

Aircastle LTD  
Form 10-Q  
November 04, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

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AIRCASTLE LIMITED  
(Exact name of registrant as specified in its charter)

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Bermuda (State or other jurisdiction of incorporation or organization)	98-0444035 (IRS Employer Identification No.)
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c/o Aircastle Advisor LLC 300 First Stamford Place, 5 <sup>th</sup> Floor, Stamford, CT (Address of principal executive offices)	06902 (Zip Code)
Registrant's telephone number, including area code	(203) 504-1020

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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 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  NO

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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  NO

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As of October 31, 2014, there were 80,938,249 outstanding shares of the registrant's common shares, par value \$0.01 per share.

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Aircastle Limited and Subsidiaries  
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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, 2013	September 30, 2014 (Unaudited)
<b>ASSETS</b>		
Cash and cash equivalents	\$654,613	\$474,338
Accounts receivable	2,825	3,896
Restricted cash and cash equivalents	122,773	114,392
Restricted liquidity facility collateral	107,000	65,000
Flight equipment held for lease, net of accumulated depreciation of \$1,430,325 and \$1,350,950	5,044,410	5,232,940
Net investment in finance leases	145,173	70,723
Unconsolidated equity method investment	21,123	30,501
Other assets	153,976	175,454
Total assets	\$6,251,893	\$6,167,244
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings from secured financings (including borrowings of ACS Ireland VIEs of \$152,545 and \$78,418, respectively)	\$1,586,835	\$1,485,033
Borrowings from unsecured financings	2,150,527	2,200,000
Accounts payable, accrued expenses and other liabilities	111,661	162,970
Lease rentals received in advance	49,235	48,027
Liquidity facility	107,000	65,000
Security deposits	118,804	125,765
Maintenance payments	442,432	422,157
Fair value of derivative liabilities	39,992	3,090
Total liabilities	4,606,486	4,512,042
Commitments and Contingencies		
<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, 80,806,975 shares issued and outstanding at December 31, 2013; and 80,949,219 shares issued and outstanding at September 30, 2014	808	809
Additional paid-in capital	1,562,106	1,563,685
Retained earnings	158,398	137,858
Accumulated other comprehensive loss	(75,905)	(47,150)
Total shareholders' equity	1,645,407	1,655,202
Total liabilities and shareholders' equity	\$6,251,893	\$6,167,244

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



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
<b>Revenues:</b>				
Lease rental revenue	\$ 161,148	\$ 178,886	\$ 475,656	\$ 536,452
Finance lease revenue	4,122	1,463	12,120	9,347
Amortization of lease premiums, discounts and lease incentives	(9,737 )	(1,075 )	(25,527 )	(7,252 )
Maintenance revenue (including contra maintenance revenue of \$0 and \$8,655 for the three months ended and \$0 and \$25,037 for the nine months ended September 30, 2013 and 2014, respectively)	12,932	(4,189 )	42,983	35,035
Total lease revenue	168,465	175,085	505,232	573,582
Other revenue	1,625	2,511	11,425	6,763
Total revenues	170,090	177,596	516,657	580,345
<b>Operating expenses:</b>				
Depreciation	70,469	75,519	212,448	225,230
Interest, net	57,843	56,794	183,651	181,551
Selling, general and administrative (including non-cash share based payment expense of \$1,067 and \$949 for the three months ended and \$2,931 and \$3,167 for the nine months ended September 30, 2013 and 2014, respectively)	12,830	13,817	39,297	41,818
Impairment of Aircraft	106,136	20,436	112,335	67,005
Maintenance and other costs	1,914	713	11,464	5,222
Total expenses	249,192	167,279	559,195	520,826
<b>Other income (expense):</b>				
Gain on sale of flight equipment	3,092	11,390	25,601	13,384
Loss on extinguishment of debt	—	—	—	(36,570 )
Other	855	1	5,016	758
Total other income (expense)	3,947	11,391	30,617	(22,428 )
Income (loss) from continuing operations before income taxes	(75,155 )	21,708	(11,921 )	37,091
Income tax provision	(597 )	3,484	6,719	10,925
Earnings of unconsolidated equity method investment, net of tax	—	927	—	1,898
Net income (loss)	\$(74,558 )	\$ 19,151	\$(18,640 )	\$ 28,064
<b>Earnings per common share — Basic:</b>				
Net income (loss) per share	\$(0.95 )	\$ 0.24	\$(0.26 )	\$ 0.35
<b>Earnings per common share — Diluted:</b>				
Net income (loss) per share	\$(0.95 )	\$ 0.24	\$(0.26 )	\$ 0.35
Dividends declared per share	\$ 0.165	\$ 0.200	\$ 0.495	\$ 0.600

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

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Aircastle Limited and Subsidiaries  
 Consolidated Statements of Comprehensive Income  
 (Dollars in thousands)  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Net income (loss)	\$(74,558 )	\$19,151	\$(18,640 )	\$28,064
Other comprehensive income, net of tax:				
Net change in fair value of derivatives, net of tax expense of \$78 and \$21 for the three months ended and \$389 and \$825 for the nine months ended September 30, 2013 and 2014, respectively	1,798	1,643	13,751	2,025
Net derivative loss reclassified into earnings	7,300	8,549	25,285	26,730
Other comprehensive income	9,098	10,192	39,036	28,755
Total comprehensive income (loss)	\$(65,460 )	\$29,343	\$20,396	\$56,819

