shares and, ultimately, to realize upon our investment in the aircraft in our portfolio. In certain cases we commit to purchase aircraft that are not subject to lease and therefore are subject to lease placement risk for aircraft we are obliged to purchase. Because only a portion of an aircraft's value is covered by contractual cash flows from an operating lease, we are exposed to the risk that the residual value of the aircraft will not be sufficient to permit us to fully recover or realize a gain on our investment in the aircraft. Further, our ability to re-lease, lease or sell aircraft on favorable terms, or at all, or without significant off-lease time and transition costs is likely to be adversely impacted by risks affecting the airline industry generally.

In addition, if demand for aircraft and market lease rental rates decrease, and if these conditions persist, then the market value for our aircraft would be adversely affected and this might result in impairment charges to us in accordance with the Financial Accounting Standards Board ( FASB ) Accounting Standard Codification's ( ASC ) (Topic ASC 360) *Property, Plant, and Equipment*, which relates to accounting for the impairment or disposal of long-lived assets. Other factors that may affect our ability to realize upon the investment in our aircraft and that may increase the likelihood of impairment charges, include higher fuel prices which may increase demand for newer, fuel efficient aircraft, additional environmental regulations, customer preferences and other factors that may effectively shorten the useful life of older aircraft. Such impairment charges may adversely impact our financial results.

***Our financial reporting for lease revenue may be significantly impacted by a proposed new model for lease accounting.***

On August 17, 2010, the International Accounting Standards Board, ( IASB ), and FASB published for public comment joint proposals (the Proposals ) to change the financial reporting of lease contracts ( Lease ED ).

The Proposals set out a model for lessee accounting under which as lessee would recognize a right-of-use asset representing its right to use the underlying asset and a liability representing its obligation to pay lease rentals over the lease term. The Proposals set out two alternative accounting models for lessors, a performance obligation approach and a derecognition approach . If a lessor retains exposure to significant risks and benefits associated with the underlying asset, then it would apply the performance obligation approach to the lease of the asset. If a lessor does not retain such an exposure, then it would adopt the derecognition approach to the lease of the asset. The Proposals do not contain an effective date for the proposed changes, and it is possible that an alternative approach may be developed; however, if the Proposals are adopted in the current form, the changes could adversely impact our financial results and the market price for our shares. See Recent Unadopted Accounting Pronouncements for recent developments.

***Our ability to obtain debt financing and our cost of debt financing is, in part, dependent upon our credit ratings and a credit downgrade could adversely impact our financial results or our ability to pay dividends to our shareholders.***

Our ability to obtain debt financing and our cost of debt financing is dependent, in part, on our credit ratings. A credit rating downgrade may result in higher pricing or less favorable terms under secured financings, including Export Credit Agency backed financings, or may make it more difficult or more costly for us to raise debt financing in the unsecured bond market. Credit rating downgrades may therefore make it more difficult to satisfy our funding requirements, adversely impact our financial results or our ability to pay dividends to our shareholders.

***We may not be able to obtain long-term debt financing or refinancing on attractive terms, which may reduce our cash available for operations, investment and distribution to shareholders.***

Under the terms of Securitization No. 1, we are no longer entitled to receive excess cash flow distributions. Each of Securitization No. 2 and Term Financing No. 1 provide excess cash flow to us only during the initial five years after its respective closing date. In the case of Securitization No. 2, the fifth anniversary of its closing date

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**Table of Contents**

will occur in June 2012. Conditions in the capital markets or bank debt market, or a downgrade in our credit rating, may prevent the issuance of long-term debt financing or make any new issuance of debt financing more costly or otherwise less attractive to us. Accordingly, we may not refinance any such securitizations and term financing prior to the fifth anniversary of closing, and we may be obliged to leave these financings in place, in which case we would not receive any excess cash flow from the aircraft financed thereunder. This may adversely affect our ability to fund operations or new investments or pay dividends to our shareholders.

***An increase in our borrowing costs may adversely affect our earnings and cash available for distribution to our shareholders, and our interest rate hedging contracts would require us to pay significant termination payments in order to terminate in connection with a refinancing.***

Our aircraft are financed under long-term debt financings. As these financings mature, we will be required to either refinance these instruments by entering into new financings, which could result in higher borrowing costs, or repay them by using cash on hand or cash from the sale of our assets.

Our securitizations and term financings are London Interbank Offered Rate ( LIBOR ) based floating-rate obligations which we hedged with interest rate swaps into fixed-rate obligations having five-year to ten-year terms. As interest rates declined, the fair value of these interest rate swaps has also declined, and we would incur a significant termination payment if we were to terminate any of these interest rate swaps prior to its scheduled maturity. Because we would likely be obligated to terminate an interest rate swap in order to refinance one of these financings, these interest rate swaps make refinancing our securitizations or our term financings more difficult.

***Departure of key officers could harm our business and financial results.***

Our senior management's reputations and relationships with lessees, sellers, buyers and financiers of aircraft are a critical element of our business. We encounter intense competition for qualified employees from other companies in the aircraft leasing industry, and we believe there are only a limited number of available qualified executives in our industry. Our future success depends, to a significant extent, upon the continued service of our senior management personnel, and if we lose one or more of these individuals, our business and financial results could be adversely affected.

***We may not be able to pay or maintain dividends, or we may choose not to pay dividends, and the failure to pay or maintain dividends may adversely affect our share price.***

On November 7, 2011, our board of directors declared a regular quarterly dividend of \$0.15 per common share, or an aggregate of approximately \$10.8 million, which was paid on December 15, 2011 to holders of record on November 30, 2011. This dividend may not be indicative of the amount of any future quarterly dividends. Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our board of directors and will depend on many factors, including our ability to comply with covenants in our financing documents that limit our ability to pay dividends and make certain other restricted payments to shareholders; the difficulty we may experience in raising and the cost of additional capital and our ability to finance our aircraft acquisition commitments; our ability to re-finance our securitizations and other long-term financings before excess cash flows are no longer made available to us to pay dividends and for other purposes; our ability to negotiate and enforce favorable lease rates and other contractual terms; the level of demand for our aircraft; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; unexpected or increased expenses; the level and timing of capital expenditures, principal repayments and other capital needs; the value of our aircraft portfolio; our compliance with loan to value, debt

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## **Table of Contents**

service coverage, interest rate coverage and other financial tests in our financings; maintaining our credit ratings, our results of operations, financial condition and liquidity; general business conditions; restrictions imposed by our securitizations or other financings; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and other factors that our board of directors deems relevant. Some of these factors are beyond our control, and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

***We are subject to risks related to our indebtedness that may limit our operational flexibility, our ability to compete with our competitors and our ability to pay dividends to our shareholders.***

### *General Risks*

As of December 31, 2011, our total indebtedness was approximately \$3.0 billion, representing approximately 68.0% of our total capitalization. As a result of our substantial amount of indebtedness, we may be unable to generate sufficient cash to pay, when due, the principal of, interest on or other amounts due with respect to our indebtedness, and our substantial amount of indebtedness may increase our vulnerability to adverse economic and industry conditions, reduce our flexibility in planning for or reaction to changes in the business environment or in our business or industry, and adversely affect our cash flow and our ability to operate our business, compete with our competitors and pay dividends to our shareholders.

Our indebtedness subjects us to certain risks, including:

a high percentage of our aircraft and aircraft leases serve as collateral for our secured indebtedness and the terms of certain of our indebtedness require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under such indebtedness;

we may be required to dedicate a substantial portion of our cash flows from operations, if available, to debt service payments, thereby reducing the amount of our cash flow available to pay dividends, fund working capital, make capital expenditures and satisfy other needs;

our failure to comply with the terms of our indebtedness, including restrictive covenants contained therein, may result in additional interest being due or defaults that could result in the acceleration of the principal, and unpaid interest on, the defaulted debt, as well as the forfeiture of the aircraft pledged as collateral;

non-compliance with loan to value ratios, interest coverage or debt service coverage ratios, or other financial tests, would limit or eliminate available cash flows from the assets financed under the relevant financing; and

non-compliance with covenants prohibiting certain investments and other restricted payments, including limitations on our ability to pay dividends, repurchase our common shares, raise additional capital or refinance our existing debt, may reduce our operational flexibility and limit our ability to refinance or grow the business.

### *Risks relating to our long-term financings*

The provisions of our securitizations, term financings, ECA term financings and our senior notes require us to comply with one or more of loan to value, debt service coverage, minimum net worth, interest coverage ratios or tests and other covenants. Our compliance with these ratios, tests and covenants depends upon, among other things, the timely receipt of lease payments from our lessees, upon our overall financial performance and/or upon the appraised value of the aircraft securing the relevant financing.

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*Securitization.* During the first five years from the closing of Securitization No. 2, excess cash flow is available to us from Securitization No. 2 for corporate purposes, to make new investments or to pay

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**Table of Contents**

dividends to our shareholders. However, if debt service coverage ratio requirements are not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date and in any month following the fifth anniversary of the closing date (June 2012), all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness of the applicable securitization and will not be available to us for other purposes.

*Term Financings.* Our term financings contain loan to value and debt service coverage tests. Under certain circumstances, if we fail these tests, excess cash flow could be applied to pay down principal. In February 2012, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we expect to be in compliance with the loan to value ratio on the March 2012 payment date and for the next twelve months.

*ECA Term Financings.* Our ECA term financings contain a \$500 million minimum net worth covenant and also contain, among other customary provisions, a material adverse change default and cross-default to other ECA- or EXIM ( Export-Import Bank of the United States ) supported financings or other recourse financings of the Company.

*Bank Financings.* Our bank financings contain, among other customary provisions, a \$500 million minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender.

*Senior Notes.* Our senior notes indenture imposes operating and financial restrictions on our activities. These restrictions limit our ability to, or in certain cases prohibit us from, incurring or guaranteeing additional indebtedness, refinancing our existing indebtedness, paying dividends, repurchasing our common shares, making other restricted payments or making certain investments or entering into joint ventures.

In addition, under the terms of the securitizations and term financings, certain transactions will require the consent or approval of one or more of the securitization trustees, the rating agencies that rated the applicable portfolio s certificates, the financial guaranty insurance policy issuer for the applicable securitization or the banks providing the financing, including, as applicable, (i) sales of aircraft (a) in numbers exceeding the applicable limit in any securitization or term financing, or (b) at prices below certain scheduled minimum amounts, or (c) in any calendar year, in amounts in excess of 10% of the portfolio value at the beginning of that year, or if such sales would cause a breach of the agreed concentration limits or cause the number of aircraft financed to fall below agreed levels, (ii) the leasing of aircraft to the extent not in compliance with the lessee and geographic concentration limits, and the other operating covenants, (iii) modifying an aircraft if the cost thereof would exceed certain amounts or (iv) entering into any transaction between us and the applicable securitization entities not already contemplated in the applicable securitization or term financing. Absent the aforementioned consent, which we may not receive, the lessee and geographic concentration limits under the securitization or term financing will require us to re-lease the aircraft to a diverse set of customers and may place limits on our ability to lease our aircraft to certain customers in certain jurisdictions, even if to do so would provide the best risk/return outcome at that time. In addition, with respect to the securitizations, because the financial guarantee insurance policy issuer is currently experiencing financial distress, it is unclear whether such policy issuer will be in a position to continue to consider to any request for consent, or may refuse or be unable to grant its consent, to any such proposed transaction which may, with respect to aircraft financed under the securitizations, limit our ability to place aircraft on lease to provide the best returns or to sell aircraft that we believe would be in our best interest to sell.

In addition, the terms of our financings restrict our ability to:

create liens on assets;

incur or guarantee additional indebtedness;

issue disqualified stock or preference shares;



**Table of Contents**

sell assets;

make certain investments or capital expenditures;

pay dividends on or make distributions in respect of our capital stock or make other restricted payments;

agree to any restrictions on the ability of restricted subsidiaries to transfer property or make payments to us;

guarantee other indebtedness without guaranteeing the senior notes;

engage in mergers, amalgamations or consolidations among our subsidiary companies or between a subsidiary company and a third party or otherwise dispose of all or substantially all of our assets;

engage in certain transactions with affiliates;

incur secured indebtedness;

receive payments or excess cash flows from subsidiaries; and

enter into joint ventures.

***We are subject to various risks and requirements associated with transacting business in foreign jurisdictions.***

The international nature of our business exposes us to trade and economic sanctions and other restrictions imposed by the U.S. and other governments. The U.S. Departments of Justice, Commerce, Treasury and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the Foreign Corrupt Practices Act ( FCPA ), and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control ( OFAC ) and, increasingly, similar or more restrictive foreign laws, rules and regulations. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws and we expect the relevant agencies to continue to increase these activities. A violation of these laws, sanctions or regulations could adversely impact our business, results of operations or ability to pay dividends to our shareholders.

We have compliance policies and training programs in place for our employees with respect to FCPA, OFAC and similar laws, but there can be no assurance that our employees, consultants or agents will not engage in conduct for which we may be held responsible. Violations of FCPA, OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could adversely affect our business, results of operations or ability to pay dividends to our shareholders.

***We are dependent upon information technology systems, which are subject to disruption, damage, failure and risks associated with implementation and integration.***

We are dependent upon information technology systems in the conduct of our operations. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber attacks, natural disasters and defects in design. Damage, disruption, or failure of one or more information technology systems may result in interruptions to our operations in the interim or may require a significant investment to fix or replace them. Various measures have been implemented to manage our risks related to the information technology systems and network disruptions, but our business, financial position or results of our operations

could be adversely impacted by such interruptions or such investments.

## **Table of Contents**

### **Risks related to our aviation assets**

*The variability of supply and demand for aircraft could depress lease rates for our aircraft, which would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends to our shareholders.*

The aircraft leasing and sales industry has experienced periods of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft in the market is likely to depress aircraft lease rates for, and the value of, that type of aircraft.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

passenger and air cargo demand;

operating costs, including fuel costs, and general economic conditions affecting our lessees' operations;

geopolitical events, including war, prolonged armed conflict and acts of terrorism;

outbreaks of communicable diseases and natural disasters;

governmental regulation;

interest rates;

foreign exchange rates;

airline restructurings and bankruptcies;

the availability of credit;

changes in control of, or restructurings of, other aircraft leasing companies;

manufacturer production levels and technological innovation;

climate change initiatives, technological change, aircraft noise and emissions regulations, aircraft age limits and other factors leading to retirement and obsolescence of aircraft models;

manufacturers merging, exiting the industry or ceasing to produce aircraft types;

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new-entrant manufacturers producing additional aircraft models, or existing manufacturers producing newly engined aircraft models or new aircraft models, in competition with existing aircraft models;

reintroduction into service of aircraft previously in storage; and

airport and air traffic control infrastructure constraints.

These and other factors may produce sharp decreases or increases in aircraft values and lease rates, which would impact our cost of acquiring aircraft, which may cause us to fail loan to value tests in our financings, and which may result in lease defaults and also prevent the aircraft from being re-leased or sold on favorable terms. If we fail a loan to value test, principal payments under the relevant financing will increase and we will have less free cash flow available for operations, investments, dividends and other purposes. This would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations or to pay dividends to our shareholders.

***Other factors that increase the risk of decline in aircraft value and lease rates could have an adverse affect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends to our shareholders.***

In addition to factors linked to the aviation industry generally, other factors that may affect the value and lease rates of our aircraft include:

the age of the aircraft;

the particular maintenance and operating history of the airframe and engines;

the number of operators using that type of aircraft;

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**Table of Contents**

whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to us;

applicable airworthiness directives or manufacturer's service bulletins that have not yet been performed to the aircraft;

grounding orders or other regulatory action that could prevent or limit utilization of our aircraft;

any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and

compatibility of our aircraft configurations or specifications with those desired by the operators of other aircraft of that type.

Any decrease in the values of and lease rates for commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations or to pay dividends to our shareholders.

***The advent of superior aircraft technology could cause our existing aircraft portfolio to become outdated and therefore less desirable, which could adversely affect our financial results and growth prospects, our ability to compete in the marketplace or our ability to pay dividends to our shareholders.***

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787 and Airbus A350 and re-engined and/or replacement types for the Boeing 737 and A320 families of aircraft, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. For example, in 2010 Airbus announced that it intends to produce a new engine option ( NEO ) Model A320 family aircraft from 2016, which it says will reduce fuel burn by 15% and cut noise emission and maintenance costs, among other improvements. In August 2011, Boeing announced a plan to produce the 737 MAX , for 2017, which is a re-engined version of the existing Boeing Model 737 New Generation model of aircraft. Boeing says that the 737-800 MAX is expected to deliver a 16% improvement in fuel efficiency over the existing Airbus Model A320 offering and a 4% improvement over the A320 NEO. In addition, Bombardier Inc. is building an aircraft model, the C Series, that will compete with Airbus Model A319 and Boeing Model 737-700 aircraft in our fleet, and Commercial Aircraft Corporation of China Ltd and Sukhoi Company (JSC) have announced their intention to manufacture commercial jet aircraft that will compete with single-aisle aircraft produced by Airbus and Boeing.

In addition, although all of the aircraft in our portfolio are Stage 3 noise-compliant, the imposition of more stringent noise or emissions standards or the introduction of additional age limitation regulations may limit the potential customer base for certain aircraft in our portfolio or make certain of our aircraft less desirable in the marketplace.

Any of these risks could adversely affect our ability to lease or sell our aircraft on favorable terms, or at all, which could have an adverse effect on our financial condition and results of operations or on our ability to pay dividends to our shareholders.

***The effects of various energy, emissions, and noise regulations and initiatives may negatively affect the airline industry. This may cause lessees to default on their lease payment obligations to us and may limit the market for certain aircraft in our portfolio.***

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and the International Civil Aviation Organization ( ICAO ) have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the European Union has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of the aircraft and engines, reduce their value,

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**Table of Contents**

limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant.

In addition to more stringent noise restrictions, the United States and other jurisdictions impose more stringent limits on other aircraft engine emissions, such as NO<sub>x</sub>, CO and CO<sub>2</sub>, consistent with current ICAO standards. These limits generally apply only to engines manufactured after 1999. Certain of the aircraft engines owned by us were manufactured after 1999. Because aircraft engines are retired or replaced from time to time in the usual course, it is likely that the number of such engines may increase over time. Also, the U.S. is in the process of adopting more stringent nitrogen oxide emission standards for newly manufactured aircraft engines, beginning in 2013, and ICAO has recently adopted a resolution designed to cap greenhouse gas emissions from aircraft and has committed to propose a greenhouse gas emission standard for aircraft engines by 2012. Concerns over energy security, environmental sustainability, and climate change could result in more stringent limitations on the operation of our aircraft; particularly aircraft equipped with older-technology engines, or could result in decreased demand for air travel.

The Environmental Protection Agency (the EPA) has periodically revised its NO<sub>x</sub> and CO<sub>2</sub> emission standards to incorporate the ICAO standards. Most recently, on July 27, 2011, EPA published proposed regulations that would set more stringent NO<sub>x</sub> emission standards for aircraft engines in line with those already endorsed by the ICAO. The proposed regulations also include several new reporting requirements applicable to manufacturers of aircraft gas turbine engines. These proposed regulatory requirements, except a portion of the proposed engine manufacturer reports, have already been adopted or are actively under consideration by the ICAO. The public comment period for the proposed regulations closed in September 2011. EPA has stated that it expects to issue final regulations in 2012.

In addition, EPA has received petitions from various groups urging EPA to make a finding under the Clean Air Act that greenhouse gas (GHG) emissions from aircraft endanger the public health. An endangerment finding, if made, could lead EPA to regulate GHG emissions from aircraft. EPA received the petitions in December 2007, but did not take any action to approve or deny the petitions. On June 22, 2010, a lawsuit was filed against EPA in United States District Court for the District of Columbia, seeking to compel EPA to act upon the petitions. On July 5, 2011, the district court dismissed some of the claims in that lawsuit, but found that EPA is required by the statute to determine whether GHG emissions endanger public health. The lawsuit remains pending in the district court. Any decision made by the district court could be appealed to the United States Court of Appeals for the District of Columbia and, potentially, to the United States Supreme Court. The outcome of the lawsuit is uncertain, but there is at least a possibility that the lawsuit will result, at some point, in a court decision that causes EPA to take steps to regulate GHG emissions from aircraft.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The European Union has included the aviation sector in the European Union's (EU) Emissions Trading Scheme (ETS). Effective on January 1, 2012. This inclusion could possibly lead to higher ticket prices in the European transport market and a reduction in the number of airline passengers. In September 2011, more than 20 countries, including the U.S., signed a declaration vowing to challenge the inclusion of aviation in the ETS. The U.S. supports the ICAO as the proper venue for international regulation of emissions, and maintains that the EU's approach is contrary to ICAO's charter. The ICAO has also adopted a non-binding declaration contesting the inclusion of airlines in the ETS. On December 21, 2011, the EU Court of Justice issued an opinion holding that the EU's inclusion of the international airline sector in the ETS did not infringe upon the sovereignty of other states or international agreements. Pursuant to that decision, the EU is now implementing its plan to include aviation emissions in the ETS. The United States, China, and other countries continue to oppose the inclusion of aviation emissions in the ETS.

The United Kingdom significantly increased its air passenger duties in 2007 and, for most longer flights, again in 2009, in recognition of the environmental costs of air travel. Similar, or more restrictive, measures may be implemented in other jurisdictions as a result of environmental or climate change concerns, which could have an impact on the global market for certain aircraft and cause behavioral shifts that result in decreased demand for air travel.

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**Table of Contents**

Over time, it is possible that governments will adopt additional regulatory requirements and/or market-based policies that are intended to reduce energy usage, emissions, and noise levels from aircraft. Such initiatives may be based on concerns regarding climate change, energy security, public health, local impacts, or other factors.

Compliance with current or future regulations, taxes or duties imposed to deal with energy usage, fuel type, emissions, noise levels, or related issues could cause the lessees to incur higher costs and, due to higher ticket prices, lower demand for travel, leading to lower net airline revenues, resulting in an adverse impact on the financial condition of our lessees. Consequently, such compliance may affect the lessees' ability to make rental and other lease payments and limit the market for certain of our aircraft in our portfolio, which may adversely affect our ability to lease or sell our aircraft on favorable terms, or at all, which could have an adverse effect on our financial condition and results of operations or on our ability to pay dividends to our shareholders.

***The advanced age, or older technology, of some of our aircraft may expose us to higher than anticipated maintenance related expenses, which could adversely affect our financial results and our ability to pursue additional acquisitions or our ability to pay dividends to our shareholders.***

As of December 31, 2011, based on net book value, 22% of our aircraft portfolio was 15 years or older. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Additionally, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell, particularly if, due to airline insolvencies or other distress, older aircraft are competing with newer aircraft in the lease or sale market. Variable expenses like fuel, crew size or aging aircraft corrosion control or inspection or modification programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. In addition, a number of countries have adopted or may adopt age limits on aircraft imports, which may result in greater difficulty placing affected aircraft on lease or re-lease on favorable terms. Any of these expenses, costs or risks will have a negative impact on our financial results, our ability to pursue additional acquisitions or on our ability to pay dividends to our shareholders.

***The concentration of aircraft types in our aircraft portfolio could lead to adverse effects on our business and financial results should any difficulties specific to these particular types of aircraft occur.***

Our owned aircraft portfolio is concentrated in certain aircraft types. In addition, we have a significant concentration of freighter aircraft in our portfolio, and we have growing exposure to risks in the cargo market. Should any of these aircraft types (or other types we acquire in the future) or Airbus or Boeing encounter technical, financial or other difficulties, a decrease in value of such aircraft, an inability to lease the aircraft on favorable terms or at all, or a potential grounding of such aircraft could occur. As a result, the inability to lease the affected aircraft types would likely have an adverse effect on our financial results to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio. The composition of our aircraft portfolio may therefore adversely affect our business and financial results or our ability to pay dividends to our shareholders.

***We operate in a highly competitive market for investment opportunities in aviation assets and for the leasing of aircraft.***

We compete with other operating lessors, airlines, aircraft manufacturers, financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices), aircraft brokers and other investors with respect to aircraft acquisitions and aircraft leasing. The aircraft leasing industry is highly competitive and may be divided into three basic activities: (i) aircraft acquisition, (ii) leasing or re-leasing of aircraft, and (iii) aircraft sales. Competition varies among these three basic activities.

The competitive playing field for new acquisitions has changed considerably in the wake of the financial crisis, as many large players are restructuring or revisiting their investment appetite, and a number of new entrants with private equity investors or Chinese bank or other equity backing have entered the market.

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## **Table of Contents**

A number of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk or residual value assessments, which could allow them to consider a wider variety of investments, establish more relationships, bid more aggressively on aviation assets available for sale and offer lower lease rates than we can. For instance, some of our competitors may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. As a result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. Additionally, we may not be able to compete effectively against present and future competitors in the aircraft leasing market or aircraft sales market. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations or on our ability to pay dividends to our shareholders.

### **Risks related to our leases**

*If lessees are unable to fund their maintenance obligations on our aircraft, our cash flow and our ability to meet our debt obligations or to pay dividends to our shareholders could be adversely affected.*

The standards of maintenance observed by the various lessees and the condition of the aircraft at the time of sale or lease may affect the future values and rental rates for our aircraft.

Under our leases, the relevant lessee is generally responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft, including, without limitation, operational, maintenance, and registration requirements and airworthiness directives (although in certain cases we have agreed to share the cost of complying with certain airworthiness directives). Failure of a lessee to perform required maintenance with respect to an aircraft during the term of a lease could result in a decrease in value of such aircraft, an inability to lease the aircraft at favorable rates or at all, or a potential grounding of such aircraft, and will likely require us to incur maintenance and modification costs upon the expiration or earlier termination of the applicable lease, which could be substantial, to restore such aircraft to an acceptable condition prior to sale or re-leasing.

Certain of our leases provide that the lessee is required to make periodic payments to us during the lease term in order to provide cash reserves for the payment of maintenance tied to the usage of the aircraft. In these leases there is an associated liability for us to reimburse the lessee for such scheduled maintenance performed on the related aircraft, based on formulas tied to the extent of any of the lessee's maintenance reserve payments. In some cases, we are obligated, and in the future may incur additional obligations pursuant to the terms of the leases, to contribute to the cost of maintenance work performed by the lessee in addition to maintenance reserve payments.

Our operational cash flow and available liquidity may not be sufficient to fund our maintenance obligations, particularly as our aircraft age. Actual rental and maintenance payments by lessees and other cash that we receive may be significantly less than projected as a result of numerous factors, including defaults by lessees and our potential inability to obtain satisfactory maintenance terms in leases. Certain of our leases do not provide for any periodic maintenance reserve payments to be made by lessees to us in respect of their maintenance obligations, and it is possible that future leases will not contain such requirements. Typically, these lessees are required to make payments at the end of the lease term.

Even if we are entitled to receive maintenance payments, these payments may not cover the entire expense of the scheduled maintenance they are intended to fund. In addition, maintenance payments typically cover only certain scheduled maintenance requirements and do not cover all required maintenance and all scheduled maintenance. Furthermore, lessees may not meet their maintenance payment obligations or perform required scheduled maintenance. Any significant variations in such factors may materially adversely affect our business and particularly our cash position, which would make it difficult for us to meet our debt obligations or to pay dividends to our shareholders.



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## **Table of Contents**

***Failure to pay certain potential additional operating costs could result in the grounding or arrest of our aircraft and prevent the re-lease, sale or other use of our aircraft, which would negatively affect our financial condition and results of operations or our ability to pay dividends to our shareholders.***

As in the case of maintenance costs, we may incur other operational costs upon a lessee default or where the terms of the lease require us to pay a portion of those costs. Such costs include:

the costs of casualty, liability and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required, or is insufficient in amount or scope;

the costs of licensing, exporting or importing an aircraft, airport charges, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions, which can be substantial;

penalties and costs associated with the failure of lessees to keep the aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals; and

carbon taxes or other fees, taxes or costs imposed under emissions limitations, climate change regulations or other initiatives.

The failure to pay certain of these costs can result in liens on the aircraft and the failure to register the aircraft can result in a loss of insurance. These matters could result in the grounding or arrest of the aircraft and prevent the re-lease, sale or other use of the aircraft until the problem is cured, which would negatively affect our financial condition and results of operations or on our ability to pay dividends to our shareholders.

***Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us and may negatively affect our business, financial condition and results of operations or our ability to pay dividends to our shareholders.***

By virtue of holding title to the aircraft directly or through a special purpose entity, in certain jurisdictions around the world aircraft lessors are held strictly liable for losses resulting from the operation of aircraft or may be held liable for those losses based on other legal theories. Liability may be placed on an aircraft lessor even under circumstances in which the lessor is not directly controlling the operation of the relevant aircraft.

Lessees are required under our leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risk and hull war risk insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. The hull insurance is typically subject to standard market hull deductibles based on aircraft type that generally range from \$0.25 million to \$1.0 million. These deductibles may be higher in some leases, and lessees usually have fleet-wide deductibles for liability insurance and occurrence or fleet limits on war risk insurance. Any hull insurance proceeds in respect of such claims are typically required to be paid first to our lenders or us in the event of loss of the aircraft or, in the absence of an event of loss of the aircraft, to the lessee to effect repairs or, in the case of liability insurance, for indemnification of third-party liabilities. Subject to the terms of the applicable lease, the balance of any hull insurance proceeds after deduction for all amounts due and payable by the lessee to the lessor under such lease must be paid to the lessee.

Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is commercially available at any time may be below the amount stipulated in our leases and required by the market in general.

Our lessees' insurance, including any available governmental supplemental coverage, may not be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations or the lack of political risk, hull, war or third-party war risk



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## **Table of Contents**

and terrorism liability insurance will reduce the proceeds that would be received by us upon an event of loss under the respective leases or upon a claim under the relevant liability insurance, which could negatively affect our business, financial condition and results of operations or our ability to pay dividends to our shareholders.

***Failure to obtain certain required licenses and approvals could negatively affect our ability to re-lease or sell aircraft, which would negatively affect our financial condition and results of operations or our ability to pay dividends to our shareholders.***

A number of leases require specific licenses, consents or approvals for different aspects of the leases. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase such requirements and a governmental consent, once given, might be withdrawn. Furthermore, consents needed in connection with future re-leasing or sale of an aircraft may not be forthcoming. Any of these events could adversely affect our ability to re-lease or sell aircraft, which would negatively affect our financial condition and results of operations or our ability to pay dividends to our shareholders.

***Due to the fact that many of our lessees operate in emerging markets, we are indirectly subject to many of the economic and political risks associated with competing in such markets.***

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the year ended December 31, 2011, 46 of our lessees which operated 94 aircraft and generated lease rental revenue representing 56% of our lease rental revenue are domiciled or habitually based in emerging markets.

