Aircastle LTD
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2009

or

o **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	**98-0444035**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

c/o Aircastle Advisor LLC	
300 First Stamford Place, 5th Floor, Stamford, CT	**06902**
(Address of principal executive offices)	*(Zip Code)*

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

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 þ NO o

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

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o NO þ

As of October 30, 2009, there were 79,234,663 outstanding shares of the registrant s common shares, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2008	September 30, 2009 (Unaudited)
ASSETS		
Cash and cash equivalents	$ 80,947	$ 132,408
Accounts receivable	3,161	4,065
Debt investments	14,349	7,136
Restricted cash and cash equivalents	182,623	218,079
Restricted liquidity facility collateral		81,000
Flight equipment held for lease, net of accumulated depreciation of $371,591 and $521,251	3,837,543	3,767,314
Aircraft purchase deposits and progress payments	68,923	109,454
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of $1,999 and $2,349	1,174	907
Other assets	62,852	70,519
Total assets	$ 4,251,572	$ 4,390,882
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Borrowings from securitizations and term debt financings	$ 2,476,296	$ 2,435,593
Accounts payable, accrued expenses and other liabilities	60,789	59,205
Dividends payable	7,862	7,923
Lease rentals received in advance	28,463	27,758
Liquidity facility		81,000
Security deposits	65,307	73,131
Maintenance payments	224,288	250,018
Fair value of derivative liabilities	276,401	205,549
Total liabilities	3,139,406	3,140,177
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
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, 78,620,320 shares issued and outstanding at December 31, 2008; and 79,234,663 shares issued and outstanding at September 30, 2009	786	792
Additional paid-in capital	1,474,455	1,478,275

Retained earnings (deficit)	(473)	55,256
Accumulated other comprehensive loss	(362,602)	(283,618)
Total shareholders equity	1,112,166	1,250,705
Total liabilities and shareholders equity	$ 4,251,572	$ 4,390,882

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Revenues:				
Lease rental revenue	$ 136,578	$ 128,283	$ 405,206	$ 383,683
Amortization of net lease discounts and lease incentives	1,781	(3,992)	6,929	(7,919)
Maintenance revenue	5,433	31,376	9,575	47,616
Total lease rentals	143,792	155,667	421,710	423,380
Interest income	628	556	2,533	1,783
Other revenue	34	9,517	562	9,628
Total revenues	144,454	165,740	424,805	434,791
Expenses:				
Depreciation	52,020	53,130	151,840	156,379
Interest, net	54,112	43,032	146,442	127,925
Selling, general and administrative (including non-cash share based payment expense of $1,659 and $1,742 for the three months ended, and $4,872 and $5,129 for the nine months ended September 30, 2008 and 2009, respectively)	11,641	11,074	34,484	33,291
Impairment of aircraft		18,211		18,211
Maintenance and other costs	891	4,836	2,133	15,114
Total expenses	118,664	130,283	334,899	350,920
Other income (expense):				
Gain on sale of aircraft	772	162	5,898	162
Other	(1,673)	(738)	(590)	855
Total other income (expense)	(901)	(576)	5,308	1,017
Income from continuing operations before income taxes	24,889	34,881	95,214	84,888
Income tax provision	1,315	1,423	4,662	5,388
Net income	$ 23,574	$ 33,458	$ 90,552	$ 79,500

Earnings per common share	Basic	$ 0.30	$ 0.42	$ 1.15	$ 1.00
Earnings per common share	Diluted	$ 0.30	$ 0.42	$ 1.15	$ 1.00
Dividends declared per share		$ 0.25	$ 0.10	$ 0.75	$ 0.30