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



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

	Nine Months Ended September 30,	
	2013	2014
Cash flows from operating activities:		
Net income (loss)	\$(18,640 )	\$28,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	212,448	225,230
Amortization of deferred financing costs	11,757	10,493
Amortization of net lease discounts and lease incentives	25,527	7,252
Deferred income taxes	3,419	(2,623 )
Non-cash share based payment expense	2,931	3,167
Cash flow hedges reclassified into earnings	25,285	26,730
Security deposits and maintenance payments included in earnings	(32,047 )	(38,257 )
Gain on sale of flight equipment	(25,601 )	(13,384 )
Loss on extinguishment of debt	—	36,570
Impairment of aircraft	112,335	67,005
Other	(4,284 )	(2,278 )
Changes in certain assets and liabilities:		
Accounts receivable	1,588	(1,603 )
Other assets	1,155	(1,691 )
Accounts payable, accrued expenses and other liabilities	7,978	17,138
Lease rentals received in advance	(4,538 )	4,162
Net cash provided by operating activities	319,313	365,975
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(837,183 )	(939,651 )
Proceeds from sale of flight equipment	285,199	563,882
Restricted cash and cash equivalents related to sale of flight equipment	(2,200 )	(24,606 )
Aircraft purchase deposits and progress payments	(5,655 )	1,315
Net investment in finance leases	(11,595 )	(14,258 )
Collections on finance leases	6,658	8,096
Unconsolidated equity method investment and associated costs	—	(8,592 )
Distributions from unconsolidated equity method investment in excess of earnings	—	997
Principal repayments on debt investment	42,001	—
Other	(852 )	(466 )
Net cash used in investing activities	(523,627 )	(413,283 )
Cash flows from financing activities:		
Issuance of shares net of repurchases	197,478	(2,092 )
Proceeds from notes and term debt financings	78,230	803,200
Securitization and term debt financing repayments	(430,482 )	(895,459 )
Debt extinguishment costs	—	(32,835 )
Deferred financing costs	(2,910 )	(15,843 )
Restricted secured liquidity facility collateral	—	42,000
Secured liquidity facility collateral	—	(42,000 )
Restricted cash and cash equivalents related to financing activities	(77,701 )	32,987
Security deposits and maintenance payments received	154,303	131,136
Security deposits and maintenance payments returned	(58,776 )	(72,030 )

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Payments for terminated cash flow hedges	—	(33,427 )
Dividends paid	(35,895 )	(48,604 )
Net cash used in financing activities	(175,753 )	(132,967 )
Net increase (decrease) in cash and cash equivalents	(380,067 )	(180,275 )
Cash and cash equivalents at beginning of period	618,217	654,613
Cash and cash equivalents at end of period	\$238,150	\$474,338
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$136,799	\$135,880
Cash paid for income taxes	\$701	\$4,382
Supplemental disclosures of non-cash investing activities:		
Purchase deposits, advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	\$46,232	\$20,837
Term debt financings assumed in asset acquisitions	\$84,721	\$39,061
Advance lease rentals, security deposits, and maintenance payments settled in sale of flight equipment	\$41,659	\$65,831

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

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2014

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 under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle’s business is investing in aviation assets, including acquiring, leasing, managing and selling high utility commercial jet aircraft. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft.

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 one 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, 2013.

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, 2014 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates seven 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 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.

Effective June 1, 2014, the Company adopted the Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) 2014-08 (“ASU 2014-08”), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU raises the threshold for disposals to qualify as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity’s operations and financial

results. This ASU also allows companies to have significant continuing involvement and continuing cash flows with the disposed component and requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. ASU 2014-08 applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date and should be applied prospectively. Early adoption of the guidance is permitted for new disposals (or new classifications as held for sale) that have not been reported in financial

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Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2014

statements previously issued or available for issuance. The adoption of ASU 2014-08 did not have a material impact on the Company's consolidated financial statements.

#### 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.

#### Proposed Accounting Pronouncements

In May 2013, the FASB issued re-exposure draft, "Leases" (the "Lease Re-ED"), which would replace the existing guidance in the Accounting Standards Codification ("ASC") 840 ("ASC 840"), Leases. In March 2014, the FASB decided that the accounting for leases by lessors would basically remain unchanged from the concepts existing in current ASC 840 accounting. In addition, the FASB decided that a lessor should be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective. We anticipate that the final standard may have an effective date no earlier than 2017. We believe that when and if the proposed guidance becomes effective, it will not have a material impact on the Company's consolidated financial statements.

On May 28, 2014, the FASB and the International Accounting Standards Board (the "IASB") (collectively, the Boards), jointly issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Lease contracts within the scope of ASC 840, Leases, are specifically excluded from ASU No. 2014-09. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The standard is effective for public entities beginning after December 15, 2016. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating its existing revenue recognition policies to determine the affect this new guidance will have on the Company's consolidated financial statements.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The standard requires management of public companies to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management should evaluate whether there are conditions or events, considered in the aggregate, that raises substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). The standard is effective for annual periods ending after December 15, 2016 and interim periods thereafter, and early adoption is permitted. The adoption of this standard is not expected to 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:

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.

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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.

• 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).

The following tables set forth our financial assets and liabilities as of December 31, 2013 and September 30, 2014 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, 2013	Fair Value Measurements at December 31, 2013 Using Fair Value Hierarchy			Valuation Technique
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>					
Cash and cash equivalents	\$654,613	\$654,613	\$—	\$—	Market
Restricted cash and cash equivalents	122,773	122,773	—	—	Market
Total	\$777,386	\$777,386	\$—	\$—	
<b>Liabilities:</b>					
Derivative liabilities	\$39,992	\$—	\$39,992	\$—	Income
	Fair Value as of September 30, 2014	Fair Value Measurements at September 30, 2014 Using Fair Value Hierarchy			Valuation Technique
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets:</b>					
Cash and cash equivalents	\$474,338	\$474,338	\$—	\$—	Market
Restricted cash and cash equivalents	114,392	114,392	—	—	Market
Total	\$588,730	\$588,730	\$—	\$—	
<b>Liabilities:</b>					
Derivative liabilities	\$3,090	\$—	\$3,090	\$—	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.



Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
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The following tables reflect the activity for the classes of our assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2013 and 2014, respectively:

	Assets			
	Debt Investments			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
Balance at beginning of period	\$—	\$—	\$40,388	\$—
Total gains/(losses), net:				
Included in other revenue	—	—	1,613	—
Settlements	—	—	(42,001 )	—
Balance at end of period	\$—	\$—	\$—	\$—

For the three and nine months ended September 30, 2013 and 2014, we had no transfers into or out of Level 3; however, we settled the debt investment during the first quarter of 2013.

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 our investment in an unconsolidated joint venture and aircraft. We account for our investment in an unconsolidated joint venture under the equity method of accounting and record impairment when its fair value is less than its carrying value. 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.