### **Risks related to our lessees**

***Lessee defaults could materially adversely affect our business, financial condition and results of operations or our ability to pay dividends to our shareholders.***

As a general matter, airlines with weak capital structures are more likely than well-capitalized airlines to seek operating leases, and, at any point in time, investors should expect a varying number of lessees and sub-lessees to experience payment difficulties. As a result of their weak financial condition, a large portion of lessees over time may be significantly in arrears in their rental or maintenance payments. Many of our existing lessees are in a weak financial condition and suffer liquidity problems, and this is likely to be the case in the future and with other lessees and sub-lessees of our aircraft as well, particularly in a difficult economic or operating environment. These liquidity issues will be more likely to lead to airline failures in the context of financial system distress, volatile commodity (fuel) prices, and economic slowdown, with additional liquidity being more difficult and expensive to source. In addition, many of our lessees are exposed to currency risk due to the fact that they earn revenues in their local currencies and certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to us. Given the size of our aircraft portfolio, we expect that from time to time some lessees will be slow in making, or will fail to make, their payments in full under their leases.

The financial condition of our lessees will be greatly influenced by the overall demand for air travel; in a weak demand environment, airline yields may come under pressure, which may negatively impact airline financial performance in a significant way. To the extent that airline operating costs increase, because of increased fees or taxes associated with climate change initiatives, because of reduced operating efficiency resulting from noise or emissions limitations, because of changes in consumer behavioral patterns, or otherwise, demand for air travel and/or airline financial performance may be negatively impacted.

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## **Table of Contents**

We may not correctly assess the credit risk of each lessee or charge risk-adjusted lease rates, and lessees may not be able to continue to perform their financial and other obligations under our leases in the future. A delayed, missed or reduced rental payment from a lessee decreases our revenues and cash flow and may adversely affect our ability to make payments on our indebtedness, to comply with debt service coverage or interest coverage ratios, and to pay dividends on our common shares. While we may experience some level of delinquency under our leases, default levels may increase over time, particularly as our aircraft portfolio ages and if economic conditions continue to deteriorate. A lessee may experience periodic difficulties that are not financial in nature, which could impair its performance of maintenance obligations under the leases. These difficulties may include the failure to perform under the required aircraft maintenance program in a sufficient manner and labor-management disagreements or disputes.

In the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee may not be sufficient to cover the lessee's outstanding or unpaid lease obligations and required maintenance and transition expenses.

***If our lessees encounter financial difficulties and we decide to restructure our leases with those lessees, this would result in less favorable leases and could result in significant reductions in our cash flow and affect our ability to meet our debt obligations or to pay dividends to our shareholders.***

When a lessee (i) is late in making payments, (ii) fails to make payments in full or in part under the lease or (iii) has otherwise advised us that it will in the future fail to make payments in full or in part under the lease, we may elect to or be required to restructure the lease. Restructuring may involve anything from a simple rescheduling of payments to the termination of a lease without receiving all or any of the past due amounts. If any requests for payment restructuring or rescheduling are made and granted, reduced or deferred rental payments may be payable over all or some part of the remaining term of the lease, although the terms of any revised payment schedules may be unfavorable and such payments may not be made. We may be unable to agree upon acceptable terms for any requested restructurings and as a result may be forced to exercise our remedies under those leases. If we, in the exercise of our remedies, repossess the aircraft, we may not be able to re-lease the aircraft promptly at favorable rates, or at all.

The terms and conditions of payment restructurings or reschedulings may result in significant reductions of rental payments, which may adversely affect our cash flows and our ability to meet our debt obligations and to pay dividends to our shareholders.

***Significant costs resulting from lease defaults could have a material adverse effect on our business or our ability to pay dividends to our shareholders.***

Although we have the right to repossess the aircraft and to exercise other remedies upon a lessee default, repossession of an aircraft after a lessee default would result in us incurring costs in excess of those incurred with respect to an aircraft returned at the end of the lease. Those costs include legal and other expenses of court or other governmental proceedings (including the cost of posting surety bonds or letters of credit necessary to effect repossession of aircraft), particularly if the lessee is contesting the proceedings or is in bankruptcy, to obtain possession and/or de-registration of the aircraft and flight and export permissions. Delays resulting from any of these proceedings would also increase the period of time during which the relevant aircraft is not generating revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to incur or pay and that are necessary to put the aircraft in suitable condition for re-lease or sale and we may need to pay off liens, taxes and other governmental charges on the aircraft to obtain clear possession and to remarket the aircraft effectively. We may also incur other costs in connection with the physical possession of the aircraft.

We may also suffer other adverse consequences as a result of a lessee default and the related termination of the lease and the repossession of the related aircraft. Our rights upon a lessee default vary significantly depending upon the jurisdiction and the applicable laws, including the need to obtain a court order for repossession of the aircraft and/or consents for de-registration or re-export of the aircraft. When a defaulting lessee is in bankruptcy,

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## **Table of Contents**

protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions will give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or will entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or performing all or some of the obligations under the relevant lease. Certain of our lessees are owned in whole or in part by government-related entities, which could complicate our efforts to repossess our aircraft in that government's jurisdiction. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

If we repossess an aircraft, we will not necessarily be able to export or de-register and profitably redeploy the aircraft. For instance, where a lessee or other operator flies only domestic routes in the jurisdiction in which the aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist de-registration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft.

***If our lessees fail to appropriately discharge aircraft liens, we might find it necessary to pay such claims, which could have a negative effect on our cash position and our business or our ability to pay dividends to our shareholders.***

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens ( Aircraft Liens ), are likely, depending on the jurisdiction in question, to attach to the aircraft. The Aircraft Liens may secure substantial sums that may, in certain jurisdictions or for limited types of Aircraft Liens (particularly fleet liens), exceed the value of the particular aircraft to which the Aircraft Liens have attached. Although the financial obligations relating to these Aircraft Liens are the responsibilities of our lessees, if they fail to fulfill their obligations, Aircraft Liens may attach to our aircraft and ultimately become our responsibility. In some jurisdictions, Aircraft Liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft.

Until they are discharged, Aircraft Liens could impair our ability to repossess, re-lease or resell our aircraft. Our lessees may not comply with their obligations under their respective leases to discharge Aircraft Liens arising during the terms of their leases, whether or not due to financial difficulties. If they do not, we may, in some cases, find it necessary to pay the claims secured by such Aircraft Liens in order to repossess the aircraft. Such payments would adversely affect our cash position and our business generally, and our ability to pay dividends to our shareholders.

***Failure to register aircraft in certain jurisdictions could result in adverse effects and penalties which could materially adversely affect our business or our ability to pay dividends to our shareholders.***

Pursuant to our existing leases, all of our aircraft are required to be duly registered at all times with the appropriate governmental civil aviation authority. Generally, in jurisdictions outside the United States, failure to maintain the registration of any aircraft that is on-lease would be a default under the applicable lease, entitling us to exercise our rights and remedies thereunder if enforceable under applicable law. If an aircraft were to be operated without a valid registration, the lessee operator or, in some cases, the owner or lessor might be subject to penalties, which could constitute or result in an Aircraft Lien being placed on such aircraft. Lack of registration could have other adverse effects, including the inability to operate the aircraft and loss of insurance coverage, which in turn could have a material adverse effect on our business or our ability to pay dividends to our shareholders.

***If our lessees fail to comply with government regulations regarding aircraft maintenance, we could be subject to costs that could adversely affect our cash position and our business or our ability to pay dividends to our shareholders.***

Our aircraft are subject to aviation authority regulations and requirements regarding maintenance of aircraft in the jurisdictions in which the aircraft are registered and operate, including requirements imposed by

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## **Table of Contents**

airworthiness directives ( Airworthiness Directives ) issued by aviation authorities. Airworthiness Directives typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

Each lessee generally is responsible for complying with all of the Airworthiness Directives and is required to maintain the aircraft's maintenance and airworthiness. However, if a lessee fails to satisfy its obligations, or we have undertaken some obligations as to maintenance or airworthiness under a lease, we may be required to bear (or, to the extent required under the relevant lease, to share) the cost. If any of our aircraft are not subject to a lease, we would be required to bear the entire cost of compliance. Such payments would adversely affect our cash position and our business generally or our ability to pay dividends to our shareholders.

***Risks associated with the concentration of our lessees in certain geographical regions could harm our business or adversely impact our ability to pay dividends to our shareholders.***

Our business is sensitive to local economic and political conditions that can influence the performance of lessees located in a particular region. Such adverse economic and political conditions include additional regulation or, in extreme cases, requisition. In 2011, the combination of volatile and increasing fuel prices, the inability of many companies to access the capital markets and a fragile economic recovery impacted the global aviation market, causing severe financial strain and a number of bankruptcies. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions. For the year ended December 31, 2011, lease rental revenues from lessees by region, were 45% in Europe, 13% in North America, 24% in Asia (including 12% in China), 7% in Latin America, and 11% in the Middle East and Africa.

### *European Concentration*

Forty-one lessees based in Europe accounted for 45% of our lease rental revenues for the year ended December 31, 2011 and accounted for 66 aircraft totaling 41% of the net book value of our aircraft at December 31, 2011. Six aircraft, representing 3% of the net book value of our aircraft at December 31, 2011, were leased to a customer in Spain and one aircraft, representing less than 1% of the net book value of our aircraft at December 31, 2011, was leased to a customer based in Italy. We have no lessees based in Greece, Portugal or Ireland.

Commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures due to the expansion of low cost carriers as well as the rise of stronger airline groupings that have emerged through consolidation efforts. Moreover, the sovereign debt market concerns surrounding Greece, Italy, Spain and other European countries, and general weakness in European home market economies is hampering growth and causing financial hardship for airlines in Europe, large and small. While several of the continent's larger airlines have announced comprehensive restructuring efforts (including significant cost cutting measures), we are generally more concerned about the ability of smaller players to continue to honor contractual lease obligations.

Russia accounted for 10% of our lease rental revenues for the year ended December 31, 2011 and accounted for 13 aircraft totaling 10% of the net book value of our aircraft at December 31, 2011. Russia has a market-based economy that is in large part dependent on natural resources, particularly oil, natural gas, and metals. The economy has grown steadily in recent years (except during the recent financial crisis) but remains exposed to volatility in commodity values. The incumbent government is facing increased civilian pressures to enact political reforms and continued political instability and resulting economic uncertainty could potentially have an effect on economic growth, and demand for air transportation.

### *Asian Concentration*

Nineteen lessees based in Asia accounted for 24% of our lease rental revenues for the year ended December 31, 2011 and accounted for 39 aircraft totaling 28% of the net book value of our aircraft at

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**Table of Contents**

December 31, 2011. Growth in most of Asia has been strong, driven in large part by emerging economies including China and India, but also markets such as the Philippines and Indonesia. However, certain markets are plagued by oversupply and crowded competitive landscapes. Demand weakness resulting from slowing economic growth in the region, a recurrence of SARS or avian influenza or the outbreak of another epidemic disease, which many experts think could originate in Asia, would likely adversely affect the Asian airline industry.

Five lessees based in China accounted for 12% of our lease rental revenues for the year ended December 31, 2011 and accounted for 19 aircraft totaling 12% of the net book value of our aircraft at December 31, 2011. Chinese airline industry performance during 2011 was relatively strong, but airline performance could suffer if economic growth moderates. Additionally, major obstacles to the Chinese airline industry's development exist, including the continuing government control and regulation of the industry. If such control and regulation persists or increases, the Chinese airline industry would likely experience a significant decrease in growth or restrictions on future growth, and it is conceivable that our interests in aircraft on-lease to, or our ability to lease to, Chinese carriers could be adversely affected.

*North American Concentration*

Five lessees based in North America accounted for 13% of our lease rental revenues for the year ended December 31, 2011 and accounted for 16 aircraft totaling 9% of the net book value of our aircraft at December 31, 2011. Consolidation among major airlines in the U.S. has helped drive capacity discipline and pricing power, but despite recent improvements in the financial results of many carriers, airlines remain highly susceptible to macroeconomic and geopolitical factors outside their control. The prolonged conflicts in Iraq and Afghanistan and the September 11, 2001 terrorist attacks and subsequent attempted attacks in the United States have resulted in tightened security measures and reduced demand for air travel, which, together with high and volatile fuel costs, have imposed additional financial burdens on most U.S. airlines.

*Latin American Concentration*

Six lessees based in Latin America accounted for 7% of our lease rental revenues for the year ended December 31, 2011 and accounted for 10 aircraft totaling 6% of the net book value of our aircraft at December 31, 2011. Air travel demand in Latin America remains robust, fueled by economic growth in the region. The proliferation of low cost carriers has also played a meaningful role in stimulating travel demand. Among the more established regional players, we have witnessed an increase in consolidation activity including the combinations of Gol and Webjet, Avianca and Taca and LAN and TAM. Airlines in certain countries are implementing large capacity additions, and any restrictions imposed on airport or other infrastructure usage or further degradation of the region's aviation safety record, high and volatile fuel prices, or other economic reversal or slow downs, could have a material adverse effect on carriers' financial performance and thus our ability to collect lease payments.

*Middle East and African Concentration*

Six lessees based in the Middle East and Africa accounted for 11% of our lease rental revenues for the year ended December 31, 2011 and accounted for nine aircraft totaling 15% of the net book value of our aircraft at December 31, 2011. Middle Eastern, and particularly Gulf-based carriers, have a large number of aircraft on order and continue to capitalize on the region's favorable geographic position as an East-West transfer hub. However, ongoing geopolitical tension and any aviation related act of terrorism in the region could adversely affect financial performance. In 2011, a number of countries in the Middle East and North Africa experienced significant political instability in the form of widespread demonstrations, calls for political reform, and, in certain cases, revolution, negatively impacting tourism and air travel. Other countries in the region have seen similar activity, and continued unrest and instability would again negatively impact the financial performance of airlines operating to, from, and within this region.

South African Airways accounted for 4.5% of our lease rental revenues for the year ended December 31, 2011 and accounted for four aircraft totaling 7.9% of the net book value of our aircraft at December 31, 2011.

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## **Table of Contents**

South Africa's economy is heavily dependent on natural resources, particularly precious metals, and it is exposed to economic and social risks arising from volatility in commodity prices. South African Airways relies upon government support for its significant capital requirements.

### **Risks Related to the Aviation Industry**

***High fuel prices impact the profitability of the airline industry. If fuel prices rise, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.***

Fuel costs represent a major expense to companies operating within the airline industry. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency/exchange rates. As a result, fuel costs are not within the control of lessees and significant changes would materially affect their operating results.

The high cost of fuel in 2007 and 2008 had a material adverse impact on the profitability of most airlines (including our lessees). Fuel hedging contracts entered into during the high fuel price environment resulted in significant losses and/or additional cash collateral being required to be posted in respect of those fuel hedges for certain airlines in late 2008 and early 2009 as fuel prices fell significantly. Fuel prices in 2009 were less volatile, but increased steadily over the course of the year and this upward trend has generally continued through 2010 and into 2011. Fuel prices have become increasingly volatile, making it difficult for airlines to define their hedging strategies.

Due to the competitive nature of the airline industry, airlines have been, and may continue to be, unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully compensates for the costs incurred. Higher and more volatile fuel prices may also have an impact on consumer confidence and spending, and thus may adversely impact demand for air transportation. In addition, airlines may not be able to successfully manage their exposure to fuel price fluctuations. If fuel prices increase due to future terrorist attacks, acts of war, armed hostilities, natural disasters or for any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Fuel cost volatility may contribute to the reluctance of airlines to make future commitments to lease aircraft and, accordingly, reduce the demand for lease aircraft. Consequently, these conditions may (i) affect our lessees' ability to make rental and other lease payments, (ii) result in lease restructurings and/or aircraft repossessions, (iii) increase our costs of servicing and marketing our aircraft, (iv) impair our ability to re-lease our aircraft or re-lease or otherwise dispose of our aircraft on a timely basis at favorable rates or terms, or at all, and (v) reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.

***If the effects of terrorist attacks and geopolitical conditions adversely impact the financial condition of the airlines, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.***

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent actual and attempted terrorist attacks, notably in the Middle East, Southeast Asia and Europe, increased security restrictions were implemented on air travel, airline costs for aircraft insurance and enhanced security measures have increased, and airlines in certain countries continue to rely on government-sponsored programs to acquire war risk insurance. In addition, war or armed hostilities in the Middle East, Iran, North Korea or elsewhere, or the fear of such events, could further exacerbate many of the problems experienced as a result of terrorist attacks. The situation in Iraq continues to be uncertain; tension over Iran's nuclear program continues; the war in Afghanistan continues, and more recently the events in Libya, Tunisia and Egypt have resulted in changes to long-standing regimes, and other regimes in the Middle East and North Africa, including Syria and Yemen, have been destabilized and/or have used extreme measures to retain power. Any or all of these may lead to further instability in the Middle East. The 2008 attacks in Mumbai also raised tensions in South Asia. Future terrorist attacks, war or armed hostilities, large protests or government instability, or the fear of such events, could further



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**Table of Contents**

negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results and growth prospects or our ability to pay dividends to our shareholders.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry, and concerns about geopolitical conditions and further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future, depending upon various factors, including (i) higher costs to the airlines due to the increased security measures; (ii) decreased passenger demand and revenue due to the inconvenience of additional security measures; (iii) the price and availability of jet fuel and the cost and practicability of obtaining fuel hedges under current market conditions; (iv) higher financing costs and difficulty in raising the desired amount of proceeds on favorable terms, or at all; (v) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available; (vi) the ability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of terrorist attacks and geopolitical conditions, including those referred to above; and (vii) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the grounding of aircraft as a result of terrorist attacks, the economic slowdown and airline reorganizations.

Future terrorist attacks, acts of war, armed hostilities or civil unrest may further increase airline costs, depress air travel demand, depress aircraft values and rental rates or cause certain aviation insurance to become available only at significantly increased premiums (which may be for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage currently required by aircraft lenders and lessors or by applicable government regulations) or not be available at all.

Although the United States and the governments of some other countries provide for limited government coverage for certain aviation insurance, these programs may not continue, nor is there any guarantee such government will pay under these programs in a timely fashion.

If the current industry conditions should continue or become exacerbated due to future terrorist attacks, acts of war or armed hostilities, they are likely to cause our lessees to incur higher costs and to generate lower revenues, resulting in an adverse effect on their financial condition and liquidity. Consequently, these conditions may affect their ability to make rental and other lease payments to us or obtain the types and amounts of insurance required by the applicable leases (which may in turn lead to aircraft groundings), may result in additional lease restructurings and aircraft repossessions, may increase our cost of re-leasing or selling the aircraft and may impair our ability to re-lease or otherwise dispose of the aircraft on a timely basis, at favorable rates or on favorable terms, or at all, and may reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.

***The effects of epidemic diseases may negatively impact the airline industry in the future, which might cause our lessees to not be able to meet their lease payment obligations to us, which would have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.***

The spread of SARS in 2003 was linked to air travel early in its development and negatively impacted passenger demand for air travel at that time. While the World Health Organization's travel bans related to SARS have been lifted, SARS had a severe impact on the aviation industry, which was evidenced by a sharp reduction in passenger bookings, cancellation of many flights and employee layoffs. While these effects were felt most acutely in Asia, SARS did spread to other areas, including North America. Since 2003, there have been several outbreaks of avian influenza, and, most recently, H1N1 influenza outbreaks in Mexico, spreading to other parts of the world, although the impact has so far been relatively limited. In the event of a human influenza pandemic,

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## **Table of Contents**

numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Additional outbreaks of SARS or other epidemic diseases such as avian influenza, or the fear of such events, could negatively impact passenger demand for air travel and the aviation industry, which could result in our lessees' inability to satisfy their lease payment obligations to us, which in turn would have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.

***If recent industry economic losses and airline reorganizations continue, our lessees might not be able to meet their lease payment obligations to us, which would have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.***

As a result of international economic conditions, significant volatility in oil prices and financial markets distress, airlines may be forced to reorganize. Historically, airlines involved in reorganizations have undertaken substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting has in the past led to lower profitability for all airlines, including certain of our lessees. Bankruptcies and reduced demand may lead to the grounding of significant numbers of aircraft and negotiated reductions in aircraft lease rental rates, with the effect of depressing aircraft market values. Additional reorganizations by airlines under Chapter 11 or liquidations under Chapter 7 of the U.S. Bankruptcy Code or other bankruptcy or reorganization laws in other countries or further rejection of aircraft leases or abandonment of aircraft by airlines in a Chapter 11 proceeding under the U.S. Bankruptcy Code or equivalent laws in other countries may have already exacerbated, and would be expected to further exacerbate, such depressed aircraft values and lease rates. Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft on favorable terms, or at all, or re-lease other aircraft at favorable rates comparable to the then current market conditions, which collectively would have an adverse effect on our financial results and growth prospects and our ability to pay dividends to our shareholders.

### **Risks Related to Our Organization and Structure**

***If the ownership of our common shares continues to be highly concentrated, it may prevent you and other minority shareholders from influencing significant corporate decisions and may result in conflicts of interest.***

As of February 15, 2012, entities affiliated with Fortress funds beneficially own 16,750,002 shares, or approximately 23.2% of our common shares. As a result, Fortress may be able to control fundamental corporate matters and transactions, including the election of directors; mergers or amalgamations (subject to prior board approval); consolidations or acquisitions; the sale of all or substantially all of our assets; in certain circumstances, the amendment of our bye-laws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other shareholders. The interests of the Fortress funds may not always coincide with our interests or the interests of our other shareholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company. Also, the Fortress funds may seek to cause us to take courses of action that, in their judgment, could enhance their investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders. In addition, under our Shareholders Agreement between us and the Fortress funds, based on the current ownership of our common stock by entities affiliated with Fortress funds, an affiliate of Fortress is entitled to designate three directors for election to our board of directors. Also, a sale of shares by one or more of the Fortress funds could add downward pressure on the market price of our common shares. As a result of these or other factors, the market price of our common shares could decline or shareholders might not receive a premium over the then-current market price of our common shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder.

***We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations and to pay dividends to our shareholders.***

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and

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## **Table of Contents**

other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends to our shareholders. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

*We are a Bermuda company, and it may be difficult for you to enforce judgments against us or our directors and executive officers.*

We are a Bermuda exempted company and, as such, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. A substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

*Our bye-laws restrict shareholders from bringing legal action against our officers and directors.*

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

*We have anti-takeover provisions in our bye-laws that may discourage a change of control.*

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions include:

provisions providing for a classified board of directors with staggered three-year terms;

provisions regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;

provisions in our bye-laws dealing with the removal of directors and corporate opportunity to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 80% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;

provisions providing for the removal of directors by a resolution, including the affirmative votes of at least 80% of all votes attaching to all shares in issue entitling the holder to vote on such resolution;

provisions providing for our board of directors to determine the powers, preferences and rights of our preference shares and to issue such preference shares without shareholder approval;

provisions providing for advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and

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no provision for cumulative voting in the election of directors; all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 50% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

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## **Table of Contents**

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by Fortress, our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

***There are provisions in our bye-laws that may require certain of our non-U.S. shareholders to sell their shares to us or to a third party.***

Our bye-laws provide that if our board of directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of any bilateral income tax treaty with the U.S. applicable to us, and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have the right, but not the obligation, to repurchase, at fair market value (as determined pursuant to the method set forth in our bye-laws), common shares from any shareholder who beneficially owns more than 5% of our issued and outstanding common shares and who fails to demonstrate to our satisfaction that such shareholder is either (i) a U.S. citizen or (ii) a qualified resident of the U.S. or the other contracting state of any applicable tax treaty with the U.S. (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty).

We will have the option, but not the obligation, to purchase all or a part of the shares held by such shareholder (to the extent the board of directors, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure adverse consequences), provided that the board of directors will use its reasonable efforts to exercise this option equitably among similarly situated shareholders (to the extent feasible under the circumstances).

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty) of the number of issued and outstanding common shares beneficially owned by any shareholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our board of directors).

### **Risks Related to Our Common Shares**

***The market price and trading volume of our common shares may be volatile or may decline regardless of our operating performance, which could result in rapid and substantial losses for our shareholders.***

If the market price of our common shares declines significantly, shareholders may be unable to resell their shares at or above their purchase price. The market price or trading volume of our common shares could be highly volatile and may decline significantly in the future in response to various factors, many of which are beyond our control, including:

variations in our quarterly or annual operating results;

failure to meet any earnings estimates;

actual or perceived reduction in our growth or expected future growth;

actual or anticipated accounting issues;

publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares or the decision to suspend or terminate coverage in the future;



**Table of Contents**

additions or departures of key management personnel;

increased volatility in the capital markets and more limited or no access to debt financing, which may result in an increased cost of, or less favorable terms for, debt financing or may result in sales to satisfy collateral calls or other pressure on holders to sell our shares;

redemptions, or similar events affecting funds or other investors holding our shares, which may result in large block trades that could significantly impact the price of our common shares;

adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;

changes in or elimination of our dividend;

actions by shareholders;

changes in market valuations of similar companies;

announcements by us, our competitors or our suppliers of significant contracts, acquisitions, disposals, strategic partnerships, joint ventures or capital commitments;

speculation in the press or investment community;

changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and

general market, political and economic conditions and local conditions in the markets in which our lessees are located.

In addition, the equity markets in general have frequently experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. Changes in economic conditions in the U.S., Europe or globally could also impact our ability to grow profitably. These broad market and industry factors may materially affect the market price of our common shares, regardless of our business or operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

***Future debt, which would be senior to our common shares upon liquidation, and additional equity securities, which would dilute the percentage ownership of our then current common shareholders and may be senior to our common shares for the purposes of dividends and liquidation distributions, may adversely affect the market price of our common shares.***

In the future, we may attempt to increase our capital resources by incurring debt or issuing additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or loans and series of preference shares or common shares. Upon liquidation, holders of our debt investments and preference shares and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings would dilute the holdings of our then current common shareholders and could reduce the market price of our common shares, or both. Preference shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments. Restrictive provisions in our debt and/or preference shares could limit our ability to make a distribution to the

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holders of our common shares. Because our decision to incur more debt or issue additional equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising activities. Thus, holders of our common shares bear the risk of our future debt and equity issuances reducing the market price of our common shares and diluting their percentage ownership.



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## **Table of Contents**

*The market price of our common shares could be negatively affected by sales of substantial amounts of our common shares in the public markets.*

As of February 15, 2012, there were 72,191,446 shares issued and outstanding, all of which are freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended (the Securities Act). Approximately 26% of our outstanding common shares are held by our affiliates and can be resold into public markets in the future in accordance with the requirements of Rule 144 under the Securities Act.

Pursuant to our Amended and Restated Shareholders Agreement, the Fortress funds and certain Fortress affiliates and permitted third-party transferees have caused us to register their 16,750,002 common shares under the Securities Act for sale into the public markets. All such shares currently are covered by an effective registration statement and thus are freely transferable. A sale, or a report of the possible sale, of any substantial portion of these shares may negatively impact the market price of our shares.

In addition, following the completion of our initial public offering in August 2006, we filed a registration statement on Form S-8 under the Securities Act to register an aggregate of 4,000,000 of our common shares reserved for issuance under our equity incentive plan, subject to annual increases of 100,000 common shares per year, beginning in 2007 and continuing through and including 2016. Subject to any restrictions imposed on the shares and options granted under our equity incentive plan, shares registered under the registration statement on Form S-8 are generally available for resale into the public markets.

*The issuance of additional common shares in connection with acquisitions or otherwise will dilute all other shareholdings.*

As of February 15, 2012, we had an aggregate of 168,268,331 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, and the exercise of outstanding share options or otherwise would dilute the percentage ownership held by existing shareholders.

### **Risks Related to Taxation**

*If Aircastle Limited were treated as engaged in a trade or business in the United States, it would be subject to U.S. federal income taxation on a net income basis, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.*

If, contrary to expectations, Aircastle Limited were treated as engaged in a trade or business in the United States, the portion of its net income, if any, that was effectively connected with such trade or business would be subject to U.S. federal income taxation at a maximum rate of 35%. In addition, Aircastle Limited would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect Aircastle Limited's business and would result in decreased cash available for distribution to our shareholders.