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income	$ 90,552	$ 79,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	151,840	156,379
Amortization of deferred financing costs	9,773	8,808
Amortization of net lease discounts and lease incentives	(6,929)	7,919
Deferred income taxes	3,344	4,560
Accretion of purchase discounts on debt investments	(419)	(430)
Non-cash share based payment expense	4,872	5,129
Cash flow hedges reclassified into earnings	10,740	13,690
Ineffective portion of cash flow hedges	7,977	(2,874)
Gain on sale of flight equipment	(5,898)	(162)
Security deposits and maintenance payments included in earnings	(9,171)	(36,982)
Loss on sale of investments	245	131
Impairment of aircraft		18,211
Other	943	(556)
Changes in certain assets and liabilities:		
Accounts receivable	903	(909)
Restricted cash and cash equivalents	(47,923)	(35,456)
Other assets	1,797	(1,975)
Accounts payable, accrued expenses and other liabilities	3,911	(8,397)
Payable to affiliates	(200)	
Lease rentals received in advance	(2,796)	(537)
Net cash provided by operating activities	213,561	206,049
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(228,934)	(124,082)
Aircraft purchase deposits and progress payments, net of returned deposits	(2,154)	(41,912)
Proceeds from sale of flight equipment	48,882	10,601
Restricted cash from disposition of flight equipment	(12,294)	
Proceeds from sale of debt investments	65,335	5,423
Principal repayments on debt investments	11,674	3,787
Collateral call payments on derivatives and repurchase agreements	(349,123)	
Collateral call receipts on derivatives and repurchase agreements	375,066	
Leasehold improvements, furnishings and equipment	(365)	(82)
Net cash used in investing activities	(91,913)	(146,265)

Cash flows from financing activities:		
Issuance, net of repurchases, of common shares to directors and employees	(1,263)	(247)
Proceeds from term debt financings	992,715	70,916
Securitization and term debt financing repayments	(85,055)	(111,619)
Restricted cash and cash equivalents related to unreleased term debt financing borrowings	(87,462)	
Deferred financing costs	(23,346)	(3,588)
Credit facility borrowings	482,723	
Credit facility repayments	(1,167,578)	
Restricted secured liquidity facility collateral		(81,000)
Secured liquidity facility collateral		81,000
Principal repayments on repurchase agreements	(67,744)	
Security deposits and maintenance payments received	83,966	96,162
Security deposits and maintenance payments returned	(22,493)	(33,479)
Payments for terminated cash flow hedges	(68,332)	(2,758)
Dividends paid	(94,291)	(23,710)
Net cash (used in) provided by financing activities	(58,160)	(8,323)
Net increase in cash and cash equivalents	63,488	51,461
Cash and cash equivalents at beginning of period	13,546	80,947
Cash and cash equivalents at end of period	$ 77,034	$ 132,408
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 121,760	$ 109,525
Cash paid for income taxes	$ 5,765	$ 2,304
Supplemental disclosures of non-cash investing activities:		
Security deposits, maintenance payment liabilities and other liabilities settled in sale of flight equipment	$	$ 2,556
Supplemental disclosures of non-cash financing activities:		
Security deposits converted to maintenance payment liabilities	$	$ 11,110

Aircastle Limited and Subsidiaries

Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2009

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited (Aircastle, the Company, we, us or our) is a Bermuda exempted company that was incorpo 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 in aircraft related debt investments.

Basis of Presentation

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.

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with US GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Company s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of September 30, 2009 through November 9, 2009, the date on which the consolidated financial statements included in this Form 10-Q were issued.

In June 2009, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standard (SFAS) No. 168, *FASB Accounting Standards Codification*™ (ASC). The ASC is effective for interim and annual periods ending after September 15, 2009. Upon the effective date, the ASC became the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. The Codification does not replace or affect guidance issued by the SEC or its staff for public companies in their filings with the SEC. Effective July 1, 2009, changes to the ASC are communicated through an Accounting Standards Update (ASU). The Company adopted the ASC during the third quarter of 2009, and as a result, all references to prior accounting and reporting standards which have been superseded by the ASC have been changed to reflect the new reference within the ASC. The ASC does not change or alter existing US GAAP and, therefore, it did not impact our financial position, results of operations and cash flows.