#### Aircraft Valuation

We perform our annual fleet-wide recoverability assessment during the third quarter of each year. This recoverability assessment, as more fully described in our Management's Discussion and Analysis - Summary of Impairments and Recoverability Assessment, is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry as well as information received from third party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in future projected lease rentals and maintenance payments, residual values, expected scrap values, economic conditions and other factors.

In the 2014 assessment, we reduced our forecast of future cash flows for certain freighter aircraft to reflect the cumulative effect of increasing supply over the past three years, notwithstanding the modest increase in demand so far in 2014.

More specifically, we determined the cash flows expected to be generated by two of our McDonnell Douglas MD-11 freighter aircraft did not support their carrying values. As a result, we impaired these two aircraft, which had an aggregate net book value as of June 30, 2014 of \$53,777, writing down their book values by a total of \$19,515. We also shortened their expected lives and reduced their residual values.

In addition, for our five Boeing 747-400 production freighters, all of which passed the recoverability assessment, we shortened the expected lives from 35 years to 30 years from the date of manufacture.

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. However, our lessees may face financial difficulties and return aircraft to us prior to the contractual lease expiry dates which may change our cash flow assumptions

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Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
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and require future impairment charges. While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates.

During the second quarter of 2014, we impaired two Boeing 747-400 converted freighters, one of which is off-lease and the other which has a scheduled lease expiry in December 2014. We intend to sell both aircraft rather than reinvest in further maintenance necessary for releasing. We classified one of these aircraft, which is being sold on a part out basis, as Flight Equipment Held for Sale in Other Assets on our consolidated Balance Sheet. For the off-lease aircraft, we recorded an impairment charge totaling \$17,419 during the three months ended June 30, 2014. We previously recorded maintenance revenue of \$3,853 and reversed lease incentives of \$857 during the three months ended December 31, 2013 when this aircraft was returned to us. For the aircraft with a scheduled lease expiry in December 2014, we recorded an impairment charge totaling \$10,723 and recorded maintenance revenue of \$5,986 and reversed lease incentives of \$3,626 during the six months ended June 30, 2014.

During the first quarter of 2014, we impaired two aircraft: one Boeing 737-400, which was returned to us as scheduled by the lessee, and one Boeing 747-400 converted freighter, for which we agreed to an early lease termination with our customer. For these two aircraft, we recorded impairment charges totaling \$18,263 and recorded maintenance revenue of \$17,176 during the three months ended March 31, 2014.

Following our recoverability assessment during the third quarter of 2013, we impaired six Boeing 747-400 converted freighter aircraft and one Boeing 737-700 aircraft and recorded impairment charges of \$88,647 and \$8,945, respectively.

During the third quarter of 2013, one Boeing 767-300ER aircraft was returned to us early by its lessee. We recorded an impairment charge of \$8,544, maintenance revenue of \$12,056 and other revenue of \$875 for this aircraft. During the first quarter of 2013, one Airbus A319-100 aircraft and one Boeing 767-300ER aircraft were returned to us early by their respective lessees. We recorded impairment charges totaling \$6,199, maintenance revenue of \$9,019 and other revenue of \$876 for these two aircraft.

#### Financial Instruments

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 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 value of our Securitization, which contains a third party credit enhancement, is 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 ECA term financings and bank financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our Senior Notes is estimated using quoted market prices.

The carrying amounts and fair values of our financial instruments at December 31, 2013 and September 30, 2014 are as follows:

	December 31, 2013		September 30, 2014	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Securitized	\$ (828,871 )	\$ (779,901 )	\$ (451,544 )	\$ (428,590 )
ECA term financings	(493,708 )	(506,227 )	(460,983 )	(478,915 )

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Bank financings	(264,256	)	(268,435	)	(572,506	)	(575,469	)
Senior Notes	(2,150,527	)	(2,325,965	)	(2,200,000	)	(2,303,682)	)

All of our financial instruments are classified as Level 2 with the exception of our Senior Notes, which are classified as Level 1.

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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 September 30, 2014 were as follows:

Year Ending December 31,	Amount
Remainder of 2014	\$168,164
2015	653,680
2016	577,372
2017	448,336
2018	335,628
Thereafter	982,405
Total	\$3,165,585

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

Region	Three Months Ended September 30,		Nine Months Ended September 30,			
	2013	2014	2013	2014		
Europe	33	% 29	%	33	% 29	%
Asia and Pacific	38	% 39	%	38	% 40	%
North America	10	% 10	%	9	% 10	%
South America	9	% 13	%	9	% 12	%
Middle East and Africa	10	% 9	%	11	% 9	%
Total	100	% 100	%	100	% 100	%

The classification of regions in the tables above and in 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, 2013, one customer accounted for 8% of lease rental revenue and three additional customers accounted for a combined 16% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the three months ended September 30, 2014, one customer accounted for 7% of lease rental revenue and an additional three customers separately accounted for 17% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

For the nine months ended September 30, 2013, one customer accounted for 8% of lease rental revenue and three additional customers accounted for a combined 17% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the nine months ended September 30, 2014, one customer accounted for 6% of lease rental revenue and an additional two customers separately accounted for 11% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue (including maintenance revenue) based on each lessee's principal place of business:

Country	Three Months Ended September 30, 2013			2014		
	Revenue	Percent of Total Revenue	Number of Lessees	Revenue	Percent of Total Revenue	Number of Lessees
United Kingdom <sup>(1)(2)</sup>	16,293	10	% 2	—	—	% —



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(1) Total revenue for the three months ended September 30, 2013 includes \$12,056 of maintenance revenue and \$875 of other revenue related to an agreed- upon lease termination.

(2) Total revenue was less than 10% for the three months ended September 30, 2014.

Country	Nine Months Ended September 30, 2013			2014		
	Revenue	Percent of Total Revenue	Number of Lessees	Revenue	Percent of Total Revenue	Number of Lessees
China <sup>(1)</sup>	\$49,148	10 %	4	\$—	— %	—

(1) Total revenue was less than 10% for the nine months ended September 30, 2014.