*If there is not sufficient trading in our shares, or if 50% of our shares are held by certain 5% shareholders, we could lose our eligibility for an exemption from U.S. federal income taxation on rental income from our aircraft used in international traffic and could be subject to U.S. federal income taxation which would adversely affect our business and result in decreased cash available for distribution to our shareholders.*

We expect that we are currently eligible for an exemption under Section 883 of the Internal Revenue Code of 1986, as amended (the Code), which provides an exemption from U.S. federal income taxation with respect

**Table of Contents**

to rental income derived from aircraft used in international traffic by certain foreign corporations. No assurances can be given that we will continue to be eligible for this exemption as our stock is traded on the market and changes in our ownership or the amount of our shares that are traded could cause us to cease to be eligible for such exemption. To qualify for this exemption in respect of rental income, the lessor of the aircraft must be organized in a country that grants a comparable exemption to U.S. lessors (Bermuda and Ireland each do), and certain other requirements must be satisfied. We can satisfy these requirements in any year if, for more than half the days of such year, our shares are primarily and regularly traded on a recognized exchange and certain shareholders, each of whom owns 5% or more of our shares (applying certain attribution rules), do not collectively own more than 50% of our shares. Our shares will be considered to be primarily and regularly traded on a recognized exchange in any year if (1) the number of trades in our shares effected on such recognized stock exchanges exceed the number of our shares (or direct interests in our shares) that are traded during the year on all securities markets; (2) trades in our shares are effected on such stock exchanges in more than de minimis quantities on at least 60 days during every calendar quarter in the year; and (3) the aggregate number of our shares traded on such stock exchanges during the taxable year is at least 10% of the average number of our shares outstanding in that class during that year. If our shares cease to satisfy these requirements, then we may no longer be eligible for the Section 883 exemption with respect to rental income earned by aircraft used in international traffic. If we were not eligible for the exemption under Section 883 of the Code, we expect that the U.S. source rental income of Aircastle Bermuda generally would be subject to U.S. federal taxation, on a gross income basis, at a rate of not in excess of 4% as provided in Section 887 of the Code. If, contrary to expectations, Aircastle Bermuda did not comply with certain administrative guidelines of the Internal Revenue Service, such that 90% or more of Aircastle Bermuda's U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda's U.S. source rental income would be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda's U.S. source rental income would be subject to U.S. federal income taxation on its net income at a maximum rate of 35% as well as state and local taxation. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

***One or more of our Irish subsidiaries could fail to qualify for treaty benefits, which would subject certain of their income to U.S. federal income taxation, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.***

Qualification for the benefits of the double tax treaty between the United States and Ireland (the Irish Treaty) depends on many factors, including being able to establish the identity of the ultimate beneficial owners of our common shares. Each of the Irish subsidiaries may not satisfy all the requirements of the Irish Treaty and thereby may not qualify each year for the benefits of the Irish Treaty or may be deemed to have a permanent establishment in the United States. Moreover, the provisions of the Irish Treaty may change. Failure to so qualify, or to be deemed to have a permanent establishment in the United States, could result in the rental income from aircraft used for flights within the United States being subject to increased U.S. federal income taxation. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

***We may become subject to an increased rate of Irish taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.***

Our Irish subsidiaries and affiliates are expected to be subject to corporation tax on their income from leasing, managing and servicing aircraft at the 12.5% tax rate applicable to trading income. This expectation is based on certain assumptions, including that we will maintain at least the current level of our business operations in Ireland. If we are not successful in achieving trading status in Ireland, the income of our Irish subsidiaries and affiliates will be subject to corporation tax at the 25% rate applicable to non-trading activities, which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

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**Table of Contents**

*We may become subject to income or other taxes in the non-U.S. jurisdictions in which our aircraft operate, where our lessees are located or where we perform certain services which would adversely affect our business and result in decreased cash available for distributions to shareholders.*

Certain Aircastle entities are expected to be subject to the income tax laws of Ireland and/or the United States. In addition, we may be subject to income or other taxes in other jurisdictions by reason of our activities and operations, where our aircraft operate or where the lessees of our aircraft (or others in possession of our aircraft) are located. Although we have adopted operating procedures to reduce the exposure to such taxation, we may be subject to such taxes in the future and such taxes may be substantial. In addition, if we do not follow separate operating guidelines relating to managing a portion of our aircraft portfolio through offices in Ireland and Singapore, income from aircraft not owned in such jurisdictions would be subject to local tax. The imposition of such taxes would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

*We expect to continue to be a passive foreign investment company ( PFIC ) and may be a controlled foreign corporation ( CFC ), for U.S. federal income tax purposes.*

We expect to continue to be treated as a PFIC and may be a CFC for U.S. federal income tax purposes. If you are a U.S. person and do not make a qualified electing fund ( QEF ) election with respect to us and each of our PFIC subsidiaries, unless we are a CFC and you own 10% of our voting shares, you would be subject to special deferred tax and interest charges with respect to certain distributions on our common shares, any gain realized on a disposition of our common shares and certain other events. The effect of these deferred tax and interest charges could be materially adverse to you. Alternatively, if you are such a shareholder and make a QEF election for us and each of our PFIC subsidiaries, or if we are a CFC and you own 10% or more of our voting shares, you will not be subject to those charges, but could recognize taxable income in a taxable year with respect to our common shares in excess of any distributions that we make to you in that year, thus giving rise to so-called phantom income and to a potential out-of-pocket tax liability.

Distributions made to a U.S. person that is an individual will not be eligible for taxation at reduced tax rates generally applicable to dividends paid by certain United States corporations and qualified foreign corporations on or after January 1, 2003. The more favorable rates applicable to regular corporate dividends could cause individuals to perceive investment in our shares to be relatively less attractive than investment in the shares of other corporations, which could adversely affect the value of our shares.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease approximately 19,200 square feet of office space in Stamford, Connecticut for our corporate operations. On January 30, 2012, we signed a ten-year extension lease for the office space in Stamford, Connecticut. We lease approximately 3,380 square feet of office space in Dublin, Ireland for our acquisition, aircraft leasing and asset management operations in Europe. The lease for the Irish facility expires in June 2016. We also lease approximately 1,550 square feet of office space in Singapore for our acquisition, aircraft leasing and asset management operations in Asia. The lease for the Singapore facility expires in November 2012.

We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is not a party to any material legal or adverse regulatory proceedings.

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**Table of Contents**

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Executive Officers of the Registrant**

Executive officers are elected by our board of directors, and their terms of office continue until the next annual meeting of the board or until their successors are elected and have been duly qualified. There are no family relationships among our executive officers.

Set forth below is information pertaining to our executive officers who held office as of February 15, 2012:

*Ron Wainshal, 47*, became our Chief Executive Officer in May 2005 and a member of our Board in May 2010. Prior to joining Aircastle, Mr. Wainshal was in charge of the Asset Management group of General Electric Commercial Aviation Services ( GECAS ) from 2003 to 2005. After joining GECAS in 1998, Ron led many of GECAS' U.S. airline restructuring efforts and its bond market activities, and played a major marketing and structured finance role in the Americas. Before joining GECAS, he was a principal and co-owner of a financial advisory company specializing in transportation infrastructure from 1994 to 1998 and prior to that held positions at Capstar Partners and The Transportation Group in New York and Ryder System in Miami. He received a BS in Economics from the Wharton School of the University of Pennsylvania and an MBA from the University of Chicago's Booth Graduate School of Business.

*Michael Inglese, 50*, became our Chief Financial Officer in April 2007. Prior to joining the Company, Mr. Inglese served as an Executive Vice President and Chief Financial Officer of PanAmSat Holding Corporation, where he served as Chief Financial Officer from June 2000 until the closing of PanAmSat's sale to Intelsat in July 2006. Mr. Inglese joined PanAmSat in May 1998 as Vice President, Finance after serving as Chief Financial Officer for DIRECTV Japan, Inc. He is a Chartered Financial Analyst who holds a BS in Mechanical Engineering from Rutgers University College of Engineering and his MBA from Rutgers Graduate School of Business Management.

*David Walton, 50*, became our General Counsel in March 2005 and our Chief Operating Officer in January 2006 and our Secretary in August 2006. Prior to joining Aircastle, Mr. Walton was Chief Legal Officer of Boullioun Aviation Services, Inc. from 1996 to 2005. Prior to that, Mr. Walton was a partner at the law firm of Perkins Coie in Seattle and Hong Kong. Mr. Walton has over 20 years of experience in aircraft leasing and finance. He received a BA in Political Science from Stanford University and a JD from Boalt Hall School of Law, University of California, Berkeley.

*Joseph Schreiner, 54*, became our Executive Vice President, Technical in October 2004. Prior to joining Aircastle, Mr. Schreiner oversaw the technical department at AAR Corp, a provider of products and services to the aviation and defense industries from 1998 to 2004 where he managed aircraft and engine evaluations and inspections, aircraft lease transitions, reconfiguration and heavy maintenance. Prior to AAR, Mr. Schreiner spent 19 years at Boeing (McDonnell-Douglas) in various technical management positions. Mr. Schreiner received a BS from the University of Illinois and an MBA from Pepperdine University.

*Aaron Dahlke, 43*, became our Chief Accounting Officer in June 2005. Prior to that, Mr. Dahlke was Vice President and Controller of Boullioun Aviation Services Inc. from January 2003 to May 2005. Prior to Boullioun, Mr. Dahlke was at ImageX.com, Inc. and Ernst & Young LLP. He received a B.S. in Accounting from California State University, San Bernardino. He is a Certified Public Accountant.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common shares are listed for trading on the New York Stock Exchange under the symbol AYR. As of February 15, 2012, there were approximately 13,288 record holders of our common shares.

The following table sets forth the quarterly high and low prices of our common shares on the New York Stock Exchange for the periods indicated since our initial public offering and dividends during such periods:

	High	Low	Dividends Declared Per Share (\$)
<b>Year Ending December 31, 2010:</b>			
First Quarter	\$ 11.40	\$ 8.50	\$0.100
Second Quarter	\$ 12.38	\$ 7.83	\$0.100
Third Quarter	\$ 9.73	\$ 7.45	\$0.100
Fourth Quarter	\$ 10.89	\$ 8.10	\$0.100
<b>Year Ending December 31, 2011:</b>			
First Quarter	\$ 13.00	\$ 10.25	\$0.100
Second Quarter	\$ 13.81	\$ 11.43	\$0.125
Third Quarter	\$ 12.93	\$ 9.63	\$0.125
Fourth Quarter	\$ 12.95	\$ 8.56	\$0.150

Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our board of directors and will depend on many factors, including the difficulty we may experience in raising capital in a market that has experienced significant volatility in recent years and our ability to finance our aircraft acquisition commitments; our ability to negotiate favorable lease and other contractual terms; the level of demand for our aircraft; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; the lease rates we are able to charge and realize; our leasing costs; unexpected or increased expenses; the level and timing of capital expenditures; principal repayments and other capital needs; the value of our aircraft portfolio; our compliance with loan to value, debt service coverage, interest rate coverage and other financial covenants in our financings; our results of operations, financial condition and liquidity; general business conditions; restrictions imposed by our securitizations or other financings; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and other factors that our board of directors deems relevant. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

**Table of Contents**

**Issuer Purchases of Equity Securities**

During the fourth quarter of 2011, we purchased our common shares as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share  (Dollars in thousands, except per share amounts)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October	19,127 <sup>(a)</sup>	\$ 10.87		\$
November				
December				
Total	19,127	\$ 10.87		\$

- (a) Our Compensation Committee approved the repurchase of common shares pursuant to an irrevocable election made under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan, in satisfaction of minimum tax withholding obligations associated with the vesting of restricted common shares during the fourth quarter of 2011.

**Table of Contents**

**Performance Graph**

*The following stock performance graph shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.*

The following graph compares the cumulative five year total return to holders of our common shares relative to the cumulative total returns of the S&P 500 Index and a customized peer group over the five year period ended December 31, 2011. The peer group consists of two companies: AerCap Holdings NV (NYSE: AER) and FLY Leasing Limited (NYSE: FLY). An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common shares, the S&P 500 Index and in the peer group on December 31, 2006, and the relative performance of each is tracked through December 31, 2011. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN\***

AMONG AIRCASTLE LIMITED, THE S&P 500 INDEX

AND A PEER GROUP

\* \$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Aircastle Limited	\$ 100.00	\$ 96.08	\$ 19.26	\$ 41.91	\$ 46.44	\$ 59.11
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
Peer Group	100.00	90.03	19.97	45.89	72.40	59.85

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The selected historical consolidated financial, operating and other data as of December 31, 2010 and 2011 and for each of the three years in the period ended December 31, 2011 presented in this table are derived from our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2007 and 2008 presented in this table are derived from our audited consolidated financial statements and related notes thereto, which are not included in this Annual Report. You should read these tables along with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(Dollars in thousands, except per share amounts)				
<b>Selected Financial Data:</b>					
Consolidated Statements of Operation:					
Total revenues	\$ 381,091	\$ 582,587	\$ 570,585	\$ 527,710	\$ 605,197
Selling, general and administrative expenses	39,040	46,806	46,016	45,774	45,953
Depreciation	126,403	201,759	209,481	220,476	242,103
Interest, net	92,660	203,529	169,810	178,262	204,150
Income from continuing operations	114,403	115,291	102,492	65,816	124,270
Discontinued operations	12,941				
Net income	127,344	115,291	102,492	65,816	124,270
Earnings per common share Basic:					
Income (loss) from continuing operations	\$ 1.68	\$ 1.47	\$ 1.29	\$ 0.83	\$ 1.64
Earnings from discontinued operations	\$ 0.19	\$	\$	\$	\$
Net income	\$ 1.87	\$ 1.47	\$ 1.29	\$ 0.83	\$ 1.64
Earnings per common share Diluted:					
Income (loss) from continuing operations	\$ 1.68	\$ 1.47	\$ 1.29	\$ 0.83	\$ 1.64
Earnings from discontinued operations	\$ 0.19	\$	\$	\$	\$
Net income	\$ 1.87	\$ 1.47	\$ 1.29	\$ 0.83	\$ 1.64
Cash dividends declared per share	\$ 2.45	\$ 0.85	\$ 0.40	\$ 0.40	\$ 0.50
<b>Other Operating Data:</b>					
EBITDA	\$ 333,745	\$ 526,305	\$ 501,672	\$ 491,231	\$ 594,800
Adjusted net income	114,795	150,046	104,793	67,868	100,085
<b>Consolidated Statements of Cash Flows:</b>					
Cash flows provided by operations	\$ 243,236	\$ 333,626	\$ 327,641	\$ 356,530	\$ 359,377
Cash flows used in investing activities	(2,369,796)	37,640	(269,434)	(541,115)	(445,420)
Cash flows provided by (used in) financing activities	2,081,988	(303,865)	3,512	281,876	141,608
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 13,546	\$ 80,947	\$ 142,666	\$ 239,957	\$ 295,522
Flight equipment held for lease, net of accumulated depreciation	3,807,116	3,837,543	3,812,970	4,065,780	4,387,986
Debt investments, available for sale	113,015	14,349			
Total assets	4,427,642	4,251,572	4,454,512	4,859,059	5,224,459
Borrowings under credit facilities	798,186				
Borrowings under securitizations and term debt financings	1,677,736	2,476,296	2,464,560	2,707,958	2,986,516
Shareholders' equity	1,294,577	1,112,166	1,291,237	1,342,718	1,404,608
<b>Other Data:</b>					
Number of Aircraft (at the end of period)	133	130	129	136	144
Total debt to total capitalization	66.3%	69.0%	65.6%	66.9%	68.0%



**Table of Contents**

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-US GAAP measure, is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed. EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results.

The table below shows the reconciliation of net income to EBITDA for the years ended December 31, 2007, 2008, 2009, 2010 and 2011.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(Dollars in thousands)				
Net income	\$ 127,344	\$ 115,291	\$ 102,492	\$ 65,816	\$ 124,270
Depreciation	126,403	201,759	209,481	220,476	242,103
Amortization of net lease premiums (discounts) and lease incentives	(7,379)	(1,815)	11,229	20,081	16,445
Interest, net	92,660	203,529	169,810	178,262	204,150
Income tax provision	7,658	7,541	8,660	6,596	7,832
Earnings from discontinued operations, net of income taxes	(12,941)				
<b>EBITDA</b>	<b>\$ 333,745</b>	<b>\$ 526,305</b>	<b>\$ 501,672</b>	<b>\$ 491,231</b>	<b>\$ 594,800</b>

Management believes that Adjusted Net Income ( ANI ) when viewed in conjunction with the Company's results under US GAAP and the below reconciliation, provide useful information about operating and period-over-period performance and provide additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting and gains or losses related to flight equipment and debt investments.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2007, 2008, 2009, 2010 and 2011.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(Dollars in thousands)				
Net income	\$ 127,344	\$ 115,291	\$ 102,492	\$ 65,816	\$ 124,270
Ineffective portion and termination of cash flow hedges <sup>(1)</sup>	171	29,589	5,387	5,805	8,407
Mark to market of interest rate derivative contracts <sup>(2)</sup>	(1,154)	11,446	(959)	860	848
Gain on sale of flight equipment <sup>(2)</sup>	(11,566)	(6,525)	(1,162)	(7,084)	(39,092)
(Gain) loss on sale of debt investments <sup>(2)</sup>		245	(4,965)		
Write-off of deferred financing fees <sup>(1)</sup>				2,471	2,456
Loan termination payment <sup>(1)</sup>					3,196
Termination of engine purchase agreement <sup>(2)</sup>			4,000		
<b>Adjusted net income</b>	<b>\$ 114,795</b>	<b>\$ 150,046</b>	<b>\$ 104,793</b>	<b>\$ 67,868</b>	<b>\$ 100,085</b>

(1) Included in Interest, net.

(2) Included in Other income (expense) except for 2007 gains on sale of flight equipment which were recorded in discontinued operations.

(3) 2007 amount includes \$761 which was recorded in discontinued operations.

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**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with Item 6 Selected Financial Data and our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under Item 1A. Risk Factors and elsewhere in this report. Please see Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 for a discussion of the uncertainties, risks and assumptions associated with these statements. Our consolidated financial statements are prepared in accordance with US GAAP and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with US GAAP. Unless otherwise indicated, all references to dollars and \$ in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

**OVERVIEW**

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2011, our aircraft portfolio consisted of 144 aircraft that were leased to 65 lessees located in 36 countries, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. Our revenues and income from continuing operations for the year ended December 31, 2011 were \$605.2 million and \$124.3 million, respectively, and for the fourth quarter 2011 were \$156.9 million and \$35.6 million, respectively.

**Revenues**

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease, revenue from retained maintenance payments related to lease expirations and lease termination payments and lease incentive amortization.

Typically, our aircraft are subject to net operating leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases we are obligated to pay a portion of specified maintenance or modification costs. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the credit-worthiness of our lessees and the occurrence of delinquencies, restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain

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## **Table of Contents**

high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

### **Operating Expenses**

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, aircraft impairment charges and maintenance and other costs. Because our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of maintenance and other costs relating to aircraft reflected in our statement of income primarily relates to expenses for unscheduled lease terminations.

### **Income Tax Provision**

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in

## **Table of Contents**

which case they may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, those subsidiaries that are resident in Ireland are subject to Irish tax.

### **Segments**

We operate in a single segment.

### **History**

Aircastle Limited, formerly Aircastle Investment Limited, is a Bermuda exempted company that was incorporated on October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates.

### **Acquisitions and Disposals**

In 2011, we acquired 21 aircraft:

seven New A330 Aircraft under our acquisition agreement with Airbus. Three of these aircraft delivered in the first half of 2011, and four delivered in the second half of 2011. Two of the aircraft we delivered to SAA in the second half of 2011 were sold upon delivery.

three Boeing Model 747-400 aircraft in passenger configuration; two off-lease aircraft which we have inducted into freighter conversion programs, one of which was delivered to a customer in January 2012, and one of which is committed for lease upon completion of the conversion, and one on-lease passenger aircraft which we expect to convert into a freighter.

one Boeing Model 777-300ER aircraft, four Boeing Model 737-800 aircraft, one Airbus Model A320-200 aircraft and three Boeing Model 757-200 aircraft.

two McDonnell Douglas Model MD-11F freighter aircraft acquired in a sale-leaseback transaction.

Our investments in these aircraft acquisitions in 2011 have totaled approximately \$996.8 million, excluding freighter conversion payments.

We also have a commitment to acquire one New A330 Aircraft, expected to deliver in the first half of 2012.

We sold 13 aircraft in 2011: four Boeing Model 737-400SF freighter aircraft, one Boeing Model 747-400F freighter aircraft, one Boeing Model 737-500 aircraft, two Boeing Model 737-800 aircraft, one Boeing Model 757-200 aircraft, one Boeing Model 767-300ER aircraft and three Airbus Model A330-200 aircraft, for an aggregate sales price of approximately \$501.8 million.

**Table of Contents**

The following table sets forth certain information with respect to the aircraft owned by us as of December 31, 2011:

**AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)**

	<b>Owned Aircraft as of December 31, 2011<sup>(1)</sup></b>
Flight Equipment Held for Lease	\$ 4,388
Number of Aircraft	144
Number of Lessees	65
Number of Countries	36
Weighted Average Age Passenger (years) <sup>(3)</sup>	11.2
Weighted Average Age Freighter (years) <sup>(3)</sup>	10.0
Weighted Average Age Combined (years) <sup>(3)</sup>	10.9
Weighted Average Remaining Passenger Lease Term (years) <sup>(3)</sup>	4.1
Weighted Average Remaining Cargo Lease Term (years) <sup>(3)</sup>	6.4
Weighted Average Remaining Combined Lease Term (years) <sup>(3)</sup>	4.9
Weighted Average Fleet Utilization during the Fourth Quarter 2011 <sup>(4)</sup>	99%
Weighted Average Fleet Utilization for the year ended December 31, 2011 <sup>(4)</sup>	99%
Portfolio Yield for the Fourth Quarter 2011 <sup>(5)</sup>	14%
Portfolio Yield for the year ended December 31, 2011 <sup>(5)</sup>	14%

(1) Calculated using net book value as of December 31, 2011.

(2) Weighted average age (years) by net book value.

(3) Weighted average remaining lease term (years) by net book value.

(4) Aircraft on-lease days as a percent of total days in period weighted by net book value, excluding aircraft in freighter conversion.

(5) Lease rental revenue for the period as a percent of the average net book value of flight equipment held for lease for the period; quarterly information is annualized.

Our owned aircraft portfolio as of December 31, 2011 is listed in Exhibit 99.1 to this report.

Of our owned aircraft portfolio as of December 31, 2011, \$3.7 billion, representing 117 aircraft and 85% of the net book value of our aircraft, was encumbered by secured debt financings, and \$0.7 billion, representing 27 aircraft and 15% of the net book value of our aircraft, was unencumbered by secured debt financings.

**Table of Contents****PORTFOLIO DIVERSIFICATION**

	Owned Aircraft as of December 31, 2011	
	Number of Aircraft	% of Net Book Value
<b>Aircraft Type</b>		
Passenger:		
Narrowbody	87	37%
Midbody	29	27%
Widebody	3	5%
Total Passenger	119	69%
Freighter <sup>(1)</sup>	25	31%
<b>Total</b>	<b>144</b>	<b>100%</b>
<b>Manufacturer</b>		
Boeing	91	57%
Airbus	53	43%
<b>Total</b>	<b>144</b>	<b>100%</b>
<b>Regional Diversification</b>		
Europe	66	41%
Asia	39	28%
North America	16	9%
Latin America	10	6%
Middle East and Africa	9	15%
Off-lease <sup>(2)</sup>	4	1%
<b>Total</b>	<b>144</b>	<b>100%</b>

(1) Includes two Boeing Model 747-400 aircraft being converted from passenger to freighter configuration, one of these aircraft was delivered to a customer in North America in January 2012 and we have a commitment to lease the other aircraft post-conversion to a customer in North America.

(2) Includes two Boeing Model 747-400 aircraft being converted from passenger to freighter configuration, one of these aircraft was delivered to a customer in North America in January 2012 and we have a commitment to lease the other aircraft post-conversion to a customer in North America; one Airbus Model A320-200 aircraft for which we have a lease commitment, and one Boeing Model 737-400 aircraft which was sold in January 2012.

**Table of Contents**

Our largest customer represents less than 8% of the net book value of flight equipment held for lease at December 31, 2011. Our top 15 customers for aircraft we owned at December 31, 2011, representing 68 aircraft and 62% of the net book value of flight equipment held for lease, are as follows:

**Percent of Net**

<b>Book Value</b>	<b>Customer</b>	<b>Country</b>	<b>Number of Aircraft</b>
Greater than 6% per customer	South African Airways	South Africa	4
	Hainan Airlines Company	China	9
3% to 6% per customer	Emirates	United Arab Emirates	2
	US Airways	USA	11
	Martinair <sup>(1)</sup>	Netherlands	5
	SriLankan Airlines	Sri Lanka	5
	Airbridge Cargo <sup>(2)</sup>	Russia	2
	Iberia Airlines	Spain	6
	GOL <sup>(3)</sup>	Brazil	6
	Less than 3% per customer	Cathay Pacific	Hong Kong
KLM <sup>(1)</sup>		Netherlands	1
World Airways		USA	2
China Eastern Airlines <sup>(4)</sup>		China	5
Orenburg Airlines		Russia	4
Icelandair <sup>(5)</sup>	Iceland	5	

- (1) Martinair is a wholly owned subsidiary of KLM. Although KLM does not guarantee Martinair's obligations under the relevant lease, if combined, the two, together with two other affiliated customers, represent 10% of flight equipment held for lease.
- (2) Guaranteed by Volga-Dnepr.
- (3) GOL has guaranteed the obligations of an affiliate, VRG Linhas Aereas, and accordingly, the two are shown combined in the above table.
- (4) Does not include the aircraft leased by Shanghai Airlines and China Cargo Airlines which are wholly owned subsidiaries of China Eastern Airlines. Although China Eastern Airlines does not guarantee the obligations of these subsidiaries under their relevant leases, if combined, the three represent 5% of flight equipment held for lease.
- (5) Icelandair Group hf, the parent company of Icelandair, has guaranteed the obligations of an affiliate, SmartLynx, and accordingly, the two are shown combined in the above table.

**Finance**

Historically, our debt financing arrangements typically have been secured by aircraft and related operating leases, and in the case of our securitizations and pooled aircraft term financings, the financing parties have limited recourse to Aircastle Limited. While such financings have historically been available on reasonable terms given the loan to value profile we have pursued, current market conditions continue to limit the availability of both debt and equity capital. Though financing market conditions have recovered recently and we expect them to continue to improve in time, current market conditions remain difficult with respect to financing mid-age, current technology aircraft. In 2011, we issued an additional \$150.0 million aggregate principal amount of unsecured 9.75% Senior Notes due 2018 at a premium with 9.00% yield to worst and used the proceeds for general corporate purposes, including the purchase of aviation assets. In addition, we secured \$126.0 million in bank financing for three aircraft we acquired during the fourth quarter of 2011. During the near-term, we intend to





**Table of Contents**

focus our efforts on investment opportunities that are attractive on an unleveraged basis, that tap commercial financial capacity where it is accessible on reasonable terms or for which debt financing that benefits from government guarantees either from the ECAs or from EXIM is available.

We intend to fund new investments through cash on hand and potentially through medium- to longer-term financings on a secured or unsecured basis. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See *Liquidity and Capital Resources* *Secured Debt Financings* and *Liquidity and Capital Resources* *Unsecured Debt Financings* below.

**Comparison of the year ended December 31, 2010 to the year ended December 31, 2011:**

	Year Ended December 31,	
	2010	2011
	(Dollars in thousands)	
<b>Revenues:</b>		
Lease rental revenue	\$ 531,076	\$ 580,209
Amortization of net lease discounts and lease incentives	(20,081)	(16,445)
Maintenance revenue	15,703	36,954
<b>Total lease rentals</b>	<b>526,698</b>	<b>600,718</b>
Other revenue	1,012	4,479
<b>Total revenues</b>	<b>527,710</b>	<b>605,197</b>
<b>Expenses:</b>		
Depreciation	220,476	242,103
Interest, net	178,262	204,150
Selling, general and administrative	45,774	45,953
Impairment of aircraft	7,342	6,436
Maintenance and other costs	9,612	13,277
<b>Total operating expenses</b>	<b>461,466</b>	<b>511,919</b>
<b>Other income:</b>		
Gain on sale of flight equipment	7,084	39,092
Other	(916)	(268)
<b>Total other income</b>	<b>6,168</b>	<b>38,824</b>
<b>Income from continuing operations before income taxes</b>	<b>72,412</b>	<b>132,102</b>
Income tax provision	6,596	7,832
<b>Net income</b>	<b>\$ 65,816</b>	<b>\$ 124,270</b>

**Revenues:**

Total revenues increased by 14.7%, or \$77.5 million, for the year ended December 31, 2011 as compared to the year ended December 31, 2010, primarily as a result of the following:

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*Lease rental revenue.* The increase in lease rental revenue of \$49.1 million for the year ended December 31, 2011 as compared to the same period in 2010 was primarily the result of:

\$87.9 million of revenue from five new aircraft and twelve mid-aged aircraft purchased in 2011, and the full year revenue of two new aircraft and nine mid-aged aircraft purchased in 2010.

**Table of Contents**

This increase was offset partially by a decrease in revenue of:

\$18.1 million due to aircraft sales and disposals during 2011;

\$10.5 million due to lease extensions and transitions at lower rentals; and

\$10.2 million due to lease terminations.

*Amortization of net lease discounts and lease incentives.*

	Year Ended December 31, 2010                      2011 (Dollars in thousands)	
Amortization of lease discounts	\$ 2,447	\$ 2,401
Amortization of lease premiums	(367)	(1,844)
Amortization of lease incentives	(22,161)	(17,002)
Amortization of net lease discounts and lease incentives	\$ (20,081)	\$ (16,445)

As more fully described above under Overview Revenues, lease incentives represent our estimated portion of the lessee's cost for heavy maintenance, overhaul or replacement of certain high-value components, which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and conversely if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The decrease in amortization of lease incentives of \$5.2 million for the year ended December 31, 2011 as compared to the same period in 2010 primarily resulted from unscheduled lease terminations associated with six aircraft.

*Maintenance revenue.*

	Year Ended December 31,			
	2010		2011	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$ 4,069	3	\$ 15,257	6
Scheduled lease terminations	11,634	3	21,697	8
Maintenance revenue	\$ 15,703	6	\$ 36,954	14

Unscheduled lease terminations. For the year ended December 31, 2010, we recorded maintenance revenue of \$4.1 million from unscheduled lease terminations primarily associated with three aircraft returned in 2010. Comparatively, for the same period in 2011, we recorded maintenance revenue totaling \$15.3 million from unscheduled lease terminations associated with six aircraft returned in 2011. See Summary of Impairments and Recoverability Assessment below for a detailed discussion of the related impairment charges for certain aircraft.

Scheduled lease terminations. For the year ended December 31, 2010, we recorded maintenance revenue from scheduled lease terminations totaling \$11.6 million associated with three aircraft. Comparatively, for the same period in 2011, we recorded \$21.7 million, associated with maintenance revenue from eight scheduled lease terminations.

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*Other revenue* was \$4.5 million during the year ended December 31, 2011, which was primarily due to additional fees paid by lessees in connection with early termination or the agreement to early terminate five leases. We did not receive any similar fees from early lease terminations in the year ended December 31, 2010. See [Summary of Impairments and Recoverability Assessment](#) below for a detailed discussion of the related impairment charges for certain aircraft.

**Table of Contents****Operating Expenses:**

Total operating expenses increased by 10.9%, or \$50.5 million, for the year ended December 31, 2011 as compared to the year ended December 31, 2010 primarily as a result of the following:

*Depreciation expense* increased by \$21.6 million for the year ended December 31, 2011 over the same period in 2010. The net increase is primarily the result of:

a \$24.3 million increase in depreciation for aircraft acquired.

This increase was offset partially by:

a \$4.8 million decrease in depreciation for aircraft sold.

*Interest, net* consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(Dollars in thousands)</b>	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities <sup>(1)</sup>	\$ 153,064	\$ 172,798
Hedge ineffectiveness losses (gains)	5,039	(101)
Amortization of interest rate derivatives related to deferred losses <sup>(2)</sup>	9,634	23,078
Amortization of deferred financing fees and notes discount <sup>(3)</sup>	15,065	15,271
<b>Interest Expense</b>	<b>182,802</b>	<b>211,046</b>
Less interest income	(413)	(390)
Less capitalized interest	(4,127)	(6,506)
<b>Interest, net</b>	<b>\$ 178,262</b>	<b>\$ 204,150</b>

(1) For the year ended December 31, 2011, includes the loan termination fee of \$3,196 related to an aircraft sold in June 2011.