Effective January 1, 2009, ASC 815 *Derivatives and Hedging,* required enhanced derivative and hedging disclosures, which is intended to improve financial reporting about derivative instruments and hedging activities to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. See Note 10 Derivatives.

Also effective January 1, 2009, ASC 260 *Earnings Per Share,* determined that unvested share-based payment awards that contain nonforfeitable rights to receive dividend or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation for the purpose of applying the two-class method when calculating earnings per share (EPS). The adoption requires us to present EPS using the two-class method for

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our current period EPS computations and to retrospectively revise our comparative prior period EPS computations using the two-class method. The adoption did not have a material effect on EPS. See Note 6 Earnings Per Share.

Principles of Consolidation

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

Recent Accounting Pronouncements

Effective the second quarter of 2009, ASC 820 *Fair Value Measurements and Disclosures*, provided additional guidelines for making fair value measurements identifying circumstances that indicate a transaction is not orderly. Also effective the second quarter of 2009, ASC 825 *Financial Instruments*, enhanced consistency in financial reporting by increasing the frequency of fair value disclosures to include interim as well as annual reports. The adoption of these ASC s did not have a material impact on our consolidated financial statements.

Effective the second quarter of 2009, ASC 320 *Investments Debt and Equity Securities*, provided additional guidance designed to create greater clarity and consistency in accounting for, and presenting losses on, debt securities. This guidance included determining whether impairments on debt securities were other than temporary and it modified the presentation and disclosures surrounding such instruments. The adoption of this ASC did not have a material impact on our consolidated financial statements.

Also effective the second quarter of 2009, ASC 855 *Subsequent Events*, established general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued, or were available to be issued. The adoption of this ASC did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation (FIN) No. 46(R)* (SFAS No. 167), which amends FIN No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest, or interests, give it a controlling financial interest in a variable interest entity. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. This Statement amends certain guidance in FIN No. 46(R) for determining whether an entity is a variable interest entity and requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS No. 167 will be effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the requirements of SFAS No. 167 and anticipates that the adoption will not have a material impact on the Company s consolidated financial statements.

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:

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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:

Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

Cost approach Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following table sets forth our financial assets and liabilities as of September 30, 2009 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 September 30, 2009	Fair Value Measurements at September 30, 2009 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique
Assets:					
Cash and cash equivalents	$ 132,408	$ 132,408	$	$	Market
Restricted cash and cash equivalents	218,079	218,079			Market
Debt investments	7,136			7,136	Income
Total	$ 357,623	$ 350,487	$	$ 7,136	
Liabilities:					
Derivative liabilities	$ 205,549	$	$ 158,823	$ 46,726	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 swaps, 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.

Our debt investment included in Level 3 consists of an available-for-sale United States corporate obligation consisting of an interest in pools of loans which are collateralized by interests in commercial aircraft. The fair value of our debt investment included within Level 3 is valued by using discounted cash flow methodologies, where the inputs to those models are based on unobservable market inputs. The Company used two sources of unobservable inputs; we obtained broker quotes which provided an indication of the market value and we obtained market values from a pricing service. We used the broker quotes and/or the pricing service market values to validate the discount rate used for our cash flow model for this debt investment.

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Our interest rate derivatives included in Level 3 consist of United States dollar denominated interest rate swaps 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 balances decreases within the upper and lower notional band. 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 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 tables reflect the activity for the major classes of our assets and liabilities measured at fair value using level 3 inputs for the three and nine months ended September 30, 2009:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Assets	Liabilities	Assets	Liabilities
	Debt Investments	Derivative Liabilities	Debt Investments	Derivative Liabilities
Balance at beginning of period	$ 13,691	$ (38,840)	$ 14,349	$ (66,321)
Transfers in (out)				
Principal repayments	(2,979)		(3,787)	
Sale of debt investments	(5,554)		(5,554)	
Total gains/(losses), net:				
Included in interest income	142		430	
Included in other income (expense)		(144)		(439)
Included in interest expense		148		25
Included in other comprehensive income	1,836	(7,890)	1,698	20,009
Balance at end of period	$ 7,136	$ (46,726)	$ 7,136	$ (46,726)