Geographic concentration of net book value of flight equipment (includes net book value of flight equipment held for lease and net investment in finance leases) was as follows:

Region	December 31, 2013			September 30, 2014		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Europe	64	30	%	59	28	%
Asia and Pacific	56	41	%	45	42	%
North America	19	10	%	19	8	%
South America	14	7	%	11	12	%
Middle East and Africa	7	11	%	6	10	%
Off-lease	2	(1) 1	%	—	—	%
Total	162	100	%	140	100	%

(1) Consisted of two Boeing 747-400 converted freighter aircraft, one of which was subject to a commitment to lease and was delivered to our customer in the first quarter of 2014 and the other is in the process of being parted-out.

At December 31, 2013 and September 30, 2014, no country represented at least 10% of net book value of flight equipment based on each lessee's principal place of business.

At December 31, 2013 and September 30, 2014, the amounts of lease incentive liabilities recorded in maintenance payments on the consolidated balance sheets were \$28,611 and \$23,015, respectively.

Note 4. Net Investment in Finance Leases

At September 30, 2014, our net investment in finance leases represents four aircraft leased to two customers in the United States, one aircraft leased to a customer in Canada and one aircraft leased to a customer in Croatia. The following table lists the components of our net investment in finance leases at September 30, 2014:

Total lease payments to be received	Amount \$54,631
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Less: Unearned income	(17,167 )
Estimated residual values of leased flight equipment (unguaranteed)	33,259
Net investment in finance leases	\$70,723

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At September 30, 2014, minimum future lease payments on finance leases are as follows:

Year Ending December 31,	Amount
Remainder of 2014	\$3,126
2015	12,889
2016	12,889
2017	11,974
2018	4,080
Thereafter	9,673
Total	\$54,631

Note 5. Unconsolidated Equity Method Investment

On December 19, 2013, the Company and an affiliate of Ontario Teachers' Pension Plan ("Teachers'") formed a joint venture (the "JV"), in which we have a 30% equity interest, to invest in leased aircraft. Teachers' holds more than 5% of our common shares. Accordingly, the formation of the JV and the sale of two A330 aircraft by us to the JV in December 2013 were submitted to, and approved by, our Audit Committee under our related party policy. During the third quarter of 2014, we sold one Boeing 777-300ER aircraft that we had acquired earlier in 2014 to the JV; this transaction was also approved by our Audit Committee under our related party agreement. The assets and liabilities of the JV are off our balance sheet and we only record our net investment under the equity method of accounting.

While the Company has no obligation to make additional investments in the JV, we have agreed to return to the JV any portion of distributions from the JV which comprise lessee maintenance payments, to the extent that the JV must reimburse such maintenance payments to the lessee. The Company has recorded a \$2,717 guarantee liability which is reflected in Maintenance payments on the balance sheet.

Investment in JV at December 31, 2013	\$21,123
Investment in JV	10,428
Earnings from JV, net of tax	1,898
Distributions	(2,948 )
Investment in JV at September 30, 2014	\$30,501

Note 6. Variable Interest Entities

Aircastle consolidates seven 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 14 aircraft discussed below.

Securitizations

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. ACS Ireland and ACS Ireland 2 are collectively referred to as the "ACS Ireland VIEs". In February 2014, we repaid the outstanding amount plus accrued interest and fees due under Securitization No. 1 and ACS Ireland became a wholly

owned subsidiary of Aircastle.

Aircastle is the primary beneficiary of ACS Ireland 2, as we have both the power to direct the activities of the VIE that most significantly impacts the economic performance of such VIE 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 2 debt, Aircastle wholly owns

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ACS Bermuda 2 which has fully and unconditionally guaranteed the ACS Ireland 2 VIE 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 ACS Ireland 2. The Irish charitable trust's risk is limited to its annual dividend of \$2. At September 30, 2014, the assets of ACS Ireland 2 include six aircraft transferred into the VIE at historical cost basis in connection with Securitization No. 2.

The assets of the ACS Ireland 2 as of September 30, 2014 are \$181,746. The liabilities of the ACS Ireland 2, net of \$40,351 Class E-1 Securities held by the Company, which is eliminated in consolidation, as of September 30, 2014 are \$142,618.

ECA Term Financings

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the "Air Knight VIEs"), has entered into eight 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"). 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 September 30, 2014 of \$650,283 were included in our flight equipment held for lease. The consolidated debt outstanding of the Air Knight VIEs as of September 30, 2014 is \$460,983.

Note 7. Secured and Unsecured Debt Financings

The outstanding amounts of our secured and unsecured term debt financings are as follows:

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Debt Obligation	At December 31, 2013	At September 30, 2014		Final Stated Maturity <sup>(2)</sup>
	Outstanding Borrowings	Outstanding Borrowings	Interest Rate <sup>(1)</sup>	
<b>Secured Debt Financings:</b>				
Securitization No. 1 <sup>(3)</sup>	\$225,034	\$—	—%	—
Securitization No. 2	603,837	451,544	0.47%	06/14/37
ECA Term Financings	493,708	460,983	3.02% to 3.96%	12/3/21 to 11/30/24
Bank Financings	264,256	572,506	1.15% to 5.09%	09/15/15 to 04/19/25
Total secured debt financings	1,586,835	1,485,033		
<b>Unsecured Debt Financings:</b>				
Senior Notes due 2017	500,000	500,000	6.75%	04/15/17
Senior Notes due 2018 <sup>(4)</sup>	450,527	—	—%	—
Senior Notes due 2018	400,000	400,000	4.625%	12/05/18
Senior Notes due 2019	500,000	500,000	6.250%	12/01/19
Senior Notes due 2020	300,000	300,000	7.625%	04/15/20
Senior Notes due 2021	—	500,000	5.125%	03/15/21
2014 Revolving Credit Facility <sup>(5)</sup>	—	—	N/A	03/31/18
Total unsecured debt financings	2,150,527	2,200,000		
Total secured and unsecured debt financings	\$3,737,362	\$3,685,033		

(1) Reflects the floating rate in effect at the applicable reset date plus the margin for Securitization No. 2 and four of our Bank Financings. All other financings have a fixed rate.