(2) For the year ended December 31, 2011, includes accelerated amortization of deferred hedge losses in the amount of \$8,508 related to three aircraft sold in 2011.

(3) For the year ended December 31, 2010, includes the write-off of deferred financing fees of \$2,471 related to the pay-off of a term financing loan and a secured credit facility. For the year ended December 31, 2011, includes the write-off of deferred financing fees of \$2,456 related to an aircraft sold in June 2011.

Interest, net increased by \$25.9 million, or 14.5%, over the year ended December 31, 2010. The net increase is primarily a result of:

a \$16.5 million increase in interest on our borrowings due to higher weighted average debt outstanding (\$2.78 billion for the year ended December 31, 2011 as compared to \$2.54 billion for the year ended December 31, 2010);

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a \$3.2 million loan breakage fee in connection with the repayment of one of our ECA loans in the second quarter of 2011;

a \$13.4 million increase in the amortization of deferred losses, including \$8.5 million of accelerated amortization resulting from the sale of three Airbus A330 aircraft.

These increases were offset partially by:

a \$5.1 million decrease resulting from changes in measured hedge ineffectiveness due to changes in our debt forecast; and

## **Table of Contents**

a \$2.4 million increase in capitalized interest.

*Selling, general and administrative expenses* for the year ended December 31, 2011 remained flat over the same period in 2010. Non-cash share based expense was \$7.5 million and \$5.8 million for the years ended December 31, 2010 and 2011, respectively.

*Impairment of aircraft* was \$7.3 million during the year ended December 31, 2010, which related to one Boeing Model 737-300 aircraft and one Boeing Model 737-500 aircraft. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for these two aircraft.

Impairment of aircraft was \$6.4 million during the year ended December 31, 2011, which related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement in the second quarter of 2011. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for this aircraft.

*Maintenance and other costs* were \$13.3 million for the year ended December 31, 2011, an increase of \$3.7 million over the same period in 2010. The net increase is primarily related to an increase in aircraft maintenance and other transitions costs relating to unscheduled lease terminations for four aircraft returned to us in the first quarter of 2011 and one aircraft returned during the second quarter of 2011.

### ***Other income:***

Total other income for the year ended December 31, 2011 was \$38.8 million as compared to \$6.2 million for the same period in 2010. The increase is primarily a result of a \$32.0 million increase in the gain on sale of aircraft (thirteen aircraft sold in 2011 as compared to three aircraft sold in 2010).

### ***Income Tax Provision:***

Our provision for income taxes for the years ended December 31, 2010 and 2011 was \$6.6 million and \$7.8 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of approximately \$1.2 million for the year ended December 31, 2011 as compared to the same period in 2010 was attributable to an increase in operating income subject to tax in the U.S., Ireland, and other jurisdictions.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes, unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, those subsidiaries that are resident in Ireland are subject to Irish tax.

The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. This date was recently extended by the Government of Bermuda from March 2016. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.



**Table of Contents***Other comprehensive income*

	Year Ended December 31,	
	2010	2011
	(Dollars in thousands)	
Net income	\$ 65,816	\$ 124,270
Net change in fair value of derivatives, net of tax expense of \$268 and \$857, respectively	1,994	37,461
Derivative loss reclassified into earnings	9,634	23,078
Total comprehensive income (loss)	\$ 77,444	\$ 184,809

Other comprehensive income was \$184.8 million for the year ended December 31, 2011, an increase of \$107.4 million from the \$77.4 million of other comprehensive income for the year ended December 30, 2010. Other comprehensive income for the year ended December 30, 2011 primarily consisted of:

\$124.3 million of net income;

\$37.4 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the year ended December 31, 2011 partially offset by a downward shift in the 1 Month LIBOR forward curve; and

\$23.1 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives. Other comprehensive income for the year ended December 30, 2010 primarily consisted of:

\$65.8 million of net income;

\$2.0 million gain from a change in fair value of interest rate derivatives, net of taxes due primarily to net settlements for the year ended December 31, 2010 partially offset by a downward shift in the 1 Month LIBOR forward curve; and

\$9.6 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives. The amount of loss expected to be reclassified from accumulated other comprehensive income into interest expense over the next 12 months consists of net interest settlements on active interest rate derivatives in the amount of \$57.9 million and the amortization of deferred net losses from terminated interest rate derivatives in the amount of \$17.4 million. See Liquidity and Capital Resources Hedging below for more information on deferred net losses as related to terminated interest rate derivatives.

**Table of Contents**

*Comparison of the year ended December 31, 2009 to the year ended December 31, 2010:*

	Year Ended December 31, 2009                  2010 (Dollars in thousands)	
<b>Revenues:</b>		
Lease rental revenue	\$ 511,459	\$ 531,076
Amortization of net lease discounts and lease incentives	(11,229)	(20,081)
Maintenance revenue	58,733	15,703
<b>Total lease rentals</b>	<b>558,963</b>	<b>526,698</b>
Interest income	1,924	
Other revenue	9,698	1,012
<b>Total revenues</b>	<b>570,585</b>	<b>527,710</b>
<b>Expenses:</b>		
Depreciation	209,481	220,476
Interest, net	169,810	178,262
Selling, general and administrative	46,016	45,774
Impairment of aircraft	18,211	7,342
Maintenance and other costs	19,431	9,612
<b>Total operating expenses</b>	<b>462,949</b>	<b>461,466</b>
<b>Other income:</b>		
Gain on sale of flight equipment	1,162	7,084
Other	2,354	(916)
<b>Total other income</b>	<b>3,516</b>	<b>6,168</b>
Income from continuing operations before income taxes	111,152	72,412
Income tax provision	8,660	6,596
<b>Net income</b>	<b>\$ 102,492</b>	<b>\$ 65,816</b>

**Revenues:**

Total revenues decreased by 7.5% or \$42.9 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009, primarily as a result of the following:

*Lease rental revenue.* The increase in lease rental revenue of \$19.6 million for the year ended December 31, 2010 as compared to the same period in 2009 was primarily the result of:

\$28.4 million of revenue from eleven new aircraft purchased in 2010 and the full year revenue from two new aircraft purchased during 2009.

This increase was offset partially by a decrease in revenue of:

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\$5.9 million of revenue due to five aircraft sold in 2010;

\$1.6 million of revenue due to lease extensions and transitions at lower rentals; and

\$1.3 million of revenue due to lower floating rate lease rentals and other changes.

**Table of Contents***Amortization of net lease discounts and lease incentives.*

	Year Ended December 31,	
	2009	2010
	(Dollars in thousands)	
Amortization of lease discounts	\$ 7,951	\$ 2,447
Amortization of lease premiums	(2,207)	(367)
Amortization of lease incentives	(16,973)	(22,161)
Amortization of net lease discounts and lease incentives	\$ (11,229)	\$ (20,081)

The decrease in amortization of lease discounts and lease premiums for the year ended December 31, 2010 as compared to the same period in 2009 is due to scheduled lease expirations of previously acquired leases, lease extensions and early lease transitions.

As more fully described above under *Overview Revenues*, lease incentives represent our estimated portion of the lessee's cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and conversely if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The increase in amortization of lease incentives of \$5.2 million for the year ended December 31, 2010 as compared to the same period in 2009 results from an increase in amortization of net lease incentives for 14 aircraft transitions and extensions during 2010 and the full-year impact for 15 aircraft transitions during 2009.

*Maintenance revenue.*

	Year Ended December 31,			
	2009		2010	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$ 28,356	8	\$ 4,069	3
Scheduled lease terminations	30,377	8	11,634	3
Maintenance revenue	\$ 58,733	16	\$ 15,703	6

Unscheduled lease terminations. For the year ended December 31, 2009, we recorded a high level of maintenance revenue in the amount of \$28.3 million from unscheduled lease terminations associated with eight aircraft. Comparatively, for the same period in 2010, we recorded maintenance revenue totaling \$4.1 million from unscheduled lease terminations primarily associated with three aircraft returned in 2010. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charges for certain aircraft.

Scheduled lease terminations. For the year ended December 31, 2009, we recorded maintenance revenue from scheduled lease terminations totaling \$30.4 million associated with eight aircraft. Comparatively, for the same period in 2010, we recorded \$11.6 million, primarily associated with maintenance revenue from three scheduled lease terminations. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for certain aircraft.

*Interest income.* The decrease in interest income of \$1.9 million was due to the sale of our debt investments in the third and fourth quarters of 2009 and, as a result, there was no comparable interest income in the year ended December 31, 2010.

**Table of Contents**

*Other revenue* was \$9.7 million during the year ended December 31, 2009, which was primarily due to additional fees paid by lessees in connection with the early termination of four leases, and we did not receive any similar fees from early lease terminations in the year ended December 31, 2010. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for certain aircraft.

**Operating Expenses:**

Total operating expenses decreased by 0.3% or \$1.5 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 primarily as a result of the following:

*Depreciation expense* increased by \$11.0 million for the year ended December 31, 2010 over the same period in 2009. The net increase is primarily the result of:

a \$6.2 million increase in depreciation for capitalized aircraft improvements and planned major maintenance activities and

an \$8.2 million increase in depreciation for new aircraft acquired in late December 2009 and in 2010. These increases were offset partially by:

a \$3.3 million decrease in depreciation for aircraft sold.

*Interest, net* consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<b>(Dollars in thousands)</b>	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$ 146,617	\$ 153,064
Hedge ineffectiveness losses	463	5,039
Amortization of interest rate derivatives related to deferred losses	12,894	9,634
Amortization of deferred financing fees and notes discount	12,232	15,065
<b>Interest Expense</b>	<b>172,206</b>	<b>182,802</b>
Less interest income	(939)	(413)
Less capitalized interest	(1,457)	(4,127)
<b>Interest, net</b>	<b>\$ 169,810</b>	<b>\$ 178,262</b>

Interest, net increased by \$8.5 million, or 5.0%, over year ended December 31, 2009. The net increase is primarily a result of:

a \$6.4 million increase in interest expense on our borrowings primarily due to a higher weighted average debt balance (\$2.54 billion for the year ended December 31, 2010 as compared to \$2.45 billion for the year ended December 31, 2009);

a \$4.6 million increase resulting from changes in measured hedge ineffectiveness due primarily to the early repayment of borrowings in connection with assets sales during 2010 and lower forecasted debt; and

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a \$2.8 million increase in deferred financing fees primarily from the accelerated write-off of deferred financing fees triggered by prepayment of Term Financing No. 2 and the A330 SLB facility.

These increases were offset partially by

a \$3.3 million decrease in amortization of deferred losses on interest rate derivatives primarily due to higher amortization incurred in 2009 as a result of lower forecasted debt balances.

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**Table of Contents**

*Selling, general and administrative expenses* for the year ended December 31, 2010 remained flat over the same period in 2009. Non-cash share based expense was \$6.9 million and \$7.5 million for the year ended December 31, 2009 and 2010, respectively.

*Impairment of aircraft* was \$18.2 million during the year ended December 31, 2009, which related to two Boeing Model 737-300 aircraft and two Boeing Model 757-200 aircraft. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for these four aircraft.

Impairment of aircraft was \$7.3 million during the year ended December 31, 2010, which related to one Boeing Model 737-300 aircraft and one Boeing Model 737-500 aircraft. See *Summary of Impairments and Recoverability Assessment* below for a detailed discussion of the related impairment charge for these two aircraft.

*Maintenance and other costs* were \$9.6 million for the year ended December 31, 2010, a decrease of \$9.8 million over the same period in 2009. The net decrease is primarily related to a decrease in aircraft maintenance and other transition costs related to unscheduled lease terminations for fewer aircraft returned to us in 2010 as compared to aircraft returned to us in 2009.

***Other income:***

Total other income for the year ended December 31, 2010 was \$6.2 million as compared to \$3.5 million of income for the same period in 2009. The increase is a result of:

a \$5.9 million increase in gain on the sale of aircraft (four aircraft sold in 2010 as compared to three aircraft and one aircraft engine sold in 2009) and

a non-recurring \$4.0 million termination fee in 2009 to cancel our engine purchase commitments for the New A330 Aircraft program. There were no such termination fees in 2010.

These increases were partially offset by:

a \$5.0 million gain on sale of our remaining debt investments in 2009 for which there was no comparative transaction in 2010; and

\$1.8 million of higher mark-to-market adjustments on our undesignated interest rate derivatives.

***Income Tax Provision***

Our provision for income taxes for the year ended December 31, 2009 and 2010 was \$8.7 million and \$6.6 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The decrease in our income tax provision of approximately \$2.1 million for the year ended December 31, 2010 as compared to the same period in 2009 was attributable to a decrease in operating income subject to tax in the U.S. and Ireland, partially offset by an increase in tax expense related to the vesting of stock awards.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes, unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, those subsidiaries that are resident in Ireland are subject to Irish tax.

The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. This date was recently extended by the





**Table of Contents**

Government of Bermuda from March 2016. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

**Other comprehensive income:**

	Year Ended December 31,	
	2009	2010
	(Dollars in thousands)	
Net income	\$ 102,492	\$ 65,816
Net change in fair value of derivatives, net of tax expense of \$1,473 and \$268, respectively	92,396	1,994
Derivative loss reclassified into earnings	12,894	9,634
Gain on debt investments reclassified into earnings	(4,965)	
Net change in unrealized fair value of debt investments	2,429	
 Total comprehensive income	 \$ 205,246	 \$ 77,444

Other comprehensive income was \$77.4 million for the year ended December 31, 2010, a decrease of \$127.8 million from the \$205.2 million of other comprehensive income for the year ended December 31, 2009. Other comprehensive income for the year ended December 31, 2010 primarily consisted of:

\$65.8 million of net income;

\$2.0 million gain from a change in interest rate derivatives, net of taxes which is lower from 2009 due to a relatively flat LIBOR curve at December 31, 2010 as compared to December 31, 2009; and

\$9.6 million of amortization reclassified into earnings of deferred net losses related to amortization from terminated interest rate derivatives.

Other comprehensive income for the year ended December 31, 2009 primarily consisted of:

\$102.5 million of net income;

\$92.4 million gain from a change in interest rate derivatives, net of taxes which is higher from 2008 due to an increase in the LIBOR curve at December 31, 2009 as compared to December 31, 2008; and

\$12.9 million of amortization reclassified into earnings of deferred net losses related to amortization from terminated interest rate derivatives.

**Summary of Impairments and Recoverability Assessment**

In the year ended December 31, 2009, we recognized an impairment of \$18.2 million related to two Boeing Model 737-300 aircraft and two Boeing Model 757-200 aircraft, which was triggered by the early termination of the related leases and the resulting change to estimated future cash flows. The Company recorded \$18.2 million of revenue related to the early termination, of which \$8.4 million represented lease termination payments and \$9.8 million which related to maintenance revenue from the previous lessees of these aircraft.

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In the year ended December 31, 2010, we recognized an impairment of \$7.3 million related to one Boeing Model 737-300 aircraft and one Boeing Model 737-500 aircraft, which was triggered by the early termination of one of the related leases, a signed forward sales agreement for the other aircraft and the resulting change to estimated future cash flows. The Company recorded \$4.4 million related to maintenance revenue from the previous lessees at the end of the lease of the aircraft that is subject to a forward sales agreement and \$1.8 million related to maintenance revenue from the lessee of one of these aircraft during the year ended December 31, 2010.

**Table of Contents**

In the year ended December 31, 2011, we recognized an impairment of \$6.4 million related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement in the second quarter of 2011. During the year ended December 31, 2011, we recorded \$2.3 million related to maintenance revenue and reversed \$0.9 million of lease incentive accruals related to the terminated lease of this aircraft.

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. We performed this recoverability assessment during the third quarter of 2011. Management develops the assumptions used in the recoverability assessment based on its knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors. While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates. Other than the aircraft discussed above, management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no other aircraft were impaired as a consequence of this recoverability assessment.

Following our recently completed aircraft recoverability assessment, we changed our economic life assumptions or residual values, or both, for certain aircraft types to reflect changes in market conditions. More specifically, for Airbus A319 aircraft we shortened our economic useful life assumption from 25 years to 22.5 years resulting from what we believe to be a long-term reduction in demand for this lower-capacity variant of the A320 family of aircraft. For classic and less fuel efficient narrow-body aircraft consisting of Boeing Model 737-300 and -400 aircraft as well as Airbus A320-200 aircraft with previous generation engines, we reduced our end of life residual value assumptions to reflect weaker market demand and lease rate conditions. As a result of these changes to our estimates, we expect our future annual depreciation expense for the aircraft noted above will be \$3.3 million higher in total than our previous estimates.

At December 31, 2011, we had a total of 27 aircraft, including those aircraft mentioned in the preceding paragraph, with a total net book value of \$394.0 million (accounting for 9.0% of the total net book value of our flight equipment held for lease), that we consider more susceptible to failing our recoverability assessment. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values. These aircraft fall primarily into a few categories as shown in the table below:

Aircraft Type	Number of Aircraft	Percent of Net Book Value
A319-100	5	2.1%
A320-200/737-300/737-400	12	2.3%
767-300ER	8	3.7%
Other (757-200/MD-11F)	2	1.0%

We see continued demand for Boeing Model 767-300ER aircraft, but we also anticipate a greater probability that lease rates will soften in time as a result of the continuing success of the Airbus A330 program and as production of the Boeing 787 production eventually ramps up. As such, we believe demand for these aircraft will become more sensitive to changes in economic conditions.

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**Table of Contents**

**APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with US GAAP, which requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Our estimates and assumptions are based on historical experiences and currently available information. Actual results may differ from such estimates under different conditions, sometimes materially. A summary of our significant accounting policies is presented in the notes to our consolidated financial statements included elsewhere in this Annual Report. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and require our most subjective judgments, estimates and assumptions. Our most critical accounting policies and estimates are described below.

**Lease Revenue Recognition**

Our operating lease rentals are recognized on a straight-line basis over the term of the lease. We will neither recognize revenue nor record a receivable from a customer when collectability is not reasonably assured. Estimating whether collectability is reasonably assured requires some level of subjectivity and judgment. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received. Management determines whether customers should be placed on non-accrual status. When we are reasonably assured that payments will be received in a timely manner, the customer is placed on accrual status. The accrual/non-accrual status of a customer is maintained at a level deemed appropriate based on factors such as the customer's credit rating, payment performance, financial condition and requests for modifications of lease terms and conditions. Events or circumstances outside of historical customer patterns can also result in changes to a customer's accrual status.

**Maintenance Payments and Maintenance Revenue**

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which would normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges; certain taxes, licenses, consents and approvals; aircraft registration; and insurance premiums. Typically, our aircraft are subject to net operating leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease, and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the credit-worthiness of our lessees and the occurrence of delinquencies, restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we do not recognize maintenance revenue during the lease. Maintenance revenue recognition would

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## **Table of Contents**

occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

### **Lease Incentives and Amortization**

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability, which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

### **Flight Equipment Held for Lease and Depreciation**

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25 year life from the date of manufacture for passenger aircraft and over a 30- to 35- year life for freighter aircraft, depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% - 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:

flight equipment where estimates of the manufacturer's realized sales prices are not relevant (e.g., freighter conversions);

flight equipment where estimates of the manufacturers' realized sales prices are not readily available; and

flight equipment which may have a shorter useful life due to obsolescence.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated utilization of the aircraft. As part of our due diligence review of each aircraft we purchase, we prepare an estimate of the expected maintenance payments and any excess costs which may become payable by us, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

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**Table of Contents**

When we acquire an aircraft with a lease, determining the fair value of the attached lease requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

**Impairment of Flight Equipment**

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, indicate that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant air traffic decline, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See further discussion under Fair Value Measurements below.

Management develops the assumptions used in the recoverability analysis based on its knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and many of the risk factors discussed in Item 1A. Risk Factors.

**Derivative Financial Instruments**

In the normal course of business we utilize derivative instruments to manage our exposure to interest rate risks. All interest rate derivatives are recognized on the balance sheet at their fair value. We determine fair value for our United States dollar-denominated interest rate derivatives by calculating reset rates and discounting cash flows based on cash rates, futures rates and swap rates in effect at the period close. We determine the fair value of our United States dollar-denominated guaranteed notional balance interest rate derivatives based on the upper notional band using cash flows discounted at relevant market interest rates in effect at the period close. The changes in fair values related to the effective portion of the interest rate derivatives are recorded in other comprehensive income on our consolidated balance sheet. The ineffective portion of the interest rate derivative is calculated and recorded in interest expense on our consolidated statement of income at each quarter end. For any interest rate derivatives not designated as a hedge, all mark-to-market adjustments are recognized in other income (expense) on our consolidated statement of income.

At inception of the hedge, we choose a method to assess effectiveness and to calculate ineffectiveness, which we must use for the life of the hedge relationship. Historically, we have designated the change in variable cash flows method for calculation of hedge ineffectiveness. This methodology, which is only available for interest rate derivatives designated at execution with a fair value of zero, involves a comparison of the present value of the cumulative change in the expected future cash flows on the variable leg of the interest rate derivative against the present value of the cumulative change in the expected future interest cash flows on the floating-rate liability. When the change in the interest rate derivative's variable leg exceeds the change in the liability, the calculated ineffectiveness is recorded in interest expense on our consolidated statement of income. Effectiveness is tested by dividing the change in the interest rate derivative's variable leg by the change in the liability.

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## **Table of Contents**

We used the hypothetical trade method for hedge relationships designated after execution because those hedge relationships did not have an interest rate derivative fair value of zero, and therefore, did not qualify for the change in variable cash flow method. The hypothetical trade method involves a comparison of the change in the fair value of an actual interest rate derivative to the change in the fair value of a hypothetical interest rate derivative with critical terms that reflect the hedged debt. When the change in the value of the interest rate derivative exceeds the change in the hypothetical interest rate derivative, the calculated ineffectiveness is recorded in interest expense on our consolidated statement of income. The effectiveness of these relationships is tested by regressing historical changes in the interest rate derivative against historical changes in the hypothetical interest rate derivative.

### **Fair Value Measurements**

We measure the fair value of interest rate derivative assets and liabilities on a recurring basis. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our valuation model for interest rate derivatives classified in level 2 maximizes the use of observable inputs, including contractual terms, interest rate curves, cash rates and futures rates and minimizes the use of unobservable inputs, including an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets, an evaluation of the Company's credit risk in valuing derivative liabilities and an assessment of market risk in valuing the derivative asset or liability. We use our interest rate derivative counterparty's valuation of our interest rate derivatives to validate our models. Our interest rate derivatives are sensitive to market changes in LIBOR as discussed in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our valuation model for interest rate derivatives classified in Level 3 includes a significant unobservable market input to value the option component of the guaranteed notional balance. The guaranteed notional balance has an upper notional band that matches the hedged debt on Term Financing No. 1 and a lower notional band. The notional balance is guaranteed to match the hedged debt balance if the debt balances decrease within the upper and lower notional band. The range of the guaranteed notional between the upper and lower band represents an option that may not be exercised independently of the debt notional balance. The fair value of the interest rate derivative is determined based on the upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close and incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets, an evaluation of the Company's credit risk in valuing derivative liabilities and an assessment of market risk in valuing the derivative asset or liability.

We also measure the fair value of aircraft on a non-recurring basis when US GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of aircraft may not be recoverable. We principally use the income approach to measure the fair value of these assets. The income approach is based on the present value of cash flows from contractual lease agreements and projected future lease payments, net of expenses, which extend to the end of the aircraft's economic life in its highest and best use configuration, as well as a disposal value based on expectations of market participants.

### **Income Taxes**

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

**Table of Contents****RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS**

In August 2010, the Financial Accounting Standards Board ( FASB ) issued an exposure draft, *Leases* (the Lease ED ), which would replace the existing guidance in the Accounting Standards Codification ( ASC ) 840 ( ASC 840 ), *Leases*. Under the Lease ED, a lessor would be required to adopt a right-of-use model where the lessor would apply one of two approaches to each lease based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. In July 2011, the FASB tentatively decided on a new model for lessor accounting that would require a single approach for all leases, with a few exceptions. Under the new model, a lease receivable would be recognized for the lessor's right to receive lease payments, a portion of the carrying amount of the underlying asset would be allocated between the right of use granted to the lessee and the lessor's residual value and profit or loss would only be recognized at commencement if it is reasonably assured. Even though the FASB has not completed all of its deliberations, the decisions made to date were sufficiently different from those published in the Lease ED issued in August 2010. As a result, the FASB decided to re-expose the ED in the first half of 2012. We anticipate that the final standard may have an effective date no earlier than 2016. When and if the proposed guidance becomes effective, it may have a significant impact on the Company's consolidated financial statements. Although we believe the presentation of our financial statements, and those of our lessees could change, we do not believe the accounting pronouncement will change the fundamental economic reasons for which the airlines lease aircraft. Therefore, we do not believe it will have a material impact on our business.

In May 2011, the FASB issued Accounting Standards Update ( ASU ) 2011-04 ( ASU 2011-04 ), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The amendments in this update change the wording used to describe the requirements in US GAAP for measuring fair value and for disclosing information about fair value measurements which include (1) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, and (2) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 will not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 ( ASU 2011-05 ), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which was adopted by the Company effective December 31, 2011. In October 2011, the FASB proposed a partial deferral of the new requirement. This proposal was then finalized in December 2011 in ASU 2011-12 ( ASU 2011-12 ) *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This ASU defers the ASU 2011-05 requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income ( AOCI ) in both net income and other comprehensive income ( OCI ) on the face of the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. This deferral, however, does not change the requirement to present items of net income, other comprehensive income and total comprehensive income in either a single continuous or two consecutive statements. Reclassifications out of AOCI are to be presented either on the face of the financial statement in which OCI is presented or it can be disclosed in the footnotes to the financial statements. The FASB expects to complete a project to reconsider the presentation requirement for reclassification adjustments in 2012. The deferral allows the FASB time to further research the matter. The effective date of ASU 2011-12 is consistent with the effective date of ASU 2011-05 which is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied retrospectively.



**Table of Contents**

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity currently are cash on hand, cash generated by our aircraft leasing operations, loans secured by new aircraft we acquire and unsecured borrowings. Our business is very capital intensive, requiring significant investments in order to expand our fleet during periods of growth and investments in maintenance and improvements on our existing portfolio. Our business also generates a significant amount of cash from operations, primarily from lease rentals and maintenance collections. These sources have historically provided liquidity for these investments and for other uses, including the payment of dividends to our shareholders. In the past, we have also met our liquidity and capital resource needs by utilizing several sources, including:

lines of credit, our securitizations, term financings, secured borrowings supported by export credit agencies for new aircraft acquisitions and bank financings secured by aircraft purchases;

unsecured indebtedness, including an unsecured revolving credit facility and unsecured senior notes;

public offerings of common shares; and

asset sales.

Going forward, we expect to continue to seek liquidity from these sources subject to pricing and conditions that we consider satisfactory. In addition, we have a \$50.0 million senior unsecured revolving credit facility with Citigroup Global Markets Inc., which has a three-year term scheduled to expire in September 2013; we have not yet drawn down on this facility.

During the fourth quarter of 2011, we secured financing in the form of bank term loans in the aggregate amount of \$126.0 million in connection with the purchase of a Boeing Model 777-300ER aircraft and two MD-11F freighter aircraft. Also, in December 2011, we issued an additional \$150.0 million aggregate principal amount of unsecured 9.75% Senior Notes due 2018 at a premium with 9.00% yield to worst and used the proceeds for general corporate purposes, including the purchase of aviation assets.

Under the terms of Securitization No. 1 effective June 15, 2011, all cash flows available after expenses and interest are applied to debt amortization. We expect that debt amortization payments over the next twelve months will be approximately \$45.5 million dollars, excluding debt repayments from asset sales of \$5.4 million, as compared to \$28.0 million over the twelve months ended December 31, 2011.

Under the terms of Securitization No. 2, effective June 8, 2012 all cash flows available after expenses and interest will be applied to debt amortization. We expect that debt amortization payments, excluding repayments from asset sales, over the next twelve months will be approximately \$79.8 million, excluding debt repayments from asset sales of \$15.2 million, compared to \$41.6 million, excluding debt repayments from asset sales of \$64.7 million, made over the twelve months ended December 31, 2011. Further, for this financing, we recently entered into a forward starting interest rate swap arrangement to hedge approximately 75% of the expected future debt balance beginning in June 2012 at an average rate of 1.27%, which is approximately 400 basis points lower than the existing swap which expires in June 2012.

The net book value of our flight equipment held for lease unencumbered by financings has grown to \$676.9 million as of December 31, 2011. We believe the cash flow contribution for this asset base, together with the cash flow contribution from our delivered New A330 Aircraft and from Term Financing No. 1, will provide sufficient amounts of cash flow to meet our liquidity needs and near-term growth objectives.

While the financing structures for our securitizations and certain of our term financings include liquidity facilities, these liquidity facilities are primarily designed to provide short-term liquidity to enable the financing vehicles to remain current on interest payments during periods when the relevant entities incur substantial unanticipated expenditures. Because these facilities have priority in the payment waterfall and therefore must be repaid quickly, and because we do not anticipate being required to draw on these facilities to cover operating expenses, we do not view these liquidity facilities as an important source of liquidity for us.

**Table of Contents**

As of December 31, 2011, we are in compliance with all applicable covenants in our financings.

During 2011, the Company's Board of Directors authorized the repurchase of up to \$90.0 million of the Company's common shares. At December 31, 2011, we repurchased approximately 7.6 million shares at a total cost of \$90.0 million including commissions, completing the share repurchases to the authorized amounts.

In addition, as of December 31, 2011, we expect capital expenditures and lessee maintenance payment draws on our aircraft portfolio during 2012 to be approximately \$130.0 million to \$140.0 million, excluding purchase obligation payments and freighter conversion payments, and we expect maintenance collections from lessees on our owned aircraft portfolio to be approximately \$130.0 million to \$140.0 million over the next twelve months. There can be no assurance that the capital expenditures, our contributions to maintenance events and lessee maintenance payment draws described above will not be greater than expected or that our expected maintenance payment collections or disbursements will equal our current estimates.

We believe that cash on hand, funds generated from operations, maintenance payments received from lessees, and proceeds from any future contracted aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include, payments due under our other aircraft purchase commitments, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment draws and lease incentive payments over the next twelve months.