We also 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 level 3 inputs, which include the Company s assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft. In the three and nine months ended September 30, 2009, we recognized an impairment of $18,211. The impairment related to two Boeing Model 737-300 aircraft and two Boeing Model 757-200 aircraft was triggered by the early termination of leases and the change to estimated future cash flows. The Company received $18,176, of which $8,382 represented lease termination payments and $9,794 related to maintenance revenue from the previous lessees of these aircraft. These lease termination payments were recorded as other revenue during the three and nine months ended September 30, 2009.

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, debt investments, accounts payable, amounts borrowed under financings and interest rate 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 borrowings 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.

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The carrying amounts and fair values of our financial instruments at December 31, 2008 and September 30, 2009 are as follows:

	December 31, 2008		September 30, 2009	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Debt investments	$ 14,349	$ 14,349	$ 7,136	$ 7,136
Securitizations and term debt financings	(2,476,296)	(2,328,574)	(2,366,178)	(2,062,713)
ECA term financing			(69,415)	(70,857)
Derivative liabilities	(276,401)	(276,401)	(205,549)	(205,549)

Note 3. Lease Rental Revenues and Flight Equipment Held for Lease

The contracted minimum future lease rental payments to be received under our existing operating leases at September 30, 2009 were as follows:

Year Ending December 31,	Amount
Remainder of 2009	$ 126,293
2010	479,811
2011	433,389
2012	370,520
2013	274,877
2014	201,854
Thereafter	424,849
Total	$ 2,311,593

Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Region	2008	2009	2008	2009
Europe	45%	47%	45%	46%
Asia	25%	18%	25%	20%
North America	12%	16%	12%	16%
Latin America	8%	8%	8%	7%
Middle East and Africa	10%	11%	10%	11%
Total	100%	100%	100%	100%

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 three months ended September 30, 2008, one customer accounted for 8% of lease rental revenue and four additional customers accounted for a combined 20% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue. For the three months ended September 30, 2009, one customer accounted for 7% of lease rental revenue or, if combined with two companies under common control with it, 11% of lease rental revenue . The obligations of these companies under common control are not guaranteed by the controlling entity. Five additional customers accounted for a combined 28% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue.

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For the nine months ended September 30, 2008, one customer accounted for 8% of lease rental revenue and four additional customers accounted for a combined 19% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue. For the nine months ended September 30, 2009, one customer accounted for 7% of lease rental revenue or, if combined with two companies under common control with it, 11% of lease rental revenue . The obligations of these companies under common control are not guaranteed by the controlling entity. Five additional customers accounted for a combined 28% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue.

Geographic concentration of net book value of flight equipment held for lease was as follows:

	December 31, 2008		September 30, 2009	
Region	**Number of Aircraft**	**Net Book Value %**	**Number of Aircraft**	**Net Book Value %**
Europe	56	44%	61	48%
Asia	32	23%	30(1)	21%
North America	14	12%	14	12%
Latin America	8	5%	9	7%
Middle East and Africa	12	11%	13	12%
Off-lease	8(2)	5%	1(3)	%
Total	130	100%	128	100%

(1) Includes four Boeing Model 737-400 aircraft which will be converted to freighter configuration and for which we have executed leases with a carrier in Asia post-conversion, two of which were delivered in the fourth quarter of 2009 and the remaining two of which we expect to deliver in the fourth quarter of 2009.

(2) Includes one Boeing Model 737-300 aircraft which we delivered on lease to a carrier in the Middle East in the first quarter of 2009, three Boeing Model 737-700 aircraft which we delivered on lease to a carrier in Europe in the first quarter of 2009, two Boeing Model 737-700 aircraft which we delivered on lease to a carrier in Africa in the second quarter of 2009, one Boeing Model 737-700 aircraft which we delivered on lease to a carrier in Latin America in the second quarter of 2009 and one Boeing Model 737-700 aircraft which we delivered on lease to a carrier in Europe in the second quarter of 2009.