(2) For Securitization No. 2, all cash flows available after expenses and interest are applied to debt amortization.

In February 2014, we repaid the outstanding amount plus accrued interest and fees due under Securitization No. 1 and terminated the related interest rate derivative, for a total cash payment of \$255,186, with proceeds from our December 2013 issuance of our Senior Notes due 2018.

(4) Proceeds from the issuance of our Senior Notes due 2021 were used to pay-off the balance of our 9.75% Senior Notes due 2018 plus accrued interest of \$10,238 and the call premium of \$32,835 on April 25, 2014.

(5) On March 31, 2014, we amended and restructured our existing \$335,000 2013 Revolving Credit Facility with a new unsecured revolving credit facility (the “2014 Revolving Credit Facility”). The 2014 Revolving Credit Facility was increased to \$450,000, has a term of four years and is scheduled to expire in March 2018 and was undrawn at September 30, 2014.

The following Securitization includes a liquidity facility commitment described in the table below:

Facility	Liquidity Facility Provider	Available Liquidity			Interest Rate on any Advances
		December 31, 2013	September 30, 2014	Unused Fee	
Securitization No. 2	HSH Nordbank AG	\$65,000	\$65,000	0.50%	1M Libor + 0.75

Secured Debt Financings:

Securitizations

In February 2014, we repaid the outstanding amount plus accrued interest and fees due under Securitization No.1 and terminated the related interest rate derivative, for a total cash payment of \$255,186, with proceeds from our December 2013 issuance of our Senior Notes due 2018.

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Bank Financings

In February 2014, we entered into two floating rate loans and one fixed rate loan totaling \$303,200 secured by two Boeing 777-300ER aircraft and one Airbus A330-200 aircraft we acquired in 2013. In March 2014, we assumed two floating rate loans totaling \$40,809 in connection with the acquisition of two Boeing 737-800 aircraft. During the third quarter of 2014, we converted both of the floating rate loans related to the Boeing 737-800 aircraft to fixed rate loans. We include these loan facilities in “Bank Financings”. Aircastle Limited has guaranteed the repayment of these Bank Financings.

Unsecured Debt Financings:

Senior Notes due 2021

On March 26, 2014, Aircastle Limited issued \$500,000 aggregate principal amount of Senior Notes due 2021 (the “2021 Senior Notes”). The 2021 Senior Notes will mature on March 15, 2021 and bear interest at the rate of 5.125% per annum, payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2014. Interest will accrue on the 2021 Senior Notes from March 26, 2014. Proceeds from the issuance were used to pay-off the outstanding amount of our 9.75% Senior Notes due 2018 plus accrued interest of \$10,238, and the call premium of \$32,835 on April 25, 2014. We also wrote off \$3,735 of debt issuance costs associated with the pay-off of the Senior Notes due 2018. Both the call premium and the write-off of debt issuance costs are included in Other income (expense) - Loss on Extinguishment of Debt on our consolidated statement of income.

2014 Revolving Credit Facility

On March 31, 2014, we amended and restructured our existing \$335,000 2013 Revolving Credit Facility with the 2014 Revolving Credit Facility. The 2014 Revolving Credit Facility was increased to \$450,000, has a term of four years and is scheduled to expire in March 2018. The facility was undrawn as of September 30, 2014.

As of September 30, 2014, we are in compliance with all applicable covenants in all of our financings.

Note 8. Dividends

The following table sets forth the quarterly dividends declared by our board of directors for the periods covered in this report:

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
February 18, 2013	\$0.165	\$11,268	March 4, 2013	March 15, 2013
May 1, 2013	\$0.165	\$11,297	May 31, 2013	June 14, 2013
August 2, 2013	\$0.165	\$13,330	August 30, 2013	September 13, 2013
October 29, 2013	\$0.200	\$16,163	November 29, 2013	December 13, 2013
February 21, 2014	\$0.200	\$16,201	March 7, 2014	March 14, 2014
May 5, 2014	\$0.200	\$16,202	May 30, 2014	June 13, 2014

July 28, 2014	\$0.200	\$16,201	August 29, 2014	September 12, 2014
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Note 9. 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

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(“participating securities”), in the number of shares outstanding in our basic earnings per share 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 is 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. Because the holders of the participating restricted common shares were not contractually required to share in the Company’s losses, in applying the two-class method to compute basic and diluted net loss per common share, no allocation to restricted common shares was made for the three and nine months ended September 30, 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Weighted-average shares:				
Common shares outstanding	78,544,380	80,389,996	71,462,264	80,389,131
Restricted common shares	669,489	600,581	562,612	581,932
Total weighted-average shares	79,213,869	80,990,577	72,024,876	80,971,063
Percentage of weighted-average shares:				
Common shares outstanding	99.15	% 99.26	% 99.22	% 99.28
Restricted common shares	0.85	% 0.74	% 0.78	% 0.72
Total	100.00	% 100.00	% 100.00	% 100.00

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Earnings per share – Basic:				
Net income (loss)	\$(74,558 )	\$19,151	\$(18,640 )	\$28,064
Less: Distributed and undistributed earnings allocated to restricted common shares (a)	—	(142 )	—	(202 )
Earnings (loss) available to common shareholders – Basic	\$(74,558 )	\$19,009	\$(18,640 )	\$27,862
Weighted-average common shares outstanding – Basic	78,544,380	80,389,996	71,462,264	80,389,131
Earnings (loss) per common share – Basic	\$(0.95 )	\$0.24	\$(0.26 )	\$0.35
Earnings per share – Diluted:				
Net income	\$(74,558 )	\$19,151	\$(18,640 )	\$28,064
Less: Distributed and undistributed earnings allocated to restricted common shares(a)	—	(142 )	—	(202 )
	\$(74,558 )	\$19,009	\$(18,640 )	\$27,862



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Earnings (loss) available to common shareholders –  
Diluted

Weighted-average common shares outstanding – Basic	78,544,380	80,389,996	71,462,264	80,389,131
Effect of dilutive shares <sup>(b)</sup>	—	—	—	—
Weighted-average common shares outstanding – Diluted	78,544,380	80,389,996	71,462,264	80,389,131
Earnings (loss) per common share – Diluted	\$(0.95	) \$0.24	\$(0.26	) \$0.35

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- For the three months ended September 30, 2013 and 2014, distributed and undistributed earnings to restricted shares is 0.85% and 0.74% of net income. For the nine months ended September 30, 2013 and 2014, distributed and undistributed earnings to restricted shares is 0.78% and 0.72% of net income. The amount of restricted share forfeitures for all periods present is immaterial to the allocation of distributed and undistributed earnings.
- (a) For the three and nine months ended September 30, 2013 and 2014, we had no dilutive shares.