**Cash Flows**

	Year Ended December 31, 2009	Year Ended December 31, 2010	Year Ended December 31, 2011
		(Dollars in thousands)	
Net cash flow provided by operating activities	\$ 327,641	\$ 356,530	\$ 359,377
Net cash flow used in investing activities	(269,434)	(541,115)	(445,420)
Net cash flow provided by financing activities	3,512	281,876	141,608

*Operating Activities:*

Cash flow from operations was \$359.4 million and \$356.5 million for the years ended December 31, 2011 and 2010, respectively. The increase in cash flow from operations of approximately \$2.8 million for the year ended December 31, 2011 versus the same period in 2010 was primarily a result of:

a \$48.4 million increase in cash from lease rentals.

This increase was offset by:

a \$26.3 million increase in cash paid for interest and

a \$18.3 million decrease in cash from other working capital.

Cash flow from operations was \$356.5 million in 2010 as compared to \$327.6 million in 2009. The increase in cash flow from operations of approximately \$28.9 million for the year ended December 31, 2010 versus the same period in 2009 was primarily a result of:

a \$19.6 million increase in cash from lease rental revenue;

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a \$16.4 million increase in cash from working capital, of which \$12.8 million relates to accrued interest for our Notes which will be paid in February 2011; and

a \$9.0 million increase in cash from a decrease in cash payments for interest.  
This increase was offset partially by:

a \$12.4 million decrease in cash from end of lease maintenance revenue and

\$1.7 million of cash from an increase in cash payments for taxes.

**Table of Contents**

*Investing Activities:*

Cash used in investing activities was \$445.4 million and \$541.1 million for the years ended December 31, 2011 and 2010, respectively. The decrease in cash flow used in investing activities of \$95.7 million for the year ended December 31, 2011 versus the same period in 2010 was primarily a result of:

a \$420.6 million increase in proceeds from the sale of flight equipment.

This increase was offset by:

a \$311.2 million increase in the acquisition and improvement of flight equipment.

Cash used in investing activities was \$541.1 million in 2010 as compared to \$269.4 million in 2009. The increase in cash flow used in investing activities of \$271.7 million for the year ended December 31, 2010 versus the same period in 2009, was primarily a result of:

a \$250.4 million increase in the acquisition and improvement of flight equipment;

a \$61.1 million increase in purchase deposits under our Airbus A330 Agreement; and

\$17.2 million lower proceeds from the sale of and principal payments on our debt investments, as we had sold all of our debt investments by the end of 2009.

This increase was offset partially by:

\$57.0 million higher proceeds from the sale of flight equipment.

*Financing Activities:*

Cash provided by financing activities was \$141.6 million and \$281.9 million for the years ended December 31, 2011 and 2010, respectively. The net decrease in cash flow provided by financing activities of \$140.3 million for the year ended December 31, 2011 versus the same period in 2010 was a result of:

\$89.9 million of increased repurchases of our common shares;

\$86.4 million of higher financing repayments on our securitizations and term debt financings;

\$43.4 million of lower restricted cash and cash equivalents related to security deposits and maintenance payments;

\$40.2 million of lower maintenance payments received net of maintenance payments returned;

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\$13.3 million of higher dividend payments; and

\$4.8 million in additional deferred financing costs.

The outflows were offset partially by:

\$121.3 million of higher proceeds from term debt financings and

\$12.7 million of higher security deposits received net of security deposits returned.

Cash flow from financing activities was \$281.9 million in 2010 as compared to \$3.5 million in 2009. The net increase in cash flow from financing activities of \$278.4 million for the year ended December 31, 2010 versus the same period in 2009 was a result of:

\$405.5 million of higher proceeds from notes and term debt financings;

\$45.2 million of higher restricted cash and cash equivalents related to security deposits and maintenance payments; and

\$27.8 million of higher maintenance payments received net of maintenance payments returned.

**Table of Contents**

The inflows were offset partially by:

\$150.6 million of higher financing repayments on our securitizations and term debt financings;

\$37.7 million of lower security deposits received net of deposits returned; and

a \$9.2 million increase in deferred financing costs.

**Debt Obligations**

The following table provides a summary of our secured and unsecured debt financings at December 31, 2011:

Debt Obligation	Collateral	Outstanding Borrowing (Dollars in thousands)	Number of Aircraft	Interest Rate <sup>(1)</sup>	Final Stated Maturity <sup>(2)</sup>
<b>Secured Debt Financings:</b>					
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	\$ 387,124	33	0.55%	06/20/31
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	891,452	46	0.54%	06/14/37
Term Financing No. 1	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	595,076	27	2.03%	05/02/15
ECA Term Financings		536,107	8	2.65%	12/31/21
	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests			to 3.96%	to 07/13/23
Bank Financings		126,000	3	4.22%	09/15/15 to 10/26/17
	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests			to 4.57%	
<b>Total secured debt financings</b>		<b>2,535,759</b>			
<b>Unsecured Debt Financings:</b>					
Senior Notes due 2018	None	450,757		9.75%	08/01/18
2010 Revolving Credit Facility	None			N/A	09/28/13
<b>Total unsecured debt financings</b>		<b>450,757</b>			

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Total secured and unsecured debt financings	\$	2,986,516
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- (1) Reflects floating rate in effect at the most recent applicable reset date, except for the ECA Term Financings and the 2010-1 Notes, which are fixed rate.
- (2) Effective June 2011 for Securitization No. 1, all cash flows available after expenses and interest is applied to debt amortization. For Securitization No. 2 and Term Financing No. 1, all cash flows available after expenses and interest will be applied to debt amortization, if the debt is not refinanced by June 2012 and May 2013, respectively.

**Table of Contents**

The following securitizations and term debt financing structures include liquidity facility commitments described in the table below:

Facility	Liquidity Facility Provider	Available Liquidity		Unused Fee	Interest Rate on any Advances
		December 31, 2010 (Dollars in thousands)	December 31, 2011		
Securitization No. 1	Crédit Agricole Corporate and Investment Bank <sup>(1)</sup>	\$ 42,000	\$ 42,000	0.45%	1M Libor + 1.00%
Securitization No. 2	HSH Nordbank AG <sup>(2)</sup>	74,828	66,859	0.50%	1M Libor + 0.75%
Term Financing No. 1	Crédit Agricole Corporate and Investment Bank <sup>(3)</sup>	12,864	11,902	0.60%	1M Libor + 1.20%

- (1) Following a ratings downgrade with respect to the liquidity facility provider in June 2011, the liquidity facility was drawn, and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. Amounts drawn following a ratings downgrade with respect to the liquidity facility provider do not bear interest; however, net investment earnings will be paid to the liquidity facility provider, and the unused fee continues to apply.
- (2) Following a ratings downgrade with respect to the liquidity facility provider in May 2009, the liquidity facility was drawn, and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. Amounts drawn following a ratings downgrade with respect to the liquidity facility provider do not bear interest; however, net investment earnings will be paid to the liquidity facility provider, and the unused fee continues to apply.
- (3) There is no ratings threshold for the liquidity facility provider under Term Financing No. 1, and, accordingly, the ratings change referred to in footnote (1) above did not trigger a liquidity facility drawing in relation to Term Financing No. 1.
- The purpose of these facilities is to provide liquidity for the relevant securitization or term financing in the event that cash flow from lease contracts and other revenue sources is not sufficient to pay operating expenses with respect to the relevant aircraft portfolio, interest payments and interest rate hedging payments for the relevant securitization or term debt financings. These liquidity facilities are generally 364-day commitments of the liquidity provider and may be extended prior to expiry. If a facility is not extended, or in certain circumstances if the short-term credit rating of the liquidity provider is downgraded, the relevant securitization or term financing documents require that the liquidity facility is drawn and the proceeds of the drawing placed on deposit so that such amounts may be available, if needed, to provide liquidity advances for the relevant securitization or term financing. Downgrade or non-extension drawings are generally not required to be repaid to the liquidity facility provider until 15 days after final maturity of the securitization or term financing debt. In the case of the liquidity facilities for Securitization No. 2 and Term Financing No. 1, the required amount of the facilities reduce over time as the principal balance of the debt amortizes, with the Securitization No. 2 liquidity facility having a minimum required amount of \$65.0 million.

**Secured Debt Financings:***Securitization No. 1*

On June 15, 2006, we completed our first securitization, a \$560.0 million transaction comprised of 40 aircraft and related leases ( Securitization No. 1) . Securitization No. 1 is neither an obligation of, nor guaranteed by, Aircastle Limited. Under the terms of Securitization No. 1, effective June 15, 2011, all cash flows available after expenses and interest were applied to debt amortization.



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**Table of Contents**

*Securitization No. 2*

On June 8, 2007, we completed our second securitization, a \$1.17 billion transaction comprising 59 aircraft and related leases ( Securitization No. 2 ). Securitization No. 2 is neither an obligation of, nor guaranteed by, Aircastle Limited. Under the terms of Securitization No. 2, effective June 8, 2012 all cash flows available after expenses and interest will be applied to debt amortization.

The terms of Securitization No. 2 require the ACS 2 Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS 2 Group s compliance with these covenants depends substantially upon the timely receipt of lease payments from its lessees. In particular, during the first five years from issuance, Securitization No. 2 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 60.6% of an assumed value of the aircraft securing the ACS 2 Notes, reduced over time by an assumed amount of depreciation. If the debt service coverage ratio requirement of 1.70 is not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of Securitization No. 2 (beginning June 8, 2010), all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

*Term Financing No. 1*

On May 2, 2008 we entered into a seven year, \$786.1 million term debt facility ( Term Financing No. 1 ) to finance a portfolio of 28 aircraft. The loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on May 2, 2015. Under the terms of Term Financing No. 1, effective May 2, 2013 all cash flows available after expenses and interest will be applied to debt amortization.

Term Financing No. 1 requires compliance with certain financial covenants in order to continue to receive excess cash flows, including the maintenance of loan to value and debt service coverage ratios. If the loan to value ratio exceeds 75%, all excess cash flows will be applied to prepay the principal balance of the loans until such time as the loan to value ratio falls below 75%. In addition, debt service coverage must be maintained at a minimum of 1.32. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates, all excess cash flows will thereafter be applied to prepay the principal balance of the loans until such time as the debt service coverage ratio exceeds the minimum level. Compliance with these covenants depends substantially upon the appraised value of the aircraft securing Term Financing No. 1 and the timely receipt of lease payments from their lessees. We refer to any prepayments of principal following noncompliance with the loan to value or debt service coverage ratios as Supplemental Principal Payments .

A maintenance-adjusted appraisal of Term Financing No. 1 Portfolio must be completed each year, before a date in early May by a specified appraiser. To determine the maintenance-adjusted values, the appraiser applies upward or downward adjustments of its half-life current market values for the aircraft in the Term Financing No. 1 Portfolio based upon the maintenance status of the airframe, engines, landing gear and auxiliary power unit ( APU ) and applies certain other upward or downward adjustments for equipment and capabilities and for utilization. Compliance with the loan to value ratio is measured each month by comparing the 75% minimum ratio against the most recently completed maintenance-adjusted appraised value, less 0.5% for each month since such appraisal was provided to the lenders, plus 75% of the cash maintenance reserve balance held on deposit for the Term Financing No. 1 Portfolio. In June 2010, we amended the loan documents for Term Financing No. 1 so that 75% of the stated amount of qualifying letters of credit held for maintenance events would be taken into account in the loan to value test. Noncompliance with the loan to value ratio will require us to make Supplemental Principal Payments but will not by itself result in a default under Term Financing No. 1.

In February 2012, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we expect to be in compliance with the loan to value ratio on the March 2012 payment date and for the next twelve months.

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**Table of Contents**

*ECA Term Financings*

In 2010, we entered into two twelve-year term loans which are supported by guarantees from Compagnie Francaise d Assurance pour le Commerce Extérieur ( COFACE ) for the financing of two new Airbus Model A330-200 aircraft totaling \$138.3 million. During 2011, we entered into five twelve-year term loans which are supported by guarantees from COFACE for the financing of five new Airbus Model A330-200 aircraft totaling \$359.4 million. In 2011, we repaid in full the outstanding principal balance on one of our ECA term financings in the amount of \$61.6 million. We refer to these COFACE-supported financings as ECA Term Financings . The borrowings under these financings at December 31, 2011 have a weighted average fixed rate of interest equal to 3.314%.

The obligations outstanding under the ECA Term Financings are secured by, among other things, a mortgage over the aircraft and a pledge of our ownership interest in our subsidiary company that leases the aircraft to the operator. The ECA Term Financings documents contain a \$500.0 million minimum net worth covenant for Aircastle Limited, as well as a material adverse change default and cross default to any other recourse obligation of Aircastle Limited, and other terms and conditions customary for ECA-supported financings being completed at this time. In addition, Aircastle Limited has guaranteed the repayment of the ECA Term Financings.

*Bank Financings*

In October 2011, one of our subsidiaries entered into a \$90.0 million loan facility to finance a portion of the purchase of a Boeing Model 777-300ER aircraft. The loan is to be repaid in 24 equal quarterly principal installments beginning January 26, 2012 and a balloon payment of \$50.0 million on the final repayment date of October 26, 2017.

In December 2011, two of our subsidiaries each entered into \$18.0 million loan facilities to finance the purchase of two McDonnell Douglas MD-11F freighter aircraft. The loans are to be repaid over 45 and 47 months, respectively, in principal installments beginning January 15, 2012 and ending on September 15, 2015 and November 15, 2015, respectively.

We refer to these loan facilities as Bank Financings . Our Bank Financings contain, among other customary provisions, a \$500,000 minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender. In addition, Aircastle Limited has guaranteed the repayment of the Bank Financings. The borrowings under these financings at December 31, 2011 have a weighted average fixed rate of interest equal to 4.315%.

**Unsecured Debt Financings:**

*Senior Notes due 2018*

On July 30, 2010, Aircastle Limited issued \$300.0 million aggregate principal amount of 9.75% Senior Notes due 2018 (the 2010-1 Notes ), pursuant to an Indenture, dated as of July 30, 2010 (the Original Indenture ), between Aircastle Limited and Wells Fargo Bank, National Association, as trustee. The Existing Notes were issued at 98.645% of par for an effective interest rate of 10.00% and were offered only to qualified institutional buyers and buyers outside the United States in accordance with Rule 144A and Regulation S, respectively, under the Securities Act of 1933. On September 24, 2010, the 2010-1 Notes were registered by the Company with the U.S. Securities Exchange Commission and in October 2010 we completed the exchange of all outstanding unregistered 2010-1 Notes. The registered notes have terms that are substantially identical to the privately placed notes. The 2010-1 Notes will mature on August 1, 2018 and bear interest at the rate of 9.75% per annum, payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2011 to holders of record on the immediately preceding January 15 and July 15.

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**Table of Contents**

On December 9, 2011, we issued an additional \$150.0 million aggregate principal amount of 9.75% Senior Notes due 2018 ( 2011-1 Notes ) and, together with the 2010-1 Notes, the Senior Notes due 2018 ), pursuant to the Original Indenture, as supplemented by the First Supplemental Indenture, dated as of December 9, 2011, between Aircastle Limited and Wells Fargo Bank, National Association, as trustee. The 2011-1 Notes were issued at 102.769% of par, for a yield to worst of 9.00%, and were offered only to qualified institutional buyers and buyers outside the United States in accordance with Rule 144A and Regulation S, respectively, under the Securities Act of 1933.

The Company may redeem all or a portion of the Senior Notes due 2018 at any time on or after August 1, 2014 at a premium decreasing ratably to zero, plus accrued and unpaid interest. In addition, prior to August 1, 2013 the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes due 2018 with the net cash proceeds of certain equity offerings at a redemption price equal to 109.75%, plus accrued and unpaid interest. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2018 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2018 are the Company's unsecured senior obligations and rank equally in right of payment with all of the Company's existing and future senior debt and rank senior in right of payment to all of the Company's existing and future subordinated debt. The Senior Notes due 2018 are effectively junior in right of payment to all of the Company's existing and future secured debt to the extent of the assets securing such debt and to any existing and future liabilities of the Company's subsidiaries. The Senior Notes due 2018 are not guaranteed by any of the Company's subsidiaries or any third party.

We used a portion of the net proceeds from the 2010-1 Notes to repay all of the outstanding indebtedness under our Term Financing No. 2 and our A330 SLB Facility and for general corporate purposes, including the purchase of aviation assets. We used the proceeds from the 2011-1 Notes for general corporate purposes, including the purchase of aviation assets.

*2010 Revolving Credit Facility*

On September 28, 2010, the Company entered into a three-year \$50.0 million senior unsecured revolving credit facility with a group of banks (the 2010 Revolving Credit Facility ). The 2010 Revolving Credit Facility provides loans in amounts up to \$50.0 million for working capital and other general corporate purposes. We have not drawn on the 2010 Revolving Credit Facility.

**Contractual Obligations**

Our contractual obligations consist of principal and interest payments on variable and fixed rate liabilities, interest payments on interest rate derivatives, other aircraft acquisition and conversion agreements and rent payments pursuant to our office leases. Total contractual obligations decreased from \$3.82 billion at December 31, 2010 to approximately \$3.75 billion at December 31, 2011 due primarily to:

principal and interest payments made under our securitizations, term financings and our A330 PDP Facility and

lower variable interest rates and payments made under our purchase obligations.

These decreases were partially offset by:

an increase in borrowings under our ECA Term Financings and Senior Notes due 2018.

**Table of Contents**

The following table presents our actual contractual obligations and their payment due dates as of December 31, 2011.

Contractual Obligations	Total	Payments Due By Period as of December 31, 2011			
		Less than 1 year	1-3 years (Dollars in thousands)	3-5 years	More than 5 years
<b>Principal payments:</b>					
Senior Notes due 2018 <sup>(1)</sup>	\$ 450,000	\$	\$	\$	\$ 450,000
Securitization No. 1 <sup>(2)</sup>	387,124	50,891	116,793	134,202	85,238
Securitization No. 2 <sup>(3)</sup>	891,452	95,018	287,821	281,913	226,700
Term Financing No. 1 <sup>(4)</sup>	595,076	47,750	162,719	384,607	
ECA Term Financings <sup>(5)</sup>	536,107	40,319	84,822	90,707	320,259
Bank Financings <sup>(6)</sup>	126,000	13,250	27,479	28,604	56,667
<b>Total principal payments</b>	<b>2,985,759</b>	<b>247,228</b>	<b>679,634</b>	<b>920,033</b>	<b>1,138,864</b>
<b>Interest payments:</b>					
Interest payments on debt obligations <sup>(7)</sup>	475,573	85,481	157,335	127,415	105,342
Interest payments on interest rate derivatives <sup>(8)</sup>	173,172	65,723	74,895	31,898	656
<b>Total interest payments</b>	<b>648,745</b>	<b>151,204</b>	<b>232,230</b>	<b>159,313</b>	<b>105,998</b>
Office leases <sup>(9)</sup>	1,388	1,035	202	151	
Purchase obligations <sup>(10)</sup>	116,249	116,249			
<b>Total</b>	<b>\$ 3,752,141</b>	<b>\$ 515,716</b>	<b>\$ 912,066</b>	<b>\$ 1,079,497</b>	<b>\$ 1,244,862</b>

(1) Includes scheduled balloon payment on August 1, 2018.

(2) Effective June 2011, estimated principal payments for this non-recourse financing are based on excess cash flows available from forecasted lease rentals, net maintenance funding and proceeds from asset disposition after the payment of forecasted operating expenses and interest payments, including interest payments on existing swap agreements and policy provider fees.

(3) For this non-recourse financing, includes principal payments based on amortization schedules so that the loan to assumed aircraft values are held constant through the June 2012 payment date; thereafter, estimated principal payments for this financing are based on excess cash flows available from forecasted lease rentals, net maintenance funding and proceeds from asset disposition after the payment of forecasted operating expenses and interest payments, including interest payments on existing swap agreements and policy provider fees. Payments due in less than one year include repayments of \$15.2 million related to contracted sales of two aircraft in 2011.

(4) Includes scheduled principal payments through May 2013, after which all excess cash flow is required to reduce the principal balances of the indebtedness until maturity in May 2015.

(5) Includes scheduled principal payments based upon fixed rate, 12-year, fully amortizing loans.

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- (6) Includes principal payments based upon individual loan amortization schedules.
- (7) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at December 31, 2011.
- (8) Future interest payments on derivative financial instruments are estimated using the spread between the floating interest rates and the fixed interest rates in effect at December 31, 2011.
- (9) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.
- (10) At December 31, 2011, we had aircraft purchase agreements and freighter conversion agreements, including the acquisition of one New A330 Aircraft from Airbus.

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## **Table of Contents**

### **Capital Expenditures**

We make capital expenditures from time to time in connection with improvements made to our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the years ended December 31, 2009, 2010 and 2011, we incurred a total of \$49.3 million, \$46.5 million and \$44.0 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of December 31, 2011, the weighted average age (by net book value) of our aircraft was approximately 10.9 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Under our leases, the lessee is primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft, or a lessee fails to meet its maintenance obligations under the lease agreement. At December 31, 2011, we had a \$347.1 million maintenance payment liability on our balance sheet, which is a \$4.8 million increase from December 31, 2010. The increase primarily consisted of net maintenance cash inflows of \$2.9 million and lease incentive liabilities of \$1.9 million. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. Risk Factors Risks Related to Our Business Risks related to our leases *If lessees are unable to fund their maintenance obligations on our aircraft, our cash flow and our ability to meet our debt obligations or to pay dividends on our common shares could be adversely affected.*

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2011.

### **Foreign Currency Risk and Foreign Operations**

At December 31, 2011, all of our leases are payable to us in U.S. dollars. However, we incur Euro- and Singapore dollar-denominated expenses in connection with our subsidiary in Ireland and branch office in Singapore. For the year ended December 31, 2011, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$9.1 million in U.S. dollar equivalents and represented approximately 19.8% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the years ended December 31, 2009, 2010 and 2011, we incurred insignificant net gains and losses on foreign currency transactions.

### **Hedging**

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate derivatives to hedge the current and expected

**Table of Contents**

future interest rate payments on our variable rate debt. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment.

We held the following interest rate derivatives as of December 31, 2011:

Hedged Item	Current Notional Amount	Effective Date	Maturity Date	Derivative Liabilities			Balance Sheet Location	Fair Value
				Future Maximum Notional Amount (Dollars in thousands)	Floating Rate	Fixed Rate		
<b>Interest rate derivatives designated as cash flow hedges:</b>								
<b>Currently in effect:</b>								
Securitization No. 1	\$ 372,430	Jun-06	Jun-16	\$ 372,430	1M LIBOR + 0.27%	5.78%	Fair value of derivative liabilities	\$ 59,936
Securitization No. 2	942,879	Jun-07	Jun-12	942,879	1M LIBOR	5.25%	Fair value of to derivative liabilities	20,403
						5.36%		
Term Financing No. 1	539,124	Jun-08	May-13	539,124	1M LIBOR	4.04%	Fair value of derivative liabilities	24,185
Total interest rate derivatives currently in effect	\$ 1,854,433			\$ 1,854,433				104,524
<b>Forward starting:</b>								
Securitization No. 2		Jun-12	Jun-17	\$ 645,543	1M LIBOR	1.26%	Fair value of to derivative liabilities	5,071
						1.28%		
Term Financing No. 1	\$	May-13	May-15	477,838	1M LIBOR	5.31%	Fair value of derivative liabilities	32,044
Total forward starting interest rate derivatives	\$			\$ 1,123,381				37,115
Total interest rate derivative liabilities								\$ 141,639

The weighted average interest pay rates of these derivatives at December 31, 2009, 2010 and 2011 were 4.91%, 5.01% and 5.03%, respectively.

In September 2011, we entered into a series of interest rate forward contracts with a combined notional amount of \$645.5 million. These forward starting interest rate derivatives are hedging the variable rate interest payments related to Securitization No. 2 for the period June 2012 through June 2017. These interest rate derivatives were designated at inception as cash flow hedges for accounting purposes.

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For the year ended December 31, 2011, the amount of loss reclassified from accumulated other comprehensive income ( OCI ) into interest expense related to net interest settlements on active interest rate derivatives was \$90.1 million. The amount of loss expected to be reclassified from OCI into interest expense over the next 12 months related to net interest settlements on active interest rate derivatives is \$57.9 million.

Our interest rate derivatives involve counterparty credit risk. As of December 31, 2011, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA, HSH Nordbank AG and Wells Fargo Bank NA. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of Baa2 or above) by Moody's Investors Service. All are



**Table of Contents**

also considered investment grade (long-term foreign issuer ratings of A- or above) by Standard and Poor's, except HSH Nordbank AG, which is not rated. We do not anticipate that any of these counterparties will fail to meet their obligations.

In addition to the derivative liability above, another component of the fair value of our interest rate derivatives is accrued interest. As of December 31, 2011, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$5.2 million related to interest rate derivatives designated as cash flow hedges.

Historically, the Company acquired its aircraft using short-term credit facilities and equity. The short-term credit facilities were refinanced by securitizations or term debt facilities secured by groups of aircraft. The Company completed two securitizations and two term financings during the period 2006 through 2008. The Company entered into interest rate derivatives to hedge interest payments on variable rate debt for acquired aircraft as well as aircraft that it expected to acquire within certain future periods. In conjunction with its financing strategy, the Company used interest rate derivatives for periods ranging from 5 to 10 years to fix the interest rates on the variable rate debt that it incurred to acquire aircraft in anticipation of the expected securitization or term debt re-financings.

At the time of each re-financing, the initial interest rate derivatives were terminated and new interest rate derivatives were executed as required by each specific debt financing. At the time of each interest rate derivative termination, certain interest rate derivatives were in a gain position and others were in a loss position. Since the hedged interest payments for the variable rate debt associated with each terminated interest rate derivative were probable of occurring, the gain or loss was deferred in accumulated other comprehensive income (loss) and is being amortized into interest expense over the relevant period for each interest rate derivative.

Prior to the securitizations and term debt financings, our interest rate derivatives typically required us to post cash collateral to the counterparty when the value of the interest rate derivative exceeded a defined threshold. When the interest rate derivatives were terminated and became part of a larger aircraft portfolio financing, there were no cash collateral posting requirements associated with the new interest rate derivative. As of December 31, 2011, we did not have any cash collateral pledged under our interest rate derivatives, nor do we have any existing agreements that require cash collateral postings.

On an ongoing basis, terminated swap notionals are evaluated against debt forecasts. To the extent that interest payments are deemed remote to occur, deferred gains or losses are accelerated into interest expense as applicable. Due to the sale of certain aircraft in 2011 and the resulting repayment of ECA Term Financing debt, amortization of deferred losses was accelerated as noted in the table below.

**Table of Contents**

The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the years ended December 31, 2009, 2010, and 2011:

Hedged Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Fixed Rate %	Termination Date	Deferred (Gain) or Loss Upon Termination	Unamortized Deferred (Gain) or Loss at December 31, 2011	Amount of Deferred (Gain) or Loss Amortized (including Accelerated Amortization) into Interest Expense For the Year Ended December 31,			Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months
								2009	2010	2011	
Securitization No. 1	\$ 400,000	Dec-05	Aug-10	4.61	Jun-06	\$ (12,968)	\$	\$ (3,083)	\$ (1,418)	\$	\$
Securitization No. 1	200,000	Dec-05	Dec-10	5.03	Jun-06	(2,541)		(422)	(297)		
Securitization No. 2	500,000	Mar-06	Mar-11	5.07	Jun-07	(2,687)		(711)	(675)	(122)	
Securitization No. 2	200,000	Jan-07	Aug-12	5.06	Jun-07	(1,850)	(190)	(368)	(350)	(333)	(190)
Securitization No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)	(1,310)	(398)	(348)	(353)	(340)
Term Financing No. 1	150,000	Jul-07	Dec-17	5.14	Mar-08	15,281	7,706	2,055	1,916	1,779	1,641
Term Financing No. 1	440,000	Jun-07	Feb-13	4.88	Partial Mar-08	26,281	5,155	5,989	5,588	5,185	4,784
					Full Jun-08						
Term Financing No. 1	248,000	Aug-07	May-13	5.33	Jun-08	9,888	2,070	2,222	2,677	1,620	1,519
2010-1 Notes	360,000	Jan-08	Feb-19	5.16	Partial Jun-08	23,077	8,842	2,585	1,823	1,328	645
					Full Oct-08						
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Partial Jun-08 Full Dec-08	15,310	9,194	1,291	705	2,538	3,601
ECA Term Financing for New A330 Aircraft	238,000	Jan-11	Apr-16	5.23	Dec-08	19,430	13,924	985	13	4,508 <sup>(1)</sup>	3,755
ECA Term Financing for New A330 Aircraft	238,000	Jul-11	Sep-16	5.27	Dec-08	17,254	9,041	1,285		6,928 <sup>(2)</sup>	2,014
PDP Financing for New A330 Aircraft	203,000	Jun-07	Jan-12	4.89	Dec-08	2,728 <sup>(3)</sup>		1,464			
Total						\$ 106,084	\$ 54,432	\$ 12,894	\$ 9,634	\$ 23,078	\$ 17,429

(1) Includes accelerated amortization of deferred losses in the amount of \$1,839 related to an aircraft sold during the period.

(2) Includes accelerated amortization of deferred losses in the amount of \$6,662 related to the sale of two aircraft during the period.

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(3) The deferred loss for this swap is related to the period prior to de-designation. For the year ended December 31, 2011, the amount of deferred net loss (including \$8.5 million of accelerated amortization driven by aircraft sales in 2011) reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$23.1 million. The amount of deferred net loss expected to be reclassified from OCI into interest expense over the next 12 months related to our terminated interest rate derivatives is \$17.4 million.

**Table of Contents**

The following table summarizes amounts charged directly to the consolidated statement of income for the years ended December 31, 2009, 2010, and 2011 related to our interest rate derivative contracts:

	Year Ended December 31,		
	2009	2010	2011
(Dollars in thousands)			
<b>Interest Expense:</b>			
Hedge ineffectiveness losses	\$ 463	\$ 5,039	\$ (101)
<b>Amortization:</b>			
Accelerated amortization of deferred losses <sup>(1)</sup>	4,924	766	8,508
Amortization of deferred (gains) losses	7,970	8,868	14,570
Total Amortization	12,894	9,634	23,078
Total charged to interest expense	\$ 13,357	\$ 14,673	\$ 22,977
<b>Other Income (Expense):</b>			
Mark to market gains (losses) on undesignated hedges	\$ 959	\$ (860)	\$ (848)
Total charged to other income (expense)	\$ 959	\$ (860)	\$ (848)

(1) For the year ended December 31, 2011, includes accelerated amortization of deferred hedge losses in the amount of \$8,501 related to three aircraft sold in 2011.

**Inflation**

Inflation affects our lease rentals, asset values and costs, including selling, general and administrative expenses and other expenses. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

**Management's Use of EBITDA**

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-US GAAP measure is helpful in identifying trends in our performance.