(3) Represents one Boeing Model 737-300 aircraft which was returned to us on a consensual early lease termination in

the third quarter of 2009 which we are actively marketing for sale or lease.

At December 31, 2008 and September 30, 2009, lease acquisition costs included in other assets on the consolidated balance sheets were $293 and $417, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were $5,127 and $11,884 at December 31, 2008 and September 30, 2009, respectively.

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Note 4. Securitizations and Term Debt Financings

The outstanding amounts of our securitizations and term debt financing facilities were as follows:

	At December 31, 2008	At September 30, 2009		
Debt Obligation	**Outstanding Borrowings**	**Outstanding Borrowings**	**Interest Rate[(1)]**	**Final Stated Maturity[(2)]**
Securitizations and Term Debt Financings:				
Securitization No. 1	$ 472,048	$ 446,633	0.51%	6/20/31
Securitization No. 2	1,097,913	1,072,072	0.51%	6/14/37
Term Financing No. 1	757,610	720,935	2.00%	5/02/15
Term Financing No. 2	148,725	126,538	3.02%	9/23/13
ECA Term Financing		69,415	4.48%	5/27/21
Total	$ 2,476,296	$ 2,435,593		

(1) Reflects floating rate in effect at the applicable reset date except for the ECA Term Financing, which is fixed.

(2) For Securitization No. 1, 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 2011, June

2012, and May 2013, respectively.

In May 2009, we entered into a twelve-year $70,916 term loan with Citibank International Plc which is supported by a guarantee from Compagnie Francaise d Assurance pour le Commerce Exterieur (COFACE), the French government sponsored export credit agency (ECA), which we refer to as ECA Term Financing for the financing of a new Airbus Model A330-200 aircraft. The borrowing under the ECA Term Financing bears a fixed rate of interest equal to 4.475%. The obligations outstanding under the ECA Term Financing 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 Financing documents contain a $500,000 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 Financing.

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

		Available Liquidity			
Facility	**Liquidity Facility Provider**	**December 31, 2008**	**September 30, 2009**	**Unused Fee**	**Interest Rate on any Advances**
Securitization No. 1	Calyon	$42,000	$42,000	0.45%	1M Libor + 1.00%
Securitization No. 2	HSH Nordbank AG	82,343	80,405(1)	0.50%	1M Libor + 0.75%(2)
Term Financing No. 1	Calyon	15,152	14,419	0.60%	1M Libor + 1.20%

(1) 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.

(2) 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.

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 and 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

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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.

In May 2009, we were notified of a short-term credit rating downgrade of the liquidity facility provider for Securitization No. 2, HSH Nordbank AG. This downgrade required a drawing of the liquidity facility in cash, which was deposited in a liquidity facility deposit account and held as cash collateral. HSH Nordbank AG directs the investment of this restricted cash into AAA-rated investments. Accordingly, the restricted cash is recorded as an asset on our consolidated balance sheet as Restricted liquidity facility collateral. In addition, the commitment to repay the Securitization No. 2 liquidity facility is recorded as a liability on our consolidated balance sheet as Liquidity facility. As of September 30, 2009, the liquidity facilities for Securitization No. 1 and Term Financing No. 1 remain undrawn.