Note 10. 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 2035. Consequently, the provision for income taxes 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, Singapore and the United States. The sources of income from continuing operations before income taxes and earnings of unconsolidated equity method investment for the three and nine months ended September 30, 2013 and 2014 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
U.S. operations	\$488	\$772	\$1,684	\$2,293
Non-U.S. operations	(75,643 )	20,936	(13,605 )	34,798
Total	\$ (75,155 )	\$ 21,708	\$ (11,921 )	\$ 37,091

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. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We 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. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The consolidated income tax expense for the three and nine months ended September 30, 2013 and 2014 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2013 and 2014, respectively.

The Company's effective tax rate for the three and nine months ended September 30, 2013 was 0.8% and (56.4)% respectively, compared to 16.0% and 29.5% respectively, for the three and nine months ended September 30, 2014. Movements in the effective tax rates are generally caused by changes in the proportion of the Company's pre-tax earnings in taxable and non-tax jurisdictions. For the three months ended September 30, 2013, the interim period effective tax rate reflects the 2013 portfolio impairment of aircraft of \$97,592 as a discrete item. For the nine months ended September 30, 2013 and 2014, the respective interim period effective tax rates reflects the 2013 portfolio impairment of aircraft of \$97,592 and the 2014 loss on extinguishment of debt in the amount of \$36,570 as discrete items.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Notional U.S. federal income tax expense (benefit) at the statutory rate	\$(26,305 )	\$7,598	\$(4,173 )	\$12,982
U.S. state and local income tax, net	39	57	125	176
Non-U.S. operations:				
Bermuda	26,613	215	13,748	6,455
Ireland	(53 )	(2,411 )	(544 )	(3,163 )
Singapore	(170 )	(1,418 )	(23 )	(3,895 )
Other	(820 )	(692 )	(2,696 )	(2,061 )
Non-deductible expenses in the U.S.	107	146	306	464
Other	(8 )	(11 )	(24 )	(33 )
Income tax provision	\$(597 )	\$3,484	\$6,719	\$10,925

Note 11. Interest, Net

The following table shows the components of interest, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities <sup>(1)</sup>	\$47,682	\$44,820	\$147,096	\$144,677
Hedge ineffectiveness losses	93	(4 )	197	55
Amortization of interest rate derivatives related to deferred losses	7,300	8,549	25,285	26,730
Amortization of deferred financing fees <sup>(2)</sup>	2,976	3,506	11,757	10,493
Interest Expense	58,051	56,871	184,335	181,955
Less interest income	(208 )	(77 )	(684 )	(404 )
Interest, net	\$57,843	\$56,794	\$183,651	\$181,551

(1) For the nine months ended September 30, 2013, includes the loan termination fee of \$2,954 related to two ECA aircraft sold in June 2013.

(2) For nine months ended September 30, 2013, includes the write-off of deferred financings fees of \$3,975 related to the repayment of two ECA Financings.

Note 12. Commitments and Contingencies

At September 30, 2014, we had commitments to acquire 16 aircraft for \$805,740. Of those, five acquisitions have closed, and we expect that an additional five will close during the fourth quarter of 2014 and two of these acquisitions will close in the first quarter of 2015. The other four aircraft are Boeing 777-300ERs that may be purchased from and leased back to LATAM once the existing financings are repaid. We do not expect this transaction to be completed before the first half of 2015.

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.

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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 September 30, 2014:

Hedged Item	Derivative Liabilities			Future Maximum Notional Amount	Floating Rate	Fixed Rate	Balance Sheet Location	Fair Value
	Current Notional Amount	Effective Date	Maturity Date					
Interest rate derivatives designated as cash flow hedges:								
Securitization No. 2	\$389,484	Jun-12	Jun-17	\$389,484	1M LIBOR	1.26% to 1.28%	Fair value of derivative liabilities	\$3,090

In connection with the repayment of Securitization No. 1., two interest rate derivatives hedging the facility were terminated on February 18, 2014, resulting in a net deferred loss of \$26,863 which is being amortized into interest expense using the effective interest method over the original hedge term.

The weighted average interest pay rates of these derivatives at December 31, 2013 and September 30, 2014 were 3.03% and 1.27%, respectively.

For the nine months ended September 30, 2014, 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 \$5,193. 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 \$3,622.

Our interest rate derivatives involve counterparty credit risk. As of September 30, 2014, our interest rate derivatives are held with JP Morgan Chase Bank NA and Wells Fargo Bank NA. Both of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of Aa3 or above) by Moody’s Investors Service. Both are also considered investment grade (long-term foreign issuer ratings of AA- or above) by Standard and Poor’s. We do not anticipate that either 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 September 30, 2014, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$278 related to interest rate derivatives designated as cash flow hedges.

Following is the effect of interest rate derivatives on the statement of financial performance for the nine months ended September 30, 2014:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Effective Portion		Ineffective Portion		
	Amount of Gain or (Loss) Recognized in OCI on Derivative	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative

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	(a)		OCI into Income (b)		(c)
Interest rate derivatives	\$(3,068)	Interest expense	\$(31,823)	Interest expense	\$(58)

This represents the change in fair market value of our interest rate derivatives since year end, net of taxes, offset by (a) the amount of actual cash paid related to the net settlements of the interest rate derivatives for the nine months ended September 30, 2014.

This represents the amount of actual cash paid, net of taxes, related to the net settlements of the interest rate (b) derivatives for the nine months ended September 30, 2014 plus any effective amortization of net deferred interest rate derivative losses.