This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the consolidated financial performance of our business.

**Table of Contents**

The table below shows the reconciliation of net income to EBITDA for the years ended December 31, 2009, 2010 and 2011, respectively.

	Year Ended December 31,		
	2009	2010	2011
	(Dollars in thousands)		
Net income	\$ 102,492	\$ 65,816	\$ 124,270
Depreciation	209,481	220,476	242,103
Amortization of net lease discounts and lease incentives	11,229	20,081	16,445
Interest, net	169,810	178,262	204,150
Income tax provision	8,660	6,596	7,832
 EBITDA	 \$ 501,672	 \$ 491,231	 \$ 594,800

**Management's Use of Adjusted Net Income ( ANI )**

Management believes that ANI when viewed in conjunction with the Company's results under US GAAP and the below reconciliation, provide useful information about operating and period-over-period performance, and provide additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting and gains or losses related to flight equipment and debt investments.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2009, 2010 and 2011.

	Year Ended December 31,		
	2009	2010	2011
	(Dollars in thousands)		
Net income	\$ 102,492	\$ 65,816	\$ 124,270
Ineffective portion and termination of cash flow hedges <sup>(1)</sup>	5,387	5,805	8,407
Mark to market of interest rate derivative contracts <sup>(2)</sup>	(959)	860	848
Gain on sale of flight equipment <sup>(2)</sup>	(1,162)	(7,084)	(39,092)
(Gain) loss on sale of debt investments <sup>(2)</sup>	(4,965)		
Write-off of deferred financing fees <sup>(1)</sup>		2,471	2,456
Loan termination fee <sup>(1)</sup>			3,196
Termination of engine purchase agreement <sup>(2)</sup>	4,000		
 Adjusted net income	 \$ 104,793	 \$ 67,868	 \$ 100,085

(1) Included in Interest, net.

(2) Included in Other income (expense).

Weighted-average shares:	Year Ended December 31,		
	2009	2010	2011
Common shares outstanding	77,986,155	78,488,031	74,686,150
Restricted common shares	1,317,547	1,118,542	956,433
 Total weighted-average shares	 79,303,702	 79,606,573	 75,642,583

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Percentage of weighted-average shares:	Year Ended December 31,		
	2009	2010	2011
Common shares outstanding	98.34%	98.59%	98.74%
Restricted common shares <sup>(a)</sup>	1.66%	1.41%	1.26%
Total	100.00%	100.00%	100.00%

**Table of Contents**

		Year Ended December 31,		
		2009	2010	2011
Weighted-average common shares outstanding	Basic and Diluted <sup>(a)</sup>	77,986,155	78,488,031	74,686,150

		Year Ended December 31,		
		2009	2010	2011
		(Dollars in thousands, except per share amounts)		
<b>Adjusted net income allocation:</b>				
Adjusted net income		\$ 104,793	\$ 67,868	\$ 100,085
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(a)</sup>		(1,741)	(954)	(1,265)
Adjusted net income allocable to common shares	Basic and Diluted	\$ 103,052	\$ 66,914	\$ 98,820
Adjusted net income per common share	Basic	\$ 1.32	\$ 0.85	\$ 1.32
Adjusted net income per common share	Diluted	\$ 1.32	\$ 0.85	\$ 1.32

(a) For the years ended December 31, 2009, 2010 and 2011, distributed and undistributed earnings to restricted shares is 1.66%, 1.41% and 1.26%, respectively, of net income. The amount of restricted share forfeitures for all periods presented is immaterial to the allocation of distributed and undistributed earnings.

(b) For the years ended December 31, 2009, 2010 and 2011, we have no dilutive shares.

**Limitations of EBITDA and ANI**

An investor or potential investor may find EBITDA and ANI important measures in evaluating our performance, results of operations and financial position. We use these non-US GAAP measures to supplement our US GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA and ANI have limitations as analytical tools and should not be viewed in isolation or as substitutes for US GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate EBITDA and ANI, and using these non-US GAAP measures as compared to US GAAP net income, income from continuing operations and cash flows provided by or used in operations, include:

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;

the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;

elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy; and

gains and losses from asset sales, which may not reflect the overall financial return of the asset, may be an indicator of the current value of our portfolio of assets.

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EBITDA and ANI are not alternatives to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with US GAAP. You should not rely on these non-US GAAP measures as a substitute for any such US GAAP financial measure. We strongly urge you to review the reconciliations to US GAAP net income, along with our consolidated financial statements included elsewhere in this Annual Report. We also strongly urge you to not rely on any single financial measure to



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**Table of Contents**

evaluate our business. In addition, because EBITDA and ANI are not measures of financial performance under US GAAP and are susceptible to varying calculations, EBITDA and ANI as presented in this Annual Report, may differ from and may not be comparable to, similarly titled measures used by other companies.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, floating rate debt obligations and interest rate derivatives. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities.

Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

**Sensitivity Analysis**

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential minimum contracted rental and interest expense impacts on our financial instruments and our three variable rate leases and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

A hypothetical 100-basis point increase/decrease in our variable interest rates would increase/decrease the minimum contracted rentals on our portfolio as of December 31, 2011 by \$0.5 million and \$0.3 million, respectively, over the next twelve months. As of December 31, 2011, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$1.4 million and \$1.0 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto, referred to in Item 15(A)(1) of this Form 10-K, are filed as part of this report and appear in this Form 10-K beginning on page F-1.

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**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Management's Evaluation of Disclosure Controls and Procedures**

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2011. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011.

**Management's Annual Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011. The assessment was based on criteria established in the framework Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

Ernst & Young LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in this Annual Report on Form 10-K, audited the effectiveness of our controls over financial reporting as of December 31, 2011. Ernst & Young LLP has issued its report which is included below.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of

Aircastle Limited

We have audited Aircastle Limited and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aircastle Limited and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aircastle Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aircastle Limited and subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011 of Aircastle Limited and subsidiaries and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 29, 2012

**Table of Contents**

**ITEM 9B. OTHER INFORMATION**

None.

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**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The name, age and background of each of our directors nominated for election will be contained under the caption "Election of Directors" in our Proxy Statement for our 2012 Annual General Meeting of Shareholders. The identification of our Audit Committee and our Audit Committee financial experts will be contained in our Proxy Statement for our 2012 Annual General Meeting of Shareholders under the captions

"CORPORATE GOVERNANCE" and "Committees of the Board of Directors - The Audit Committee." Information regarding our Code of Business Ethics and Conduct, any material amendments thereto and any related waivers will be contained in our Proxy Statement for our 2012 Annual General Meeting of Shareholders under the captions "CORPORATE GOVERNANCE" and "Code of Business Conduct and Ethics." All of the foregoing information is incorporated herein by reference. The Code of Business Conduct and Ethics is posted on Aircastle's Website at [www.aircastle.com](http://www.aircastle.com) under "Investors" and "Corporate Governance." Pursuant to Item 401(b) of Regulation S-K, the requisite information pertaining to our executive officers is reported immediately following Item 4. of Part I of this report.

Information on compliance with Section 16(a) of the Exchange Act will be contained in our Proxy Statement for our 2012 Annual General Meeting of Shareholders under the captions "OWNERSHIP OF AYR COMMON SHARES" and "Section 16 Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information on compensation of our directors and certain named executive officers will be contained in our Proxy Statement for our 2012 Annual General Meeting of Shareholders under the captions "Directors' Compensation" and "EXECUTIVE COMPENSATION," respectively, and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information on the number of shares of Aircastle's common shares beneficially owned by each director, each named executive officer and by all directors and executive officers as a group will be contained under the captions "OWNERSHIP OF THE COMPANY'S COMMON SHARES" and "Security Ownership by Management" and information on each beneficial owner of more than 5% of Aircastle's common shares is contained under the captions "OWNERSHIP OF THE COMPANY'S COMMON SHARES" and "Security Ownership of Certain Beneficial Owners" in our Proxy Statement for our 2012 Annual General Meeting of Shareholders and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information relating to certain transactions between Aircastle and its affiliates and certain other persons will be set forth under the caption "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" in our Proxy Statement for our 2012 Annual General Meeting of Shareholders and is incorporated herein by reference.

Information relating to director independence will be set forth under the caption "PROPOSAL NUMBER ONE - ELECTION OF DIRECTORS" and "Director Independence" in our Proxy Statement for our 2012 Annual General Meeting of Shareholders and is incorporated herein by reference.

**Table of Contents**

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information relating to audit fees, audit-related fees, tax fees and all other fees billed in fiscal 2011 and by Ernst & Young LLP, for services rendered to Aircastle is set forth under the caption INDEPENDENT AUDITOR FEES in the Proxy Statement for our 2012 Annual General Meeting of Shareholders and is incorporated herein by reference. In addition, information relating to the pre-approval policies and procedures of the Audit Committee is set forth under the caption INDEPENDENT AUDITOR FEES Pre-Approval Policies and Procedures in our Proxy Statement for our 2012 Annual General Meeting of Shareholders and is incorporated herein by reference.

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(A) 1. Consolidated Financial Statements.**

The following is a list of the Consolidated Financial Statements of Aircastle Limited and its subsidiaries included in this Annual Report on Form 10-K, which are filed herewith pursuant to Item 8:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2010 and December 31, 2011.

Consolidated Statements of Income for the years ended December 31, 2009, December 31, 2010 and December 31, 2011.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2009, December 31, 2010 and December 31, 2011.

Consolidated Statements of Cash Flows for the years ended December 31, 2009, December 31, 2010 and December 31, 2011.

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2009, December 31, 2010 and December 31, 2011.

Notes to Consolidated Financial Statements.

**2. Financial Statement Schedules.**

There are no Financial Statement Schedules filed as part of this Annual Report, since the required information is included in the Consolidated Financial Statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

**3. Exhibits.**

The exhibits filed herewith are listed on the Exhibit Index filed as part of this report on Form 10-K.

**Table of Contents**

**(B) EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
3.1	Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
3.2	Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
4.1	Specimen Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
4.2	Amended and Restated Shareholders Agreement among Aircastle Limited and Fortress Investment Fund III LP, Fortress Investment Fund III (Fund B) LP, Fortress Investment Fund III (Fund C) LP, Fortress Investment Fund III (Fund D) L.P., Fortress Investment Fund III (Fund E) LP, Fortress Investment Fund III (Coinvestment Fund A) LP, Fortress Investment Fund III (Coinvestment Fund B) LP, Fortress Investment Fund III (Coinvestment Fund C) LP, Fortress Investment Fund III (Coinvestment Fund D) L.P., Drawbridge Special Opportunities Fund LP, Drawbridge Special Opportunities Fund Ltd. and Drawbridge Global Macro Master Fund Ltd. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
4.3	Indenture, dated as of July 30, 2010, by and among Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed with the SEC on August 4, 2010).
4.4	First Supplemental Indenture, dated as of December 9, 2011, by and among Aircastle Limited and Wells Fargo Bank, National Association as trustee (incorporated by reference to Exhibit 4.1 to the company's current report on Form 8-K filed with the SEC on December 12, 2011).
10.1	Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.2	Form of Restricted Share Purchase Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.3	Form of Restricted Share Grant Letter (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.4	Form of Amended Restricted Share Grant Letter (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on form 10-K filed March 5, 2010). #
10.5	Form of Amended Restricted Share Agreement for Certain Executive Officers under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed on March 10, 2011). #
10.6	Form of International Restricted Share Grant Letter (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.7	Form of Amended International Restricted Share Grant Letter (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on form 10-K filed March 5, 2010). #
10.8	Letter Agreement, dated May 2, 2005, between Aircastle Limited and Ron Wainshal (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #



**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.9	Letter Agreement, dated February 3, 2005, between Aircastle Limited and David Walton (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.10	Letter Agreement, dated March 8, 2006, between Aircastle Advisor LLC and David Walton (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.11	Letter Agreement, dated February 24, 2006, between Aircastle Advisor LLC and Joseph Schreiner (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.12	Letter Agreement, dated April 29, 2005, between Aircastle Advisor LLC and Jonathan Lang (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.13	Letter Agreement, dated March 8, 2006 between Aircastle Advisor LLC and Jonathan M. Lang (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.14	Letter Agreement, dated January 8, 2007, between Aircastle Advisor LLC and Michael Platt (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on January 9, 2007). #
10.15	Subscription Agreement, dated as of April 28, 2006, between Aircastle Limited and Ueberroth Family Trust (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006).
10.16	Trust Indenture, dated as of June 15, 2006, among ACS Aircraft Finance Bermuda Limited, as Issuer, ACS Aircraft Finance Ireland PLC, as Guarantor, Deutsche Bank Trust Company Americas, in its capacity as the Cash Manager, Deutsche Bank Trust Company Americas, in its capacity as the person accepting appointment as the Trustee under the Indenture, CALYON, Financial Guaranty Insurance Company and Deutsche Bank Trust Company Americas, in its capacity as the Drawing Agent (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
10.17	Trust Indenture, dated as of June 15, 2006, among ACS Aircraft Finance Ireland PLC, as Issuer, ACS Aircraft Finance Bermuda Limited, as Guarantor, Deutsche Bank Trust Company Americas, in its capacity as the Cash Manager, Deutsche Bank Trust Company Americas, in its capacity as the person accepting appointment as the Trustee under the Indenture, CALYON, Financial Guaranty Insurance Company and Deutsche Bank Trust Company Americas, in its capacity as the Drawing Agent (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
10.18	Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006). #
10.19	Form of Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.31 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-134669) filed on August 2, 2006).
10.20	Employment Letter, dated April 12, 2007, between Aircastle Advisor LLC and Michael Inglese (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on April 16, 2007). #

**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.21	Separation Agreement, dated April 12, 2007, between Aircastle Advisor LLC and Mark Zeidman (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed with the SEC on April 16, 2007). #
10.22	Trust Indenture, dated as of June 8, 2007, among ACS 2007-1 Limited, as Issuer, ACS Aircraft Finance Ireland 2 Limited, as Guarantor, Deutsche Bank Trust Company Americas, in its capacity as the Cash Manager, Deutsche Bank Trust Company Americas, in its capacity as the person accepting appointment as the Trustee under the Indenture, HSH Nordbank AG, New York Branch, Financial Guaranty Insurance Company and Deutsche Bank Trust Company Americas, in its capacity as the Drawing Agent (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on June 12, 2007).
10.23	Trust Indenture, dated as of June 8, 2007, among ACS Aircraft Finance Ireland 2 Limited, as Issuer, ACS 2007-1 Limited, as Guarantor, Deutsche Bank Trust Company Americas, in its capacity as the Cash Manager, Deutsche Bank Trust Company Americas, in its capacity as the person accepting appointment as the Trustee under the Indenture, HSH Nordbank AG, New York Branch, Financial Guaranty Insurance Company and Deutsche Bank Trust Company Americas, in its capacity as the Drawing Agent (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed with the SEC on June 12, 2007).
10.24	Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.43 to the Company's quarterly report on Form 10-Q filed with the SEC on August 14, 2007).
10.25	Amendment No. 1 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed on March 5, 2010). à
10.26	Amendment No. 2 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed on March 5, 2010). à
10.27	Amendment No. 3 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.28	Amendment No. 4 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.29	Amendment No. 5 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.30	Amendment No. 6 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.31	Amendment No. 7 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.32	Amendment No. 8 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed on March 5, 2010).
10.33	Amendment No. 9 to the Acquisition Agreement, dated as of June 20, 2007, by and between AYR Freighter LLC and Airbus SAS (incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed with the SEC on August 10, 2010).

**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.34	Credit Agreement (2008-B), dated as of May 2, 2008, by and among ACS 2008-1 Limited and ACS Aircraft Finance Ireland 3 Limited, as Borrowers, each lender from time to time party thereto, as Lenders, Calyon New York Branch, as Sole Bookrunner and Facility Agent, and Calyon New York Branch, HSH Nordbank AG, KfW Ipex-Bank GmbH and DVB Bank AG, as Joint Lead Arrangers (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Company's current report on Form 8-K filed with the SEC on May 5, 2008).
10.35	Intercreditor Agreement, dated as of May 2, 2008, by and among ACS 2008-1 Limited, as Borrower, ACS Aircraft Finance Ireland 3 Limited, as Guarantor, Aircastle Advisor LLC, as Administrative Agent, Calyon New York Branch, as Facility Agent, Collateral Agent and Liquidity Facility Provider, and Deutsche Bank Trust Company Americas, as Operating Bank (incorporated by reference to Amendment No. 1 to Exhibit 10.2 to the Company's current report on Form 8-K filed with the SEC on May 5, 2008).
10.36	Intercreditor Agreement, dated as of May 2, 2008, by and among ACS Aircraft Finance Ireland 3 Limited, as Borrower, ACS 2008-1 Limited, as Guarantor, Aircastle Advisor LLC, as Administrative Agent, Calyon New York Branch, as Facility Agent, Collateral Agent and Liquidity Facility Provider and Deutsche Bank Trust Company Americas, as Operating Bank (incorporated by reference to Amendment No. 1 to Exhibit 10.3 to the Company's current report on Form 8-K filed with the SEC on May 5, 2008).
10.37	Amendment No. 1 to Intercreditor Agreement, dated as of May 2, 2008, by and among ACS 2008-1 Limited, as Borrower, ACS Aircraft Finance Ireland 3 Limited, as Guarantor, Aircastle Advisor LLC, as Administrative Agent, Credit Agricole Corporate and Investment Bank (formerly known as Calyon New York Branch), as Facility Agent, Collateral Agent and Liquidity Facility Provider and Deutsche Bank Trust Company, Americas, as Operating Bank (incorporated by reference to Exhibit 10. to the Company's quarterly report on Form 10-Q filed with the SEC on August 10, 2010).
10.38	Form of Lease Agreement, dated as of December 16, 2009, between Wells Fargo Bank Northwest, National Association, a national banking association, not in its individual capacity but solely as Owner Trustee, as Lessor and South African Airways (Pty) Ltd., as Lessee (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K filed on March 5, 2010). à
10.39	Amendment No. 1 to Form of Lease Agreement, dated as of December 16, 2009, between Wells Fargo Bank Northwest, National Association, a national banking association, not in its individual capacity but solely as Owner Trustee, as Lessor and South African Airways (Pty) Ltd., as Lessee (incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed with the SEC on August 10, 2010). à
10.40	Form of Lease Novation Agreement, dated as of December 15, 2010, by and among Wells Fargo Bank Northwest, National Association, a US national banking association, not in its individual capacity but solely as Owner Trustee, as Existing Lessor, South African Airways (Pty) Ltd., as Lessee, and the New Lessor (as defined therein) (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2011).
10.41	Separation Agreement, dated May 3, 2010, by and among Aircastle Limited, Aircastle Advisor LLC and Michael Platt (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on May 4, 2010). #
10.42	Letter Agreement, dated July 13, 2010, between Aircastle Advisor LLC and Ron Wainshal (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on July 15, 2010). #
10.43	Registration Rights Agreement, dated as of July 30, 2010, by and among Aircastle Limited and Citigroup Global Markets Inc., as representative of the several Initial Purchasers named therein (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed with the SEC on August 4, 2010).

**Table of Contents**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.44	Employment Agreement, dated as of December 7, 2010, by and between Aircastle Advisor LLC and J. Robert Peart (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on December 8, 2010). #
10.45	Form of Senior Executive Employment Agreement (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed with the SEC on December 8, 2010). #
10.46	Form of Amended and Restated Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed with the SEC on November 8, 2011).
10.47	Registration Rights Agreement, dated as of December 14, 2011, by and among Aircastle Limited and Citigroup Global Markets Inc. as Initial Purchaser named therein (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on December 15, 2011).
10.48	Separation Agreement, dated January 22, 2012, among Aircastle Advisor LLC and J. Robert Peart (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on January 23, 2012).
12.1	Computation of Ratio of Earnings to Fixed Charges D
21.1	Subsidiaries of the Registrant D
23.1	Consent of Ernst & Young LLP D
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 D
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 D
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 D
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 D
99.1	Owned Aircraft Portfolio at December 31, 2011 D
101	The following materials from the Company's annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2010 and December 31, 2011, (ii) Consolidated Statements of Income for the years ended December 31, 2009, December 31, 2010 and December 31, 2011, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2009, December 31, 2010 and December 31, 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2009, December 31, 2010 and December 31, 2011, (v) Consolidated Statements of Changes in Shareholders Equity and Comprehensive Income (Loss) for the years ended December 31, 2009, December 31, 2010 and December 31, 2011 and (vi) Notes to Consolidated Financial Statements D *

# Management contract or compensatory plan or arrangement.

D Filed herewith.

à Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

**Table of Contents**

**Index to Financial Statements**

	<b>Page No.</b>
Consolidated Financial Statements	
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets at December 31, 2010 and 2011</u>	F-3
<u>Consolidated Statements of Income for the years ended December 31, 2009, 2010 and 2011</u>	F-4
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2009, 2010 and 2011</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2010 and 2011</u>	F-6
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2009, 2010 and 2011</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-8

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of

Aircastle Limited

We have audited the accompanying consolidated balance sheets of Aircastle Limited and subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aircastle Limited and subsidiaries at December 31, 2010 and 2011 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aircastle Limited and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 29, 2012

**Table of Contents****Aircastle Limited and Subsidiaries****Consolidated Balance Sheets****(Dollars in thousands, except share data)**

	<b>December 31,</b>	
	<b>2010</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 239,957	\$ 295,522
Accounts receivable	1,815	3,646
Restricted cash and cash equivalents	191,052	247,452
Restricted liquidity facility collateral	75,000	110,000
Flight equipment held for lease, net of accumulated depreciation of \$785,490 and \$981,932	4,065,780	4,387,986
Aircraft purchase deposits and progress payments	219,898	89,806
Other assets	65,557	90,047
<b>Total assets</b>	<b>\$ 4,859,059</b>	<b>\$ 5,224,459</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings from secured and unsecured financings (including borrowings of ACS Ireland VIEs of \$314,877 and \$295,952, respectively)	\$ 2,707,958	\$ 2,986,516
Accounts payable, accrued expenses and other liabilities	76,470	105,432
Dividends payable	7,964	
Lease rentals received in advance	43,790	46,105
Liquidity facility	75,000	110,000
Security deposits	83,241	83,037
Maintenance payments	342,333	347,122
Fair value of derivative liabilities	179,585	141,639
<b>Total liabilities</b>	<b>3,516,341</b>	<b>3,819,851</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common shares, \$.01 par value, 250,000,000 shares authorized, 79,640,285 shares issued and outstanding at December 31, 2010; and 72,258,472 shares issued and outstanding at December 31, 2011	796	723
Additional paid-in capital	1,485,841	1,400,090
Retained earnings	104,301	191,476
Accumulated other comprehensive loss	(248,220)	(187,681)
<b>Total shareholders' equity</b>	<b>1,342,718</b>	<b>1,404,608</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,859,059</b>	<b>\$ 5,224,459</b>

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

**Table of Contents****Aircastle Limited and Subsidiaries****Consolidated Statements of Income**

(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2009	2010	2011
<b>Revenues:</b>			
Lease rental revenue	\$ 511,459	\$ 531,076	\$ 580,209
Amortization of net lease discounts and lease incentives	(11,229)	(20,081)	(16,445)
Maintenance revenue	58,733	15,703	36,954
Total lease rentals	558,963	526,698	600,718
Interest income	1,924		
Other revenue	9,698	1,012	4,479
Total revenues	570,585	527,710	605,197
 <b>Expenses:</b>			
Depreciation	209,481	220,476	242,103
Interest, net	169,810	178,262	204,150
Selling, general and administrative (including non-cash share based payment expense of \$6,868, \$7,509 and \$5,786, respectively)	46,016	45,774	45,953
Impairment of aircraft	18,211	7,342	6,436
Maintenance and other costs	19,431	9,612	13,277
Total expenses	462,949	461,466	511,919
 <b>Other income (expense):</b>			
Gain on sale of flight equipment	1,162	7,084	39,092
Other	2,354	(916)	(268)
Total other income (expense)	3,516	6,168	38,824
Income from continuing operations before income taxes	111,152	72,412	132,102
Income tax provision	8,660	6,596	7,832
Net income	\$ 102,492	\$ 65,816	\$ 124,270
 <b>Earnings per common share Basic:</b>			
Net income per share	\$ 1.29	\$ 0.83	\$ 1.64
 <b>Earnings per common share Diluted:</b>			
Net income per share	\$ 1.29	\$ 0.83	\$ 1.64
Dividends declared per share	\$ 0.40	\$ 0.40	\$ 0.50

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





**Table of Contents****Aircastle Limited and subsidiaries****Consolidated Statements of Comprehensive Income****(Dollars in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Net income	\$ 102,492	\$ 65,816	\$ 124,270
Other comprehensive income, net of tax:			
Net change in fair value of derivatives, net of tax expense of \$1,473, \$268 and \$857, respectively	92,396	1,994	37,461
Net derivative loss reclassified into earnings	12,894	9,634	23,078
Gain on debt investment reclassified into earnings	(4,965)		
Net change in unrealized fair value of debt investments	2,429		
Other comprehensive income	102,754	11,628	60,539
Total comprehensive income	\$ 205,246	\$ 77,444	\$ 184,809

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

**Table of Contents****Aircastle Limited and Subsidiaries****Consolidated Statements of Cash Flows**

(Dollars in thousands)

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 102,492	\$ 65,816	\$ 124,270
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	209,481	220,476	242,103
Amortization of deferred financing costs	12,232	15,065	15,271
Amortization of net lease discounts and lease incentives	11,229	20,081	16,445
Deferred income taxes	6,176	3,727	5,615
Accretion of purchase discounts on debt investments	(469)		
Non-cash share based payment expense	6,868	7,509	5,786
Cash flow hedges reclassified into earnings	12,894	9,634	23,078
Ineffective portion of cash flow hedges	463	5,039	(101)
Security deposits and maintenance payments included in earnings	(47,934)	(14,004)	(35,500)
Gain on the sale of flight equipment	(1,162)	(7,084)	(39,092)
Gain on sale of debt investments	(4,965)		
Impairment of aircraft	18,211	7,342	6,436
Other	(959)	848	742
Changes on certain assets and liabilities:			
Accounts receivable	364	(412)	(4,818)
Restricted cash and cash equivalents related to operating activities	1,619	(1,560)	4,418
Other assets	(1,796)	(3,097)	(2,675)
Accounts payable, accrued expenses, other liabilities and payable to affiliates	(3,189)	18,478	(1,848)
Lease rentals received in advance	6,086	8,672	(753)
<b>Net cash provided by operating activities</b>	<b>327,641</b>	<b>356,530</b>	<b>359,377</b>
<b>Cash flows from investing activities:</b>			
Acquisition and improvement of flight equipment	(215,117)	(465,529)	(776,750)
Proceeds from sale of flight equipment	11,601	68,622	489,196
Restricted cash and cash equivalents related to sale of flight equipment			(35,762)
Aircraft purchase deposits and progress payments, net of returned deposits	(83,081)	(144,143)	(122,069)
Principal repayments on and proceeds from sale of debt investments	17,247		
Other	(84)	(65)	(35)
<b>Net cash used in investing activities</b>	<b>(269,434)</b>	<b>(541,115)</b>	<b>(445,420)</b>
<b>Cash flows from financing activities:</b>			
Repurchase of shares	(262)	(1,663)	(91,610)
Proceeds from securitizations, notes and term debt financings	142,228	547,719	669,047
Securitization and term debt financing repayments	(153,964)	(304,533)	(390,945)
Deferred financing costs	(6,127)	(15,365)	(20,179)
Restricted secured liquidity facility collateral	(81,000)	6,000	(35,000)
Secured liquidity facility collateral	81,000	(6,000)	35,000
Restricted cash and cash equivalents related to security deposits and maintenance payments	(26,830)	18,342	(25,056)
Security deposits received	52,351	14,218	20,574
Security deposits returned	(14,687)	(14,281)	(7,914)
Maintenance payments received	84,030	119,118	122,050
Maintenance payments returned	(38,837)	(46,174)	(89,300)
Payments for terminated cash flow hedges and payment for option	(2,758)	(3,705)	
Dividends paid	(31,632)	(31,800)	(45,059)
<b>Net cash provided by financing activities</b>	<b>3,512</b>	<b>281,876</b>	<b>141,608</b>

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<b>Net increase in cash and cash equivalents</b>	61,719	97,291	55,565
Cash and cash equivalents at beginning of year	80,947	142,666	239,957
Cash and cash equivalents at end of year	\$ 142,666	\$ 239,957	\$ 295,522
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for interest, net of capitalized interest	\$ 145,573	\$ 136,596	\$ 162,938
Cash paid during the year for income taxes	\$ 1,782	\$ 3,528	\$ 2,054
<b>Supplemental disclosures of non-cash investing activities:</b>			
Security deposits, maintenance liabilities and other liabilities settled in sale of flight equipment	\$ 2,556	\$ 100	\$ 21,585
Advance lease rentals, security deposits and maintenance reserves assumed in asset acquisitions	\$	\$ 20,204	\$ 5,666
<b>Supplemental disclosures of non-cash financing activities:</b>			
Advance lease rentals converted to maintenance reserves	\$	\$ 1,750	\$
Security deposits converted to advance lease rentals	\$	\$ 730	\$ 627
Security deposits converted to maintenance payment liabilities	\$ 11,110	\$	\$ 138

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

**Table of Contents****Aircastle Limited and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity**

(Dollars in thousands, except share amounts)

	Common Shares		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2008	78,620,320	\$ 786	\$ 1,474,455	(473)	\$ (362,602)	\$ 1,112,166
Issuance of common shares to directors and employees	983,532	10	(10)			
Repurchase of common shares from directors and employees	(53,431)		(262)			(262)
Amortization of share based payments			6,868			6,868
Excess tax benefit from stock based compensation			(1,056)			(1,056)
Dividends declared				(31,725)		(31,725)
Net income				102,492		102,492
Net change in fair value of derivatives, net of \$1,473 tax expense					92,396	92,396
Net derivative loss reclassified into earnings					12,894	12,894
Gain on debt investments reclassified into earnings					(4,965)	(4,965)
Net change in unrealized fair value of debt investments					2,429	2,429
Balance, December 31, 2009	79,550,421	796	1,479,995	70,294	(259,848)	1,291,237
Issuance of common shares to directors and employees	258,105	2	(2)			
Repurchase of common shares from directors and employees	(168,241)	(2)	(1,661)			(1,663)
Amortization of share based payments			7,509			7,509
Dividends declared				(31,809)		(31,809)
Net income				65,816		65,816
Net change in fair value of derivatives, net of \$268 tax expense					1,994	1,994
Net derivative loss reclassified into earnings					9,634	9,634
Balance, December 31, 2010	79,640,285	796	1,485,841	104,301	(248,220)	1,342,718
Issuance of common shares to directors and employees	330,382	3	(3)			
Repurchase of common shares from stockholders, directors and employees	(7,712,195)	(76)	(91,534)			(91,610)
Amortization of share based payments			5,786			5,786
Dividends declared				(37,095)		(37,095)
Net income				124,270		124,270
Net change in fair value of derivatives, net of \$857 tax expense					37,461	37,461
Net derivative loss reclassified into earnings					23,078	23,078
Balance, December 31, 2011	72,258,472	\$ 723	\$ 1,400,090	\$ 191,476	\$ (187,681)	\$ 1,404,608

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

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

**Note 1. Summary of Significant Accounting Policies**

**Organization and Basis of Presentation**

Aircastle Limited ( Aircastle, the Company, we, us or our ) is a Bermuda exempted company that was incorporated on October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates (together, the Fortress Shareholders or Fortress ) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business is investing in aviation assets, including leasing, managing and selling commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments.