Note 5. Dividends

The table below is a summary of our dividend history for all periods presented. These dividends may not be indicative of the amount of any future dividends.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
December 11, 2007	$0.70	55,004	December 31, 2007	January 15, 2008
March 24, 2008	$0.25	19,640	March 31, 2008	April 15, 2008
June 11, 2008	$0.25	19,647	June 30, 2008	July 15, 2008
September 11, 2008	$0.25	19,655	September 30, 2008	October 15, 2008
December 22, 2008	$0.10	7,862	December 31, 2008	January 15, 2009
March 13, 2009	$0.10	7,923	March 31, 2009	April 15, 2009
June 10, 2009	$0.10	7,923	June 30, 2009	July 15, 2009
September 10, 2009	$0.10	7,925	September 30, 2009	October 15, 2009

Note 6. Earnings Per Share

As described in Note 1 Summary of Significant Accounting Policies, on January 1, 2009 ASC 260 *Earnings Per Share*, required us to 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:

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	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Weighted-average shares:				
Common shares outstanding	77,768,456	78,012,914	77,743,999	77,977,089
Restricted common shares	937,943	1,352,974	884,818	1,309,244
Total weighted-average shares	78,706,399	79,365,888	78,628,817	79,286,333
Percentage of weighted-average shares:				
Common shares outstanding	98.8%	98.3%	98.9%	98.3%
Restricted common shares	1.2%	1.7%	1.1%	1.7%
Total	100.0%	100.0%	100.0%	100.0%

The calculations of both basic and diluted earnings per share are as follows:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Earnings per share Basic:				
Net income	$ 23,574	$ 33,458	$ 90,552	$ 79,500
Less: Distributed and undistributed earnings allocated to restricted common shares [(a)]	(281)	(570)	(1,019)	(1,313)
Earnings available to common shareholders Basic	$ 23,293	$ 32,888	$ 89,533	$ 78,187
Weighted-average common shares outstanding Basic	77,768,456	78,012,914	77,743,999	77,977,089
Earnings per common share Basic	$ 0.30	$ 0.42	$ 1.15	$ 1.00
Earnings per share Diluted:				
Net income	$ 23,574	$ 33,458	$ 90,552	$ 79,500
Less: Distributed and undistributed earnings allocated to restricted common shares	(281)	(570)	(1,019)	(1,313)

Earnings available to common shareholders Diluted	$ 23,293	$ 32,888	$ 89,533	$ 78,187
Weighted-average common shares outstanding Basic	77,768,456	78,012,914	77,743,999	77,977,089
Effect of dilutive shares	(b)	(b)	(b)	(b)
Weighted-average common shares outstanding Diluted	77,768,456	78,012,914	77,743,999	77,977,089
Earnings per common share Diluted	$ 0.30	$ 0.42	$ 1.15	$ 1.00

(a) For the three months ended September 30, 2008 and 2009, distributed and undistributed earnings to restricted shares is 1.2% and 1.7%, respectively, of net income. For the nine months ended September 30, 2008 and 2009, distributed and undistributed earnings to restricted shares is 1.1% and 1.7%, respectively, of net income.

(b) For the three and nine months ended September 30, 2008 and 2009, we have no dilutive shares.

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Note 7. Income Taxes

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 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.

The sources of income from continuing operations before income taxes for the three and nine months ended September 30, 2008 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
U.S. operations	$ 652	$ 383	$ 1,640	$ 1,342
Non-U.S. operations	24,237	34,498	93,574	83,546
Total	$ 24,889	$ 34,881	$ 95,214	$ 84,888

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.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Notional U.S. federal income tax expense at the statutory rate	$ 8,711	$ 12,209	$ 33,325	$ 29,711
U.S. state and local income tax, net	(18)	19	60	68
Non-U.S. operations	(7,462)	(10,972)	(28,823)	(24,878)
Non-deductible expenses in the U.S	(5)	6	16	21
Other	89	161	84	466
Provision for income taxes	$ 1,315	$ 1,423	$ 4,662	$ 5,388

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Note 8. Comprehensive Income (Loss)