(c) This represents both realized and unrealized ineffectiveness incurred during the nine months ended September 30, 2014.

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Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income On Derivative Other income (expense)	Amount of Gain or (Loss) Recognized in Income on Derivative \$ 681
Interest rate derivatives		

On an ongoing basis, terminated interest rate derivative 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.

For the nine months ended September 30, 2014, the amount of deferred net loss reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$26,182. 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 \$27,231, of which \$7,711 relates to Term Financing No. 1 interest rate derivatives terminated in 2012, \$11,072 relates to Securitization No. 1 interest rate derivatives terminated in 2014, \$5,990 relates to ECA Term Financings for New A330 Aircraft, \$1,267 relates to other financings and \$1,191 relates to Term Financing No. 1 derivatives terminated in 2008.

For the nine months ended September 30, 2014, the amount of effective deferred loss reclassified from OCI into interest expense related to our designated active interest rate derivative was \$548.

The following table summarizes amounts charged directly to the consolidated statement of income for the three and nine months ended September 30, 2013 and 2014, respectively, related to our interest rate derivatives:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2014	
Interest expense:				
Hedge ineffectiveness losses	\$93	\$(4 )	\$197	\$55
Amortization:				
Accelerated amortization of deferred losses <sup>(1)</sup>	(2 )	(17 )	2,025	(14 )
Amortization of loss on designated interest rate derivative	423	—	1,168	548
Amortization of deferred losses	6,879	8,566	22,092	26,196
Total Amortization	7,300	8,549	25,285	26,730
Total charged to interest expense	\$7,393	\$8,545	\$25,482	\$26,785
Other income:				
Mark to market gains on undesignated interest rate derivatives	\$855	\$—	\$3,727	\$681
Total charged to other income	\$855	\$—	\$3,727	\$681

(1) For the nine months ended September 30, 2013, represents accelerated amortization of deferred hedge losses related to two aircraft sold in June 2013.

Note 14. Other Assets

The following table describes the principal components of other assets on our consolidated balance sheet as of:





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	December 31, 2013	September 30, 2014
Deferred debt issuance costs, net of amortization of \$61,104 and \$50,115, respectively	\$ 52,464	\$ 54,856
Deferred federal income tax asset	1,218	1,135
Lease incentives and lease premiums, net of amortization of \$41,136 and \$23,458, respectively	72,181	72,355
Flight equipment held for sale	9,474	31,040
Aircraft purchase deposits	10,000	—
Other assets	8,639	16,068
Total other assets	\$ 153,976	\$ 175,454

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:

	December 31, 2013	September 30, 2014
Accounts payable and accrued expenses	\$ 30,204	\$ 47,345
Deferred federal income tax liability	33,178	32,351
Accrued interest payable	39,213	48,716
Lease discounts, net of amortization of \$6,458 and \$6,774 respectively	9,066	34,558
Total accounts payable, accrued expenses and other liabilities	\$ 111,661	\$ 162,970

Note 16. Accumulated Other Comprehensive Loss

The following table describes the principal components of accumulated other comprehensive loss recorded on our consolidated balance sheet as of:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Changes in accumulated other comprehensive loss by component <sup>(a)</sup>		
Beginning balance	\$(57,342 )	\$(75,905 )
Amount recognized in other comprehensive loss on derivatives, net of tax expense of \$7 and \$728, respectively	509	(3,068 )
Amounts reclassified from accumulated other comprehensive loss into income, net of tax expense of \$14 and \$97, respectively	9,683	31,823
Net current period other comprehensive income	10,192	28,755
Ending balance	\$(47,150 )	\$(47,150 )

(a) All amounts are net of tax. Amounts in parentheses indicate debits.



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	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Reclassifications from accumulated other comprehensive loss <sup>(a)</sup>		
Amount of effective amortization of net deferred interest rate derivative losses <sup>(b)</sup>	\$8,549	\$26,730
Effective amount of net settlements of interest rate derivatives, net of tax expense of \$14 and \$97, respectively <sup>(b)</sup>	1,134	5,093
Amount of loss reclassified from accumulated other comprehensive loss into income <sup>(c)</sup>	\$9,683	\$31,823

(a) All amounts are net of tax.

(b) Included in interest expense.

(c) This represents the effective amounts of actual cash paid related to the net settlements of the interest rate derivatives plus any effective amortization of net deferred interest rate derivative losses (see Note 13. - Derivatives).

## ITEM 2. 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 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 "Risk Factors" and included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission (the "SEC"). Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or 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.

Certain items in this Quarterly Report on Form 10-Q (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, Adjusted 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 such 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 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 expectations include, but are not limited to, capital markets disruption or volatility which could adversely affect our continued ability to obtain additional capital to finance new investments or our working capital needs; government fiscal or tax policies, general economic and business conditions or other factors affecting demand for aircraft or aircraft values 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 caused by political unrest and other factors affecting the creditworthiness of our airline customers and their ability to continue to perform their obligations under our leases and other risks detailed from time to time in Aircastle's filings with the SEC including as previously disclosed in Aircastle's 2013 Annual Report on Form 10-K, 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 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, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (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

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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.

## OVERVIEW

We acquire, lease, and sell commercial jet aircraft with large, global operator bases and long useful lives. As of September 30, 2014, our portfolio consisted of 140 aircraft leased to 61 lessees located in 37 countries. Our aircraft fleet is managed by an experienced team based in the United States, Ireland and Singapore. Typically, our aircraft are subject to net 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. As of September 30, 2014, the net book value of our flight equipment and finance lease aircraft was \$5.30 billion compared to \$5.19 billion at the end of 2013. Our revenues and net income for the three and nine months ended September 30, 2014 were \$177.6 million and \$19.2 million, and \$580.3 million and \$28.1 million, respectively.

Commercial air travel and air freight activity 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. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently more than 18,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at an average annual rate, net of retirements, of three to five percent per annum over the next 20 years. In addition, aircraft leasing companies own an increasing share of the world's commercial jet aircraft, and now account for approximately 40% of this fleet.

Notwithstanding the sector's long-term growth, the aviation markets have been, and are expected to remain, subject to economic cyclicity, as well as to fuel prices. 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.