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles ( US GAAP ). We operate in a single segment.

For the year ended December 31, 2011, we revised the presentation in our consolidated statements of cash flows to reflect the net change in restricted cash and cash equivalents from security deposits and maintenance payments as financing activities. For the years ended December 31, 2009 and 2010, our consolidated statements of cash flows reflected the net change in restricted cash and cash equivalents from security deposits and maintenance payments as cash flows from operating activities. Therefore, the amounts included for the years ended December 31, 2009 and 2010 have been reclassified to conform to the current period presentation.

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2011 through the date on which the consolidated financial statements included in this Form 10-K were issued.

Effective December 31, 2011, the Company adopted Financial Accounting Standards Board (the FASB ) Accounting Standards Update ( ASU ) 2011-05 ( ASU 2011-05 ), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which gives the option to present the total of comprehensive income either in a single continuous statement of comprehensive net income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. If a two statement approach is used, the statement of other comprehensive income should immediately follow the statement of net income. The Company adopted the two statement approach and applied the standard retrospectively. The early adoption of ASU 2011-05 did not have a material impact on the Company's consolidated financial statements.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates eight Variable Interest Entities ( VIEs ) of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding (a) whether an entity is subject to consolidation as a VIE, (b) who the variable interest holders are, (c) the potential expected losses and residual returns of the variable interest holders, and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider (1) the entity's purpose and design, (2) which variable interest holder has the power to direct the

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

activities that most significantly impact the entity's economic performance, and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

**Risk and Uncertainties**

In the normal course of business, Aircastle encounters several significant types of economic risk including credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations. Market risk reflects the change in the value of derivatives and financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying derivatives and financings. Aviation industry risk is the risk of a downturn in the commercial aviation industry which could adversely impact a lessee's ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of the Company's aircraft. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of our business or to refinance existing debt facilities.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While Aircastle believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

**Cash and Cash Equivalents and Restricted Cash and Cash Equivalents**

Aircastle considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted cash and cash equivalents consists primarily of rent collections, maintenance payments and security deposits received from lessees pursuant to the terms of various lease agreements held in lockbox accounts in accordance with our financings. Changes in restricted cash and cash equivalents related to rent collections are reflected within operating activities of our consolidated statements of cash flows. Changes in restricted cash related to the sale of flight equipment are reflected within investing activities of our consolidated statements of cash flows. Changes in restricted cash and cash equivalents related to maintenance payments and security deposits are reflected within financing activities of our consolidated statements of cash flows.

Virtually all of our cash and cash equivalents and restricted cash and cash equivalents are held by four major financial institutions.

**Flight Equipment Held for Lease and Depreciation**

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25-year life from the date of manufacture for passenger aircraft and over a 30- to 35-year life for freighter aircraft, depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% - 10% for freighter aircraft when new. Management may

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:

flight equipment where estimates of the manufacturer's realized sales prices are not relevant (e.g., freighter conversions);

flight equipment where estimates of the manufacturers' realized sales prices are not readily available; and

flight equipment which may have a shorter useful life due to obsolescence.

Major improvements and modifications incurred in connection with the acquisition of aircraft that are required to get the aircraft ready for initial service are capitalized and depreciated over the remaining life of the flight equipment.

For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated lessee's utilization of the aircraft.

When we acquire an aircraft with a lease, determining the fair value of attached leases requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above the fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

**Impairment of Flight Equipment**

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, indicate that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant air traffic decline, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See Note 2. Fair Value Measurements.

Management develops the assumptions used in the recoverability analysis based on its knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party





**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors.

In monitoring the aircraft in our fleet for impairment charges, we identify those aircraft that are most susceptible to failing the recoverability assessment and monitor those aircraft more closely, which may result in more frequent recoverability assessments. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates and residual values or scrap values for each aircraft. These are typically older aircraft for which lessee demand is declining.

**Capitalization of Interest**

We capitalize interest related to progress payments made in respect of flight equipment on forward order and on prepayments made in respect of the conversion of passenger-configured aircraft to freighter-configured aircraft, and add such amount to prepayments on flight equipment. The amount of interest capitalized is the actual interest costs incurred on funding specific assets or the amount of interest costs which could have been avoided in the absence of such payments for the related assets.

**Security Deposits**

Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. At December 31, 2010 and 2011, security deposits represent cash received from the lessee that is held on deposit until lease expiration. Aircastle's operating leases also obligate the lessees to maintain flight equipment and comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration requirements and airworthiness directives.

**Maintenance Payments**

Typically, under an operating lease, the lessee is responsible for performing all maintenance but might be required to make deposit payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the level of security deposit which may be provided by the lessee and market conditions at the time we enter into the lease. If a lessee is making monthly maintenance payments, we would typically be obligated to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components to the extent of maintenance payments received in respect of the specific maintenance event, usually shortly following completion of the relevant work.

We record maintenance payments paid by the lessee as accrued maintenance payments liabilities in recognition of our contractual commitment to refund such receipts. In these contracts, we do not recognize such maintenance payments as maintenance revenue during the lease. Reimbursements to the lessee upon the receipt of evidence of qualifying maintenance work are charged against the existing accrued maintenance payments liability. We defer maintenance revenue recognition of all maintenance reserve payments collected until the end of the lease, when we are able to determine the amount, if any, by which reserve payments received exceed costs to be incurred by the current lessee in performing scheduled maintenance.

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

**Lease Incentives and Amortization**

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated amount of the maintenance event cost and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

Lease acquisition costs related to reconfiguration of the aircraft cabin, other lessee specific modifications and other direct costs are capitalized and amortized into revenue over the initial life of the lease, assuming no lease renewals, and are included in other assets.

**Income Taxes**

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

**Derivative Financial Instruments**

In the normal course of business we utilize interest rate derivatives to manage our exposure to interest rate risks. Specifically, our interest rate derivatives are hedging variable rate interest payments on our various debt facilities. If certain conditions are met, an interest rate derivative may be specifically designated as a cash flow hedge. All of our designated interest rate derivatives are cash flow hedges. We have one interest rate derivative that is not designated for accounting purposes.

On the date that we enter into an interest rate derivative, we formally document the intended use of the interest rate derivative and its designation as a cash flow hedge, if applicable. We also assess (both at inception and on an ongoing basis) whether the interest rate derivative has been highly effective in offsetting changes in the cash flows of the variable rate interest payments on our debt and whether the interest rate derivative is expected to remain highly effective in future periods. If it were to be determined that the interest rate derivative is not (or has ceased to be) highly effective as a cash flow hedge, we would discontinue cash flow hedge accounting prospectively.

At inception of an interest rate derivative designated as a cash flow hedge, we establish the method we will use to assess effectiveness and the method we will use to measure any ineffectiveness. Historically, we have

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

ected to use the change in variable cash flows method for both. This method involves a comparison of the present value of the cumulative change in the expected future cash flows on the variable leg of the interest rate derivative against the present value of the cumulative change in the expected future interest cash flows on the variable-rate debt. When the change in the interest rate derivative's variable leg exceeds the change in the debt's variable-rate interest cash flows, the calculated ineffectiveness is recorded in interest expense on our consolidated statement of income. Effectiveness is assessed by dividing the change in the interest rate derivative variable leg by the change in the debt's variable-rate interest cash flows.

We use the hypothetical trade method for interest rate derivatives designated as cash flow hedges subsequent to inception that did not qualify for the change in variable cash flow method. The calculation involves a comparison of the change in the fair value of the interest rate derivative to the change in the fair value of a hypothetical interest rate derivative with critical terms that reflect the hedged variable-rate debt. The effectiveness of these relationships is assessed by regressing historical changes in the interest rate derivative against historical changes in the hypothetical interest rate derivative. When the change in the interest rate derivative exceeds the change in the hypothetical interest rate derivative, the calculated ineffectiveness is recorded in interest expense on our consolidated statement of income.

All interest rate derivatives are recognized on the balance sheet at their fair value. We determine fair value for our United States dollar-denominated interest rate derivatives by calculating reset rates and discounting cash flows based on cash rates, futures rates and swap rates in effect at the period close. We determine the fair value of our United States dollar-denominated guaranteed notional balance interest rate derivatives based on the upper notional band using cash flows discounted at relevant market interest rates in effect at the period close. See Note 2 Fair Value Measurements for more information.

For our interest rate derivatives designated as cash flow hedges, the effective portion of the interest rate derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the interest payments on the debt are recorded in earnings. The ineffective portion of the interest rate derivative is calculated and recorded in interest expense on our consolidated statement of income at each quarter end. For any interest rate derivative not designated as a cash flow hedge, the gain or loss is recognized in other income (expense) on our consolidated statement of income.

We may choose to terminate certain interest rate derivatives prior to their contracted maturities. Any related net gains or losses in accumulated other comprehensive income at the date of termination are not reclassified into earnings if it remains probable that the interest payments on the debt will occur. The amounts in accumulated other comprehensive income are reclassified into earnings as the interest payments on the debt affect earnings. Terminated interest rate derivatives are reviewed periodically to determine if the forecasted transactions remain probable of occurring. To the extent that the occurrence of the interest payments on the debt are deemed remote, the related portion of the accumulated other comprehensive income balance is reclassified into earnings immediately.

**Lease Revenue Recognition**

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options in our leases, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a London Interbank Offered Rate (LIBOR) index are

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

recognized on a straight-line basis over the period the rentals are fixed and accruable. Revenue is not recognized when collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

**Comprehensive Income**

Comprehensive income consists of net income and other gains and losses, net of income taxes, if any, affecting shareholders' equity that, under US GAAP, are excluded from net income. At December 31, 2011, such amount consists of the effective portion of fluctuations in the fair value of derivatives designated as cash flow hedges.

**Share Based Compensation**

Aircastle recognizes compensation cost relating to share-based payment transactions in the financial statements based on the fair value of the equity instruments issued. Aircastle uses the straight line method of accounting for compensation cost on share-based payment awards that contain pro-rata vesting provisions.

**Deferred Financing Costs**

Deferred financing costs, which are included in other assets in the Consolidated Balance Sheet, are amortized using the interest method for amortizing loans over the lives of the relevant related debt.

**Leasehold Improvements, Furnishings and Equipment**

Improvements made in connection with the leasing of office facilities are capitalized as leasehold improvements and are amortized on a straight line basis over the minimum lease period. Furnishings and equipment are capitalized at cost and are amortized over the estimated life of the related assets or remaining lease terms, which range between three and five years.

**Recent Unadopted Accounting Pronouncements**

In August 2010, the FASB issued an exposure draft, *Leases* (the *Lease ED*), which would replace the existing guidance in the Accounting Standards Codification (ASC) 840 (ASC 840), *Leases*. Under the Lease ED, a lessor would be required to adopt a right-of-use model where the lessor would apply one of two approaches to each lease based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. In July 2011, the FASB tentatively decided on a new model for lessor accounting that would require a single approach for all leases, with a few exceptions. Under the new model, a lease receivable would be recognized for the lessor's right to receive lease payments, a portion of the carrying amount of the underlying asset would be allocated between the right of use granted to the lessee and the lessor's residual value and profit or loss would only be recognized at commencement if it is reasonably assured. Even though the FASB has not completed all of its deliberations, the decisions made to date were sufficiently different from those published in the Lease ED issued in August 2010. As a result, the FASB decided to re-expose the ED in the first half of 2012. We anticipate that the final standard may have an effective date no earlier than 2016. When and if the proposed guidance becomes effective, it may have a significant impact on the Company's consolidated financial statements. Although we believe the presentation of our financial statements, and those of our lessees could change, we do not believe the accounting pronouncement will change the fundamental economic reasons for which the airlines lease aircraft. Therefore, we do not believe it will have a material impact on our business.

In May 2011, the FASB issued ASU 2011-04 (ASU 2011-04), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and*



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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

*IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with US GAAP and IFRS. The amendments in this update change the wording used to describe the requirements in US GAAP for measuring fair value and for disclosing information about fair value measurements which include (1) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, and (2) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 will not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 ( ASU 2011-05 ), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which was adopted by the Company effective December 31, 2011. In October 2011, the FASB proposed a partial deferral of the new requirement. This proposal was then finalized in December 2011 in ASU 2011-12 ( ASU 2011-12 ) *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This ASU defers the ASU 2011-05 requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income ( AOCI ) in both net income and other comprehensive income ( OCI ) on the face of the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments into net income. This deferral, however, does not change the requirement to present items of net income, other comprehensive income and total comprehensive income in either a single continuous or two consecutive statements. Reclassifications out of AOCI are to be presented either on the face of the financial statement in which OCI is presented or it can be disclosed in the footnotes to the financial statements. The FASB expects to complete a project to reconsider the presentation requirement for reclassification adjustments in 2012. The deferral allows the FASB time to further research the matter. The effective date of ASU 2011-12 is consistent with the effective date of ASU 2011-05 which is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied retrospectively.

**Note 2. Fair Value Measurements**

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

F-15



**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The following tables set forth our financial assets and liabilities as of December 31, 2010 and 2011 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 239,957	\$ 239,957	\$	\$	Market
Restricted cash and cash equivalents	191,052	191,052			Market
Derivative assets	374		374		Income
<b>Total</b>	<b>\$ 431,383</b>	<b>\$ 431,009</b>	<b>\$ 374</b>	<b>\$</b>	
<b>Liabilities:</b>					
Derivative liabilities	\$ 179,585	\$	\$ 124,404	\$ 55,181	Income

	Fair Value as of December 31, 2011	Fair Value Measurements at December 31, 2011 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 295,522	\$ 295,522	\$	\$	Market
Restricted cash and cash equivalents	247,452	247,452			Income
<b>Total</b>	<b>\$ 542,974</b>	<b>\$ 542,974</b>	<b>\$</b>	<b>\$</b>	
<b>Liabilities:</b>					
Derivative liabilities	\$ 141,639	\$	\$ 85,410	\$ 56,229	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. Our interest rate derivatives included in Level 2 consist of United States dollar-denominated interest rate derivatives, and their fair values are determined by applying standard modeling techniques under the income approach to relevant market interest rates (cash rates, futures rates, swap rates) in effect at the period close to determine appropriate reset and discount rates and incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities.

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Our interest rate derivatives included in Level 3 consist of United States dollar-denominated interest rate swaps on Term Financing No. 1 with a guaranteed notional balance. The guaranteed notional balance has an upper notional band that matches the hedged debt and a lower notional band. The notional balance is guaranteed to match the hedged debt balance if the debt balance decreases within the upper and lower notional band. During the year ended December 31, 2010, we made supplemental principal payments on Term Financing No. 1, and the notional balance was adjusted to match the debt balance of Term Financing No. 1. The fair value of the interest

F-16

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

rate derivative is determined based on the adjusted upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close. It incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities. The range of the guaranteed notional between the upper and lower band represents an option that may not be exercised independently of the debt notional and is therefore valued based on unobservable market inputs.

The following table reflects the activity for the classes of our liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2011:

	<b>Liabilities Derivative Liabilities</b>
Balance as of December 31, 2009	\$(38,907)
Total gains/(losses), net:	
Included in other income (expense)	(571)
Included in interest income	(154)
Included in other comprehensive income	(15,549)
Balance as of December 31, 2010	(55,181)
Total gains/(losses), net:	
Included in other income (expense)	(474)
Included in interest expense	(71)
Included in other comprehensive income	(503)
Balance as of December 31, 2011	\$(56,229)

For the years ended December 31, 2010 and 2011, we had no transfers into or out of Level 3, and we had no purchases, issuances, sales or settlements of Level 3 items.

We measure the fair value of certain assets and liabilities on a non-recurring basis, when US GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include aircraft. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on an income approach which uses Level 3 inputs, which include the Company's assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

In the year ended December 31, 2010, we recognized an impairment of \$7,342 related to one Boeing Model 737-300 aircraft and one Boeing Model 737-500 aircraft, triggered by the early termination of the lease for one aircraft, a signed forward sales agreement for the other aircraft and, for each, the change to estimated future cash flows.

In the year ended December 31, 2011, we recognized an impairment of \$6,436 related to a Boeing Model 737-400 aircraft triggered by the early termination of the lease and the change to estimated future cash flows as well as by our decision to sell the aircraft, whereupon we adjusted the net book value of the aircraft to its estimated disposition value.

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Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate

F-17

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

derivatives. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

The fair values of our securitizations which contain third-party credit enhancements are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates of borrowing arrangements that do not contain third-party credit enhancements. The fair values of our term debt financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at December 31, 2010 and 2011 are as follows:

	December 31, 2010		December 31, 2011	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Securitizations and term debt financings	\$ (2,056,012)	\$ (1,829,277)	(1,873,652)	(1,681,023)
ECA term financings	(267,311)	(273,203)	(536,107)	(524,373)
Bank financings			(126,000)	(126,000)
A330 PDP Facility	(88,487)	(88,487)		
Senior Notes due 2018	(296,148)	(328,500)	(450,757)	(482,625)

**Note 3. Lease Rental Revenues and Flight Equipment Held for Lease**

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at December 31, 2011 were as follows:

Year Ending December 31,	Amount
2012	\$ 583,782
2013	507,771
2014	414,076
2015	358,407
2016	308,687
Thereafter	543,256
<b>Total</b>	<b>\$ 2,715,979</b>

Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

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Region	Year Ended December 31,		
	2009	2010	2011
Europe	46%	45%	45%
Asia	20%	21%	24%
North America	16%	15%	13%
Latin America	7%	9%	7%
Middle East and Africa	11%	10%	11%
Total	100%	100%	100%

F-18

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The classification of regions in the tables above and the table and discussion below is determined based on the principal location of the lessee of each aircraft.

For the year ended December 31, 2009, one customer accounted for 9% of lease rental revenues, and two additional customers accounted for a combined 13% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

For the year ended December 31, 2010, one customer accounted for 11% of lease rental revenues, and two additional customers accounted for a combined 14% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

For the year ended December 31, 2011, one customer accounted for 11% of lease rental revenues, and three additional customers accounted for a combined 19% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue in any year based on each lessee's principal place of business for the years indicated:

Country	2009		2010		2011	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
China	\$	%	\$ 60,181	11%	\$ 69,534	11%
United States	65,662	12%	66,847	13%	64,195	11%
Netherlands	67,372	12%	56,057	11%		%

Geographic concentration of net book value of flight equipment held for lease was as follows:

Region	December 31, 2010		December 31, 2011	
	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Europe	66	46%	66	41%
Asia	35	26%	39	28%
North America	14	10%	16	9%
Latin America	11	8%	10	6%
Middle East and Africa	10	10%	9	15%
Off-lease		%	4 <sup>(1)</sup>	1%
Total	136	100%	144	100%

- (1) Includes two Boeing Model 747-400 aircraft being converted from passenger to freighter configuration, one of these aircraft was delivered to a customer in North America in January 2012 and we have a commitment to lease the other aircraft post-conversion to a customer in North America; one Airbus Model A320-200 aircraft for which we have a lease commitment, and one Boeing Model 737-400 aircraft which was sold in January 2012.





**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The following table sets forth net book value of flight equipment attributable to individual countries representing at least 10% of net book value of flight equipment based on each lessee's principal place of business as of:

Country	December 31, 2010			December 31, 2011		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
China	\$ 518,545	13%	5	\$ 526,008	12%	4
Russia <sup>(a)</sup>				453,695	10%	8
Netherlands <sup>(b)</sup>	410,086	10%	3		%	

(a) The net book value of flight equipment attributable to Russia was less than 10% as of December 31, 2010.

(b) The net book value of flight equipment attributable to the Netherlands was less than 10% as of December 31, 2011. At December 31, 2010 and 2011, the amounts of lease incentive liabilities recorded in maintenance payments on the consolidated balance sheets were \$26,536 and \$28,412, respectively.

**Note 4. Variable Interest Entities**

Aircastle consolidates eight VIEs of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the 23 aircraft discussed below.

*Securizations and Term Financing*

In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc ( ACS Ireland ) and ACS Aircraft Finance Bermuda Limited ( ACS Bermuda ) issued Class A-1 notes, and each has fully and unconditionally guaranteed the other's obligations under the notes. In connection with Securitization No. 2, two of our subsidiaries, ACS Aircraft Finance Ireland 2 Limited ( ACS Ireland 2 ) and ACS 2007-1 Limited ( ACS Bermuda 2 ) issued Class A-1 notes and each has fully and unconditionally guaranteed the other's obligations under the notes. In connection with Term Financing No. 1, two of our subsidiaries, ACS Ireland 3 Limited ( ACS Ireland 3 ) and ACS 2008-1 Limited ( ACS Bermuda 3 ) entered into a seven-year term debt facility and each has fully and unconditionally guaranteed the other's obligations under the term debt facility. ACS Bermuda, ACS Bermuda 2 and ACS Bermuda 3 are collectively referred to as the ACS Bermuda Group. At December 31, 2011, the assets of the three VIEs include 15 aircraft transferred into the VIEs at historical cost basis in connection with Securitization No. 1, Securitization No. 2 and Term Financing No. 1.

Aircastle is the primary beneficiary of ACS Ireland, ACS Ireland 2 and ACS Ireland 3 (collectively, the ACS Ireland VIEs ), as we have both the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through Class E-1 Securities. Although Aircastle has not guaranteed the ACS Ireland VIEs debt, Aircastle wholly owns the ACS Bermuda Group which has fully and unconditionally guaranteed the ACS Ireland VIEs obligations. The activity that most significantly impacts the economic performance is the leasing of aircraft. Aircastle Advisor (Ireland) Limited (Aircastle's wholly owned subsidiary) is the remarketing servicer and is responsible for the leasing of the aircraft. An Irish charitable trust owns 95% of the common shares of the ACS Ireland VIEs. The Irish charitable trust's risk is limited to its annual dividend of \$2 per VIE.



**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

The combined assets of the ACS Ireland VIEs as of December 31, 2011 are \$474,990. The combined liabilities of the ACS Ireland VIEs, net of \$96,016 Class E-1 Securities held by the Company, which is eliminated in consolidation, as of December 31, 2011 are \$416,687.

*ECA Term Financings*

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the Air Knight VIEs ), entered into nine different twelve-year term loans, which are supported by guarantees from Compagnie Francaise d Assurance pour le Commerce Extérieur, ( COFACE ), the French government sponsored export credit agency ( ECA ). These loans provided for the financing for nine new Airbus Model A330-200 aircraft. In June 2011, we repaid one of these loans from the proceeds of the sale of the related aircraft. At December 31, 2011, Aircastle had eight outstanding term loans with guarantees from COFACE. We refer to these COFACE-supported financings as ECA Term Financings.

Aircastle is the primary beneficiary of the Air Knight VIEs, as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through a finance lease. The activity that most significantly impacts the economic performance is the leasing of aircraft of which our wholly owned subsidiary is the servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements and deferred financing costs. The related aircraft, with a net book value as of December 31, 2011 were \$661,734, are included in our flight equipment held for lease. The consolidated debt outstanding of the Air Knight VIEs as of December 31, 2011 is \$536,107.

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)***Note 5. Borrowings from Secured and Unsecured Debt Financings**

The outstanding amounts of our secured and unsecured term debt financings were as follows:

Debt Obligation	At December 31, 2010		At December 31, 2011	
	Outstanding Borrowings	Outstanding Borrowings	Interest Rate <sup>(1)</sup>	Final Stated Maturity <sup>(2)</sup>
<b>Secured Debt Financings:</b>				
Securitization No. 1	\$ 415,103	\$ 387,124	0.55%	06/20/31
Securitization No. 2	997,713	891,452	0.54%	06/14/37
Term Financing No. 1	643,196	595,076	2.03%	05/02/15
ECA Term Financings	267,311	536,107	2.65% to 3.96%	12/03/21 to 07/13/23
Bank Financings		126,000	4.22% to 4.57%	09/15/15 to 10/26/17
A330 PDP Facility	88,487		N/A	
Total secured debt financings	2,411,810	2,535,759		
<b>Unsecured Debt Financings:</b>				
Senior Notes due 2018	296,148	450,757	9.75%	08/01/18
2010 Revolving Credit Facility			N/A	09/28/13
Total unsecured debt financings	296,148	450,757		
Total secured and unsecured debt financings	\$ 2,707,958	\$ 2,986,516		

(1) Reflects floating rate in effect at the applicable reset date except for the ECA Term Financings and the 2010-1 Notes, which are fixed rate.

(2) Effective June 2011 for Securitization No. 1, all cash flows available after expenses and interest is applied to debt amortization. For Securitization No. 2 and Term Financing No. 1, all cash flows available after expenses and interest will be applied to debt amortization, if the debt is not refinanced by June 2012 and May 2013, respectively.

The following securitizations and term debt financing structures include liquidity facility commitments described in the table below:

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Facility	Liquidity Facility Provider	Available Liquidity		Unused Fee	Interest Rate on any Advances
		December 31, 2010	December 31, 2011		
Securitization No. 1	Crédit Agricole Corporate and Investment Bank <sup>(1)</sup>	\$ 42,000	\$ 42,000	0.45%	1M Libor + 1.00%
Securitization No. 2	HSH Nordbank AG <sup>(2)</sup>	74,828	66,859	0.50%	1M Libor + 0.75%
Term Financing No. 1	Crédit Agricole Corporate and Investment Bank <sup>(3)</sup>	12,864	11,902	0.60%	1M Libor + 1.20%

- (1) Following a ratings downgrade with respect to the liquidity facility provider in June 2011, the liquidity facility was drawn, and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. Amounts drawn following a ratings downgrade with respect to the liquidity facility provider do not bear interest; however, net investment earnings will be paid to the liquidity facility provider, and the unused fee continues to apply.

F-22

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

(2) Following a ratings downgrade with respect to the liquidity facility provider in May 2009, the liquidity facility was drawn, and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. Amounts drawn following a ratings downgrade with respect to the liquidity facility provider do not bear interest; however, net investment earnings will be paid to the liquidity facility provider, and the unused fee continues to apply.

(3) There is no ratings threshold for the liquidity facility provider under Term Financing No. 1, and, accordingly, the ratings change referred to in footnote (1) above did not trigger a liquidity facility drawing in relation to Term Financing No. 1.

The purpose of these facilities is to provide liquidity for the relevant securitization or term financing in the event that cash flow from lease contracts and other revenue sources is not sufficient to pay operating expenses with respect to the relevant aircraft portfolio, interest payments and interest rate hedging payments for the relevant securitization or term debt financings. These liquidity facilities are generally 364-day commitments of the liquidity provider and may be extended prior to expiry. If a facility is not extended, or in certain circumstances if the short-term credit rating of the liquidity provider is downgraded, the relevant securitization or term financing documents require that the liquidity facility is drawn and the proceeds of the drawing placed on deposit so that such amounts may be available, if needed, to provide liquidity advances for the relevant securitization or term financing. Downgrade or non-extension drawings are generally not required to be repaid to the liquidity facility provider until 15 days after final maturity of the securitization or term financing debt. In the case of the liquidity facilities for Securitization No. 1 and Term Financing No. 1, the required amount of the facilities reduce over time as the principal balance of the debt amortizes, with the Securitization No. 2 liquidity facility having a minimum required amount of \$65,000.

**Secured Debt Financings:**

*Securitization No. 1*

On June 15, 2006, we completed our first securitization, a \$560,000 transaction comprised of 40 aircraft and related leases ( Securitization No. 1 ). Securitization No. 1 is neither an obligation of, nor guaranteed by, Aircastle Limited. Under the terms of Securitization No. 1, effective June 15, 2011, all cash flows available after expenses and interest were applied to debt amortization.

*Securitization No. 2*

On June 8, 2007, we completed our second securitization, a \$1,170,000 transaction comprising 59 aircraft and related leases ( Securitization No. 2 ). Securitization No. 2 is neither an obligation of, nor guaranteed by, Aircastle Limited. Under the terms of Securitization No. 2, effective June 8, 2012 all cash flows available after expenses and interest will be applied to debt amortization.

The terms of Securitization No. 2 require the ACS 2 Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS 2 Group's compliance with these covenants depends substantially upon the timely receipt of lease payments from its lessees. In particular, during the first five years from issuance, Securitization No. 2 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 60.6% of an assumed value of the aircraft securing the ACS 2 Notes, reduced over time by an assumed amount of depreciation. If the debt service coverage ratio requirement of 1.70 is not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of Securitization No. 2 (beginning June 8, 2010), all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

*Term Financing No. 1*

On May 2, 2008 we entered into a seven year, \$786,135 term debt facility ( Term Financing No. 1 ) to finance a portfolio of 28 aircraft. The loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on May 2, 2015. Under the terms of Term Financing No. 1, effective May 2, 2013 all cash flows available after expenses and interest will be applied to debt amortization.

Term Financing No. 1 requires compliance with certain financial covenants in order to continue to receive excess cash flows, including the maintenance of loan to value and debt service coverage ratios. If the loan to value ratio exceeds 75%, all excess cash flows will be applied to prepay the principal balance of the loans until such time as the loan to value ratio falls below 75%. In addition, debt service coverage must be maintained at a minimum of 1.32. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates, all excess cash flows will thereafter be applied to prepay the principal balance of the loans until such time as the debt service coverage ratio exceeds the minimum level. Compliance with these covenants depends substantially upon the appraised value of the aircraft securing Term Financing No. 1 and the timely receipt of lease payments from their lessees. We refer to any prepayments of principal following noncompliance with the loan to value or debt service coverage ratios as Supplemental Principal Payments.