Total comprehensive income (loss) includes net income, the changes in the fair value and the reclassification into earnings of amounts previously deferred relating to our derivative financial instruments which qualify for hedge accounting and the change in unrealized fair value of debt securities classified as available-for-sale. Total comprehensive income (loss) for the three and nine months ended September 30, 2008 and 2009 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Net income	$ 23,574	$ 33,458	$ 90,552	$ 79,500
Net change in fair value of derivatives, net of tax benefit of $501 and $571 for the three months ended and $695 and $204 for the nine months ended September 30, 2008 and 2009, respectively	(39,125)	(38,369)	(68,432)	(10,176)
Derivative loss reclassified into earnings, net of tax expense of $260 and $436 for the three months ended and $643 and $1,272 for the nine months ended September 30, 2008 and 2009, respectively	24,014	28,567	47,917	87,462
Net change in unrealized fair value of debt investments	(981)	1,836	(2,995)	1,698
Total comprehensive income (loss)	$ 7,482	$ 25,492	$ 67,042	$ 158,484

The following table sets forth the components of accumulated other comprehensive income (loss), net of tax where applicable, at December 31, 2008 and September 30, 2009:

	Fair Value of Derivatives	Fair Value of Debt Securities	Accumulated Other Comprehensive Income (Loss)
December 31, 2008	$ (365,138)[(1)]	$ 2,536	$ (362,602)
Net change in fair value of derivatives, net of tax benefit of $204	(10,176)		(10,176)
Derivative loss reclassified into earnings, net of tax expense of $1,272	87,462		87,462
Loss on debt investments reclassified into earnings		131	131
Net change in unrealized fair value of debt investments		1,567	1,567
September 30, 2009	$ (287,852)	$ 4,234	$ (283,618)

(1) Net of tax benefit of

$4,530 at
December 31,
2008.

Note 9. Commitments and Contingencies

We have an acquisition agreement (the Airbus A330 Agreement) with Airbus S.A.S (Airbus) under which we agreed to acquire from Airbus twelve new A330-200 aircraft (the New A330 Aircraft). In February 2009, we amended the Airbus A330 Agreement to defer the scheduled delivery of an aircraft from the fourth quarter of 2010 to the first half of 2012. On May 27, 2009, we advanced one of the New A330 Aircraft positions and took delivery of an Airbus Model A330-200 aircraft and placed it on lease with a customer. In July 2009, we amended the Airbus A330 Agreement to defer the scheduled delivery of an aircraft from 2010 to 2011.

As of September 30, 2009, we had paid $89,480 in Airbus deposits and pre-delivery payments, in relation to the 11 New A330 Aircraft remaining to be delivered under the Airbus A330 Agreement, and recorded $5,401 in capitalized interest. Under certain circumstances, we have the right to change the delivery positions to alternative A330 aircraft models. Two of the New A330 Aircraft are scheduled to be delivered in 2010, six are scheduled to be delivered in 2011 and the remaining three are scheduled to be delivered in 2012.

Committed amounts to acquire, convert and modify aircraft including, where applicable, our estimate of adjustments for configuration changes, engine acquisition costs, contractual price escalations and other adjustments, net

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of amounts already paid, are approximately $128,780 in 2009, $217,374 in 2010, $377,089 in 2011 and $113,560 in 2012 which reflect the anticipated acceleration of one 2012 New A330 Aircraft position to the fourth quarter of 2009 for immediate lease placement with Aerovias del Continente Americano.

Note 10. Derivatives

As described in Note 1 Summary of Significant Accounting Policies, effective January 1, 2009, ASC 815 *Derivatives and Hedging*, required enhanced disclosures, intended to improve financial reporting about derivative instruments and hedging activities, to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows.

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 elected 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

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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.

Our interest rate derivatives involve counterparty credit risk. As of September 30, 2009, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA, HSH Nordbank AG and DVB Bank SE. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of A3 or above by Moody s Investors Service and long-term foreign issuer ratings of BBB+ or above by Standard and Poor s). As a result, we do not anticipate that any of these counterparties will fail to meet their obligations.

We held the following interest rate derivatives as of September 30, 2009:

	Liability Derivatives							
Hedged Item	Current Notional Amount	Effective Date	Maturity Date	Future Maximum Notional Amount	Floating Rate	Fixed Rate	Balance Sheet Location	Fair Value
Interest rate derivatives designated as cash flow hedges :								
Securitizatio								