A maintenance-adjusted appraisal of Term Financing No. 1 Portfolio must be completed each year, before a date in early May by a specified appraiser. To determine the maintenance-adjusted values, the appraiser applies upward or downward adjustments of its half-life current market values for the aircraft in the Term Financing No. 1 Portfolio based upon the maintenance status of the airframe, engines, landing gear and auxiliary power unit ( APU ), and applies certain other upward or downward adjustments for equipment and capabilities and for utilization. Compliance with the loan to value ratio is measured each month by comparing the 75% minimum ratio against the most recently completed maintenance-adjusted appraised value, less 0.5% for each month since such appraisal was provided to the lenders, plus 75% of the cash maintenance reserve balance held on deposit for the Term Financing No. 1 Portfolio. In June 2010, we amended the loan documents for Term Financing No. 1 so that 75% of the stated amount of qualifying letters of credit held for maintenance events would be taken into account in the loan to value test. Noncompliance with the loan to value ratio will require us to make Supplemental Principal Payments but will not by itself result in a default under Term Financing No. 1.

In February 2012, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we expect to be in compliance with the loan to value ratio on the March 2012 payment date and for the next twelve months.

*ECA Term Financings*

In 2010, we entered into two twelve-year term loans which are supported by guarantees from Compagnie Francaise d Assurance pour le Commerce Extérieur ( COFACE ) for the financing of two new Airbus Model A330-200 aircraft totaling \$138,295. During 2011, we entered into five twelve-year term loans which are supported by guarantees from COFACE for the financing of five new Airbus Model A330-200 aircraft totaling \$359,393. In 2011, we repaid in full the outstanding principal balance on one of our ECA term financings in the amount of \$61,571. We refer to these COFACE-supported financings as ECA Term Financings . The borrowings under these financings at December 31, 2011 have a weighted average fixed rate of interest equal to 3.314%.

The obligations outstanding under the ECA Term Financings are secured by, among other things, a mortgage over the aircraft and a pledge of our ownership interest in our subsidiary company that leases the aircraft to the operator. The ECA Term Financings documents contain a \$500,000 minimum net worth covenant

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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

for Aircastle Limited, as well as a material adverse change default and cross default to any other recourse obligation of Aircastle Limited, and other terms and conditions customary for ECA-supported financings being completed at this time. In addition, Aircastle Limited has guaranteed the repayment of the ECA Term Financings.

*A330 PDP Facility*

In June 2010, one of our subsidiaries entered into a \$108,500 loan facility to finance a portion of the pre-delivery payments ( PDP ) on six new Airbus Model A330-200 aircraft to be acquired under the Airbus A330 acquisition agreement (the Airbus A330 Agreement ). We refer to this loan facility as the A330 PDP Facility. We paid back the loans during 2011, and they are no longer available for borrowing.

*Bank Financings*

In October 2011, one of our subsidiaries entered into a \$90,000 loan facility to finance a portion of the purchase of a Boeing Model 777-300ER aircraft. The loan is to be repaid in 24 equal quarterly principal installments beginning January 26, 2012 and a balloon payment of \$50,000 on the final repayment date of October 26, 2017.

In December 2011, two of our subsidiaries each entered into \$18,000 loan facilities to finance the purchase of two McDonnell Douglas MD11-F aircraft. The loans are to be repaid over 45 and 47 months, respectively, in principal installments beginning January 15, 2012 and ending on September 15, 2015 and November 15, 2015, respectively.

We refer to these loan facilities as Bank Financings . Our Bank Financings contain, among other customary provisions, a \$500,000 minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender. In addition, Aircastle Limited has guaranteed the repayment of the Bank Financings. The borrowings under these financings at December 31, 2011 have a weighted average fixed rate of interest equal to 4.315%.

**Unsecured Debt Financings:**

*Senior Notes due 2018*

On July 30, 2010, Aircastle Limited issued \$300,000 aggregate principal amount of 9.75% Senior Notes due 2018 the ( 2010-1 Notes ), pursuant to an Indenture, dated as of July 30, 2010 (the Original Indenture ), between Aircastle Limited and Wells Fargo Bank, National Association, as trustee. The Existing Notes were issued at 98.645% of par for an effective interest rate of 10.00% and were offered only to qualified institutional buyers and buyers outside the United States in accordance with Rule 144A and Regulation S, respectively, under the Securities Act of 1933. On September 24, 2010, the 2010-1 Notes were registered by the Company with the U.S. Securities Exchange Commission, and in October 2010 we completed the exchange of all outstanding unregistered 2010-1 Notes. The registered notes have terms that are substantially identical to the privately placed notes. The 2010-1 Notes will mature on August 1, 2018 and bear interest at the rate of 9.75% per annum, payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2011 to holders of record on the immediately preceding January 15 and July 15.

On December 9, 2011, we issued an additional \$150,000 aggregate principal amount of 9.75% Senior Notes due 2018 (the 2011-1 Notes and together with the 2010-1 Notes, the Senior Notes due 2018 ), pursuant to the Original Indenture, as supplemented by the First Supplemental Indenture, dated as of December 9, 2011, between



**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

Aircastle Limited and Wells Fargo Bank, National Association, as trustee. The 2011-1 Notes were issued at 102.769% of par, for a yield to worst of 9.00%, and were offered only to qualified institutional buyers and buyers outside the United States in accordance with Rule 144A and Regulation S, respectively, under the Securities Act of 1933.

The Company may redeem all or a portion of the Senior Notes due 2018 at any time on or after August 1, 2014 at a premium decreasing ratably to zero, plus accrued and unpaid interest. In addition, prior to August 1, 2013 the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes due 2018 with the net cash proceeds of certain equity offerings at a redemption price equal to 109.75%, plus accrued and unpaid interest. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2018 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2018 are the Company's unsecured senior obligations and rank equally in right of payment with all of the Company's existing and future senior debt and rank senior in right of payment to all of the Company's existing and future subordinated debt. The Senior Notes due 2018 are effectively junior in right of payment to all of the Company's existing and future secured debt to the extent of the assets securing such debt and to any existing and future liabilities of the Company's subsidiaries. The Senior Notes due 2018 are not guaranteed by any of the Company's subsidiaries or any third party.

We used a portion of the net proceeds from the 2010-1 Notes to repay all of the outstanding indebtedness under our Term Financing No. 2 and our A330 SLB Facility and for general corporate purposes, including the purchase of aviation assets. We used the proceeds from the 2011-1 Notes for general corporate purposes, including the purchase of aviation assets.

*2010 Revolving Credit Facility*

On September 28, 2010, the Company entered into a three-year \$50,000 senior unsecured revolving credit facility with a group of banks (the 2010 Revolving Credit Facility). The 2010 Revolving Credit Facility provides loans in amounts up to \$50,000 for working capital and other general corporate purposes. We have not drawn on the 2010 Revolving Credit Facility as of December 31, 2011.

Maturities of the secured and unsecured debt financings over the next five years and thereafter are as follows:

2012	\$ 247,228 <sup>(1)</sup>
2013	328,760
2014	350,874
2015	673,159
2016	246,874
Thereafter	1,138,864
<b>Total</b>	<b>\$ 2,985,759</b>

(1) Includes repayments of \$15,197 in 2012 related to contracted sales for two aircraft in 2011. As of December 31, 2011, we are in compliance with all applicable covenants in our financings.



**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)***Note 6. Shareholders Equity and Share Based Payment**

In January 2006, the board of directors (the Board) and the Fortress Shareholders adopted the Aircastle Investment Limited 2005 Equity and Incentive Plan, and the Board and the Fortress Shareholders approved an amendment to and restatement thereof on July 20, 2006 (as so amended and restated, the 2005 Plan). The purpose of the 2005 Plan is to provide additional incentive to selected management employees. The 2005 Plan provides that the Company may grant (a) share options, (b) share appreciation rights, (c) awards of restricted common shares, deferred shares, performance shares, unrestricted shares or other share-based awards, or (d) any combination of the foregoing. Four million shares were reserved under the 2005 Plan, increasing by 100,000 each year beginning in 2007 through and including 2016. The 2005 Plan provides that grantees of restricted common shares will have all of the rights of shareholders, including the right to receive dividends, other than the right to sell, transfer, assign or otherwise dispose of the shares until the lapse of the restricted period. Generally, the restricted common shares vest over three or five year periods based on continued service and are being expensed on a straight line basis over the requisite service period of the awards. The terms of the grants provide for accelerated vesting under certain circumstances, including termination without cause following a change of control.

A summary of the fair value of non-vested shares for the years ended December 31, 2009, 2010 and 2011 is as follows:

	Shares (in 000 s)	Weighted Average Grant Date Fair Value
<b>Non vested Shares</b>		
Non-vested at January 1, 2009	906.8	\$ 23.18
Granted	1,069.4	5.97
Cancelled	(0.3)	28.89
Vested	(297.7)	20.30
Non-vested at December 31, 2009	1,678.2	12.73
Granted	205.1	10.14
Cancelled	(7.1)	9.62
Vested	(712.5)	14.15
Non-vested at December 31, 2010	1,163.7	11.42
Granted	311.9	12.95
Cancelled	(6.5)	9.81
Vested	(526.3)	14.10
Non-vested at December 31, 2011	942.8	\$ 10.44

The fair value of the restricted common shares granted in 2009, 2010 and 2011 were determined based upon the market price of the shares at the grant date.

The total unrecognized compensation cost, adjusted for estimated forfeitures, related to all non-vested shares as of December 31, 2011, in the amount of \$5,105, is expected to be recognized over a weighted average period of 1.61 years.

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The Company's Board of Directors authorized the repurchase of up to \$90,000 of the Company's common shares. Under the program, the Company may purchase its common shares from time to time in the open market or in privately negotiated transactions. The Company may also from time to time establish a trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934 (the Exchange Act) to facilitate purchases of its common shares under this authorization. At December 31, 2011, we repurchased 7,552,820 shares at a total cost of \$90,000 including commissions, completing the share repurchases to the authorized amounts.

F-27

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)***Note 7. Dividends**

The following table sets forth the quarterly dividends declared by our Board of Directors for the three years ended December 31, 2011:

<b>Declaration Date</b>	<b>Dividend per Common Share</b>	<b>Aggregate Dividend Amount</b>	<b>Record Date</b>	<b>Payment Date</b>
December 22, 2008	\$0.100	\$ 7,862	December 31, 2008	January 15, 2009
March 13, 2009	\$0.100	7,923	March 31, 2009	April 15, 2009
June 10, 2009	\$0.100	7,923	June 30, 2009	July 15, 2009
September 10, 2009	\$0.100	7,924	September 30, 2009	October 15, 2009
December 14, 2009	\$0.100	7,955	December 31, 2009	January 15, 2010
March 12, 2010	\$0.100	7,951	March 31, 2010	April 15, 2010
May 25, 2010	\$0.100	7,947	June 30, 2010	July 15, 2010
September 21, 2010	\$0.100	7,947	September 30, 2010	October 15, 2010
December 6, 2010	\$0.100	7,964	December 31, 2010	January 14, 2011
March 8, 2011	\$0.100	7,857	March 31, 2011	April 15, 2011
June 27, 2011	\$0.125	9,364	July 7, 2011	July 15, 2011
September 14, 2011	\$0.125	9,035	September 30, 2011	October 14, 2011
November 7, 2011	\$0.150	10,839	November 30, 2011	December 15, 2011

**Note 8. Earnings Per Share**

We include all common shares granted under our incentive compensation plan which remain unvested ( restricted common shares ) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ( participating securities ), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period as follows:

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Weighted-average shares:</b>			
Common shares outstanding	77,986,155	78,488,031	74,686,150
Restricted common shares	1,317,547	1,118,542	956,433
Total weighted-average shares	79,303,702	79,606,573	75,642,583

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	Year Ended December 31,		
	2009	2010	2011
<b>Percentage of weighted-average shares:</b>			
Common shares outstanding	98.34%	98.59%	98.74%
Restricted common shares	1.66%	1.41%	1.26%
Total	100.00%	100.00%	100.00%

F-28

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The calculations of both basic and diluted earnings per share for the years ended December 31, 2009, 2010 and 2011 are as follows:

	Year Ended December 31,		
	2009	2010	2011
<b>Earnings per common share Basic:</b>			
Income from continuing operations	\$ 102,492	\$ 65,816	\$ 124,270
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(a)</sup>	(1,703)	(925)	(1,571)
Income from continuing operations available to common shareholders Basic	\$ 100,789	\$ 64,891	\$ 122,699
Weighted-average common shares outstanding Basic	77,986,155	78,488,031	74,686,150
Net income per common share Basic	\$ 1.29	\$ 0.83	\$ 1.64
<b>Earnings per common share Diluted:</b>			
Income from continuing operations	\$ 102,492	\$ 65,816	\$ 124,270
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(a)</sup>	(1,703)	(925)	(1,571)
Income from continuing operations available to common shareholders Basic	\$ 100,789	\$ 64,891	\$ 122,699
Weighted-average common shares outstanding Basic	77,986,155	78,488,031	74,686,150
Effect of diluted shares	<sup>(b)</sup>	<sup>(b)</sup>	<sup>(b)</sup>
Weighted-average common shares outstanding Diluted	77,986,155	78,488,031	74,686,150
Net income per common share Diluted	\$ 1.29	\$ 0.83	\$ 1.64

(a) For the years ended December 31, 2009, 2010 and 2011, distributed and undistributed earnings to restricted shares is 1.66%, 1.41% and 1.26%, respectively, of net income. The amount of restricted share forfeitures for all periods present is immaterial to the allocation of distributed and undistributed earnings.

(b) For the years ended December 31, 2009, 2010 and 2011, we have no dilutive shares.

**Note 9. Income Taxes**

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Income taxes have been provided for based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. This date was recently extended by the Government of Bermuda from March 2016. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

F-29



**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The sources of income from continuing operations before income taxes for the years ended December 31, 2009, 2010 and 2011 were as follows:

	Year Ended December 31,		
	2009	2010	2011
U.S. operations	\$ 1,971	\$ 1,661	\$ 1,551
Non-U.S. operations	109,181	70,751	130,551
<b>Total</b>	<b>\$ 111,152</b>	<b>\$ 72,412</b>	<b>\$ 132,102</b>

The components of the income tax provision from continuing operations for the year ended December 31, 2009, 2010 and 2011 consisted of the following:

	Year Ended December 31,		
	2009	2010	2011
<b>Current:</b>			
United States:			
Federal	\$ 1,805	\$ 1,874	\$ 643
State	96	48	75
Non-U.S	583	947	1,499
Current income tax provision	2,484	2,869	2,217
<b>Deferred:</b>			
United States:			
Federal	628	712	982
State	244	161	355
Non-U.S	5,304	2,854	4,278
Deferred income tax provision (benefit)	6,176	3,727	5,615
<b>Total</b>	<b>\$ 8,660</b>	<b>\$ 6,596</b>	<b>\$ 7,832</b>

Significant components of the Company's deferred tax assets and liabilities at December 31, 2009, 2010 and 2011 consisted of the following:

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	Year Ended December 31,		
	2009	2010	2011
<b>Deferred tax assets:</b>			
Non-cash share based payments	\$ 2,507	\$ 2,148	\$ 1,420
Net operating loss carry forwards	5,775	6,708	18,213
Interest rate derivatives	3,056	2,789	1,931
Other	119	260	472
<b>Total deferred tax assets</b>	<b>11,457</b>	<b>11,905</b>	<b>22,036</b>
<b>Deferred tax liabilities:</b>			
Accelerated depreciation	(18,743)	(23,468)	(39,462)
Other	(744)	(646)	(948)
<b>Total deferred tax liabilities</b>	<b>(19,487)</b>	<b>(24,114)</b>	<b>(40,410)</b>
<b>Net deferred tax liabilities</b>	<b>\$ (8,030)</b>	<b>\$ (12,209)</b>	<b>\$ (18,374)</b>

F-30

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The Company had approximately \$9,006 of net operating loss ( NOL ) carry forwards available at December 31, 2011 to offset future taxable income subject to U.S. graduated tax rates. If not utilized, these carry forwards begin to expire in 2032. The Company also had NOL carry forwards of \$372,991 with no expiration date to offset future Irish and Mauritius taxable income. Deferred tax assets and liabilities are included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated balance sheets. The increase in the NOL carry forwards is primarily attributable to tax depreciation claimed in Mauritius, where 100% of the asset is allowed to be depreciated in the year placed in service.

We do not expect to incur income taxes on future distributions of undistributed earnings of non-U.S. subsidiaries and, accordingly, no deferred income taxes have been provided for the distributions of such earnings. As of December 31, 2011, we have elected to permanently reinvest our accumulated undistributed U.S. earnings of \$10,046. Accordingly, no U.S. withholding taxes have been provided. Withholding tax of \$3,014 would be due if such earnings were remitted.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations at December 31, 2009, 2010 and 2011 consisted of the following:

	Year Ended December 31,		
	2009	2010	2011
Notional U.S. federal income tax expense at the statutory rate:	\$ 38,903	\$ 25,344	\$ 46,236
U.S. state and local income tax, net	129	121	92
Non-U.S. operations:			
Bermuda	(22,724)	(12,971)	(29,105)
Ireland	(8,389)	(6,891)	(7,907)
Other low tax jurisdictions	52	(47)	(2,090)
Non-deductible expenses in the U.S.	710	1,187	847
Other	(21)	(147)	(241)
Provision for income taxes	\$ 8,660	\$ 6,596	\$ 7,832

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

We conduct business globally and, as a result, the Company and its subsidiaries or branches are subject to foreign, U.S. federal and various state and local income taxes, as well as withholding taxes. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Ireland and the United States. With few exceptions, the Company and its subsidiaries or branches remain subject to examination for all periods since inception.

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Our policy is that we will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We did not accrue interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the year.

F-31

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)***Note 10. Interest, Net**

The following table shows the components of interest, net for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$ 146,617	\$ 153,064	\$ 172,798
Hedge ineffectiveness losses (gains)	463	5,039	(101)
Amortization related to deferred losses	12,894	9,634	23,078
Amortization of deferred financing fees	12,232	15,065	15,271
Interest Expense	172,206	182,802	211,046
Less interest income	(939)	(413)	(390)
Less capitalized interest	(1,457)	(4,127)	(6,506)
Interest, net	\$ 169,810	\$ 178,262	\$ 204,150

**Note 11. Commitments and Contingencies**

Rent expense, primarily for the corporate office and sales and marketing facilities, was approximately \$1,272, \$1,135 and \$1,163 for the years ended December 31, 2009, 2010 and 2011, respectively.

As of December 31, 2011, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut; Dublin, Ireland; and Singapore for future minimum lease payments as follows:

December 31,	Amount
2012	\$ 1,035
2013	101
2014	101
2015	101
2016	50
Thereafter	
<b>Total</b>	<b>\$ 1,388</b>

On June 20, 2007, we entered into an acquisition agreement, which we refer to as the Airbus A330 Agreement, under which we agreed to acquire new A330 aircraft (the New A330 Aircraft), from Airbus SAS (Airbus). As of December 31, 2011, we had one New A330 Aircraft

remaining to be delivered in 2012.

At December 31, 2011, we had commitments to acquire, convert and/or modify aircraft including, where applicable, our estimate of adjustments for configuration changes, engine acquisition costs, contractual price escalations and other adjustments, net of amounts already paid, of \$116,249, all of which we expect to occur in 2012.

**Note 12. Related Party Transactions**

In May 2006, two of our operating subsidiaries entered into service agreements to provide certain leasing, remarketing, administrative and technical services to a Fortress entity with respect to four aircraft owned by the

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

Fortress entity and leased to third parties. As of December 31, 2009, 2010 and 2011, we had earned \$174, \$138 and \$81, respectively, in fees due from the Fortress entity. Total fees paid to us for the years ended December 31, 2009, 2010 and 2011 were \$166, \$142 and \$90, respectively. As of December 31, 2010 and 2011, we had a \$21 and a \$0 receivable, respectively, from Fortress.

**Note 13. Derivatives**

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate derivatives to hedge the current and expected future interest rate payments on our variable rate debt. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment.

We held the following interest rate derivatives as of December 31, 2011:

Hedged Item	Current Notional Amount	Effective Date	Maturity Date	Derivative Liabilities		Fixed Rate	Balance Sheet Location	Fair Value
				Future Maximum Notional Amount	Floating Rate			
<b>Interest rate derivatives designated as cash flow hedges:</b>								
<b>Currently in effect:</b>								
Securitization No. 1	\$ 372,430	Jun-06	Jun-16	\$ 372,430	1M LIBOR + 0.27%	5.78%	Fair value of derivative liabilities	\$ 59,936
Securitization No. 2	942,879	Jun-07	Jun-12	942,879	1M LIBOR	5.25% to 5.36%	Fair value of derivative liabilities	20,403
Term Financing No. 1	539,124	Jun-08	May-13	539,124	1M LIBOR	4.04%	Fair value of derivative liabilities	24,185
Total interest rate derivatives currently in effect	\$ 1,854,433			\$ 1,854,433				104,524
<b>Forward starting:</b>								
Securitization No. 2		Jun-12	Jun-17	\$ 645,543	1M LIBOR	1.26% to 1.28%	Fair value of derivative liabilities	5,071

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Term Financing No. 1	\$	May-13	May-15	477,838	1M LIBOR	5.31%	Fair value of derivative liabilities	32,044
Total forward starting interest rate derivatives	\$			\$ 1,123,381				37,115
Total interest rate derivative liabilities								\$ 141,639

F-33



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**Table of Contents**

**Aircastle Limited and Subsidiaries**

**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

The weighted average interest pay rates of these derivatives at December 31, 2009, 2010 and 2011 were 4.91%, 5.01% and 5.03%, respectively.

In September 2011, we entered into a series of interest rate forward contracts with a combined notional amount of \$645,543. These forward starting interest rate derivatives are hedging the variable rate interest payments related to Securitization No. 2 for the period June 2012 through June 2017. These interest rate derivatives were designated at inception as cash flow hedges for accounting purposes.

For the year ended December 31, 2011, the amount of loss reclassified from accumulated other comprehensive income ( OCI ) into interest expense related to net interest settlements on active interest rate derivatives was \$90,139. The amount of loss expected to be reclassified from OCI into interest expense over the next 12 months related to net interest settlements on active interest rate derivatives is \$57,928.

Our interest rate derivatives involve counterparty credit risk. As of December 31, 2011, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA, HSH Nordbank AG and Wells Fargo Bank NA. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of Baa2 or above) by Moody's Investors Service. All are also considered investment grade (long-term foreign issuer ratings of A- or above) by Standard and Poor's, except HSH Nordbank AG, which is not rated. We do not anticipate that any of these counterparties will fail to meet their obligations.

In addition to the derivative liability above, another component of the fair value of our interest rate derivatives is accrued interest. As of December 31, 2011, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$5,207 related to interest rate derivatives designated as cash flow hedges.

Historically, the Company acquired its aircraft using short-term credit facilities and equity. The short-term credit facilities were refinanced by securitizations or term debt facilities secured by groups of aircraft. The Company completed two securitizations and two term financings during the period 2006 through 2008. The Company entered into interest rate derivatives to hedge interest payments on variable rate debt for acquired aircraft as well as aircraft that it expected to acquire within certain future periods. In conjunction with its financing strategy, the Company used interest rate derivatives for periods ranging from 5 to 10 years to fix the interest rates on the variable rate debt that it incurred to acquire aircraft in anticipation of the expected securitization or term debt re-financings.

At the time of each re-financing, the initial interest rate derivatives were terminated and new interest rate derivatives were executed as required by each specific debt financing. At the time of each interest rate derivative termination, certain interest rate derivatives were in a gain position and others were in a loss position. Since the hedged interest payments for the variable rate debt associated with each terminated interest rate derivative were probable of occurring, the gain or loss was deferred in accumulated other comprehensive income (loss) and is being amortized into interest expense over the relevant period for each interest rate derivative.

Prior to the securitizations and term debt financings, our interest rate derivatives typically required us to post cash collateral to the counterparty when the value of the interest rate derivative exceeded a defined threshold. When the interest rate derivatives were terminated and became part of a larger aircraft portfolio financing, there were no cash collateral posting requirements associated with the new interest rate derivative. As of December 31, 2011, we did not have any cash collateral pledged under our interest rate derivatives, nor do we have any existing agreements that require cash collateral postings.

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

Following is the effect of interest rate derivatives on the statement of financial performance for the year ended December 31, 2011:

Derivatives in	Effective Portion		Ineffective Portion			
	Cash Flow	Hedging	Relationships	Cash Flow	Hedging	Relationships
ASC 815	Amount of Gain or (Loss) Recognized in OCI on Derivative <sup>(a)</sup>	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income <sup>(b)</sup>	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative <sup>(c)</sup>	
Interest rate derivatives	\$ (51,110)	Interest expense	\$ (103,141)	Interest expense	\$ (2,309)	

- (a) This represents the change in fair market value of our interest rate derivatives since year end, net of taxes, offset by the amount of actual cash paid related to the net settlements of the interest rate derivatives for each of the twelve months ended December 31, 2011.
- (b) This represents the amount of actual cash paid, net of taxes, related to the net settlements of the interest rate derivatives for each of the twelve months ended December 31, 2011 plus any effective amortization of net deferred interest rate derivative losses.
- (c) This represents both realized and unrealized ineffectiveness incurred during the twelve months ended December 31, 2011 excluding accelerated amortization of deferred losses of \$8,508.

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income		Amount of Gain or (Loss) Recognized in Income on Derivative
	On Derivative	Other income (expense)	
Interest rate derivatives			\$(848)

On an ongoing basis, terminated swap notionals are evaluated against debt forecasts. To the extent that interest payments are deemed remote to occur, deferred gains or losses are accelerated into interest expense as applicable. Due to the sale of certain aircraft in 2011 and the resulting repayment of ECA Term Financing debt, amortization of deferred losses was accelerated as noted in the table below.

For the year ended December 31, 2011, the amount of deferred net loss (including \$8,508 of accelerated amortization driven by aircraft sales in 2011) reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$23,078. The amount of deferred net loss expected to be reclassified from OCI into interest expense over the next 12 months related to our terminated interest rate derivatives is \$17,429.



**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The following table summarizes amounts charged directly to the consolidated statement of income for the years ended December 31, 2009, 2010, and 2011 related to our interest rate derivative contracts:

	Year Ended December 31,		
	2009	2010	2011
<b>Interest Expense:</b>			
Hedge ineffectiveness losses (gains)	\$ 463	\$ 5,039	\$ (101)
<b>Amortization:</b>			
Accelerated amortization of deferred losses <sup>(1)</sup>	4,924	766	8,508
Amortization of deferred (gains) losses	7,970	8,868	14,570
Total Amortization	12,894	9,634	23,078
Total charged to interest expense	\$ 13,357	\$ 14,673	\$ 22,977
<b>Other Income (Expense):</b>			
Mark to market gains (losses) on undesignated hedges	\$ 959	\$ (860)	\$ (848)
Total charged to other income (expense)	\$ 959	\$ (860)	\$ (848)

(1) For the year ended December, 2011, includes accelerated amortization of deferred hedge losses in the amount of \$8,501 related to three aircraft sold in 2011.

**Note 14. Other Assets**

The following table describes the principal components of other assets on our consolidated balance sheet as of:

	December 31,	
	2010	2011
Deferred debt issuance costs, net of amortization of \$43,826 and \$55,173, respectively	\$ 30,045	\$ 35,960
Deferred federal income tax asset	11,905	22,036
Lease incentives and lease premiums, net of amortization of \$26,749 and \$19,294, respectively	9,115	20,490
Other assets	14,492	11,561
Total other assets	\$ 65,557	\$ 90,047

**Note 15. Accounts Payable, Accrued Expenses and Other Liabilities**

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded on our consolidated balance sheet as of:

	<b>December 31,</b>	
	<b>2010</b>	<b>2011</b>
Accounts payable and accrued expenses	\$ 27,352	\$ 34,931
Deferred federal income tax liability	24,114	40,410
Accrued interest payable	20,211	27,849
Lease discounts, net of amortization of \$32,417 and \$30,830 respectively	4,793	2,242
<b>Total accounts payable, accrued expenses and other liabilities</b>	<b>\$ 76,470</b>	<b>\$ 105,432</b>

**Table of Contents****Aircastle Limited and Subsidiaries****Notes to Consolidated Financial Statements***(Dollars in thousands, except per share amounts)*

The increase in accrued interest payable is primarily due to accrued semi-annual interest on our Senior Notes due 2018 which is due on February 1, 2012.

**Note 16. Quarterly Financial Data (Unaudited)**

Quarterly results of our operations for the years ended December 31, 2010 and 2011 are summarized below:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2010</b>				
Revenues	\$ 130,561	\$ 130,184	\$ 132,247	\$ 134,718
Net income	\$ 18,879	\$ 18,139	\$ 8,569	\$ 20,229
Basic earnings per share:				
Net income	\$ 0.24	\$ 0.23	\$ 0.11	\$ 0.25
Diluted earnings per share:				
Net income	\$ 0.24	\$ 0.23	\$ 0.11	\$ 0.25
<b>2011</b>				
Revenues	\$ 157,914	\$ 148,838	\$ 141,507	\$ 156,938
Net income	\$ 42,677	\$ 23,309	\$ 22,665	\$ 35,619
Basic earnings per share:				
Net income	\$ 0.54	\$ 0.30	\$ 0.31	\$ 0.49
Diluted earnings per share:				
Net income	\$ 0.54	\$ 0.30	\$ 0.31	\$ 0.49

The sum of the quarterly earnings per share amounts may not equal the annual amount reported since per share amounts are computed independently for each period presented.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Aircastle Limited has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 29, 2012

**Aircastle Limited**

By: /s/ Ron Wainshal  
 Ron Wainshal  
 Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Aircastle Limited and in the capacities and on the date indicated.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
/s/ Ron Wainshal Ron Wainshal	Chief Executive Officer and Director	February 29, 2012
/s/ Michael Inglese Michael Inglese	Chief Financial Officer	February 29, 2012
/s/ Aaron Dahlke Aaron Dahlke	Chief Accounting Officer	February 29, 2012
/s/ Wesley R. Edens Wesley R. Edens	Chairman of the Board	February 29, 2012
/s/ Joseph P. Adams, Jr. Joseph P. Adams, Jr.	Deputy Chairman of the Board	February 29, 2012
/s/ Ronald W. Allen Ronald W. Allen	Director	February 29, 2012
/s/ Douglas A. Hacker Douglas A. Hacker	Director	February 29, 2012
/s/ Ronald L. Merriman Ronald L. Merriman	Director	February 29, 2012

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/s/ Charles W. Pollard

Director

February 29, 2012

Charles W. Pollard

/s/ Peter V. Ueberroth

Director

February 29, 2012

Peter V. Ueberroth

S-1