Air traffic data for the first eight months of 2014 showed a continued strong trend in passenger market growth. Air cargo traffic showed slow improvement as world trade and economic growth increased. According to the International Air Transport Association, during 2014 global passenger traffic increased by 5.8% and air cargo traffic increased by 4.5% as compared to the same period in 2013. Passenger traffic growth was strong, driven by rising economic growth and business confidence. The air cargo market, which is more sensitive than the passenger sector to economic conditions, appears to have stabilized after weak performances in 2012 and 2011, although the air cargo market continues to be hampered by persistent overcapacity.

There are significant regional variations in both passenger and air cargo demand. Certain emerging market economies such as China, Turkey, and Brazil, among others, have been experiencing significant increases in air traffic, driven by rising levels of per capita air travel. Air traffic in other regions is being driven by a more long-term structural change in global traffic flows, particularly the growth in long-haul "hub and spoke" traffic flowing through the Persian Gulf. In contrast, more mature markets such as North America and Western Europe are likely to grow more slowly in tandem with their economies. Additionally, airlines operating in areas with political instability have seen more modest growth and their outlook is more uncertain. Recent health concerns relating to the Ebola virus as well as heightened geopolitical conflicts may also play a role in the near-term development of air traffic. However, in aggregate, we believe that passenger and cargo traffic will increase over time and we expect demand for modern, fuel efficient aircraft to continue to remain strong over the long run.

Capital availability for aircraft has varied over time, but has been generally strong over the past several years in the world's debt and equity markets. Strong U.S. debt capital markets conditions particularly benefited certain borrowers by permitting access to financing at historic lows while higher fees have driven down export credit agency ("ECA") demand. Commercial bank debt continued to play a critical role in the air finance market with traditional aviation lenders, along with a number of new entrants, providing capacity to top tier airlines and lessors. Although financing for used aircraft has improved relative to the prior year as bank lenders and bond investors seek higher returns on

investments, absolute levels of capacity remain low compared to new aircraft financing opportunities. We believe these market forces should generate attractive new investment and trading opportunities upon which we are well placed to capitalize given our access to the U.S. capital markets.

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We plan to grow our business and profits over the long-term by continuing to employ the following elements of our fundamental business strategy:

Pursuing a disciplined, “value oriented” investment strategy. In our view, the relative values of different aircraft investments change over time. As a consequence, we maintain a “value oriented” investment strategy to seek out the best risk-adjusted return opportunities across the commercial jet market. To this end, we carefully evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices periodically as market conditions and relative investment values change. In this respect, we believe the financing flexibility offered through unsecured debt enables our value oriented strategy and provides us with a competitive advantage for many investment opportunities. We believe this approach is somewhat unique among the larger aircraft leasing companies.

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, together with ongoing fleet replacements, will provide significant acquisition opportunities. We regularly evaluate potential aircraft acquisitions and expect to continue our investment program through additional purchases when attractively priced opportunities and cost effective financing are available.

Maintaining efficient access to capital from a wide range of sources. We believe the aircraft investment market is subject to forces related to the business cycle. Our strategy is to increase our purchase activity when prices are low and to emphasize asset sales when competition and therefore prices for assets is high. In order to implement this approach, we believe maintaining access to a wide variety of financing sources over the business cycle is very important. To that end, our strategy is to maintain corporate credit ratings from major ratings agencies, manage to strong credit metrics, own a large pool of unencumbered assets and increase our asset base so as to maintain good access to capital during a variety of business conditions.

Selling assets when attractive opportunities arise and for portfolio management purposes. We pursue asset sales as opportunities arise 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 and also to exit from an investment when a sale would provide the greatest expected cash flow for us.

Leveraging our efficient operating platform and strong operating track record. We believe our team’s capabilities in the global aircraft leasing market place us in a favorable position to source and manage new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.

Intending 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 as described in Item 1A. “Risk Factors,” and elsewhere in our 2013 Annual Report on Form 10-K. On July 28, 2014, our board of directors declared a regular quarterly dividend of \$0.20 per common share, or an aggregate of \$16.2 million for the three months ended September 30, 2014, which was paid on September 12, 2014 to holders of record on August 29, 2014. These dividends may not be indicative of the amount of any future dividends.

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.

#### 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, lease termination payments, lease incentive amortization and interest recognized from finance leases.



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 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. If a lease requires end of lease term maintenance payments, typically the lessee would be required to pay us for its utilization of the aircraft during the lease; however, in some cases, we may owe a net payment (referred to as contra maintenance revenue) to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception.

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 in excess of amounts paid to us by the lessee in the form of maintenance payments. 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.

When we acquire a leased aircraft, determining the fair value of the attached lease requires us to make assumptions regarding the current fair value of that lease. In doing so, we estimate a range of current lease rates of like aircraft in order to determine if the relevant lease is within a fair value range. If the lease rental 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 recorded as a liability or asset and is amortized into lease rental income over the remaining term of the lease.

#### 2014 Lease Expirations and Lease Placements

With regards to aircraft with leases expiring in 2014, since the beginning of the year, we sold, leased or have lease commitments for 26 of these aircraft. This leaves one aircraft representing less than one percent of our net book value of

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flight equipment (including flight equipment held for lease and net investment in finance leases) at September 30, 2014, to market for lease or sale. We expect to sell this aircraft.

#### 2015-2018 Lease Expirations and Lease Placements

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2015-2018 representing the percentage of our net book value of flight equipment (including flight equipment held for lease and net investment in finance leases) at September 30, 2014 specified below:

- 2015: 12 aircraft, representing 6%;
- 2016: 22 aircraft, representing 10%;
- 2017: 27 aircraft, representing 19%; and
- 2018: 18 aircraft, representing 14%.

#### 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, Singapore 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 which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We 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. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

#### Acquisitions and Sales

During the first nine months of 2014, we acquired 14 aircraft for \$1.03 billion. Ten aircraft that were less than five years old accounted for \$935.6 million of this total. As of September 30, 2014, we also had commitments to acquire 16 additional aircraft for approximately \$805.7 million. Of those, five acquisitions have closed for approximately \$253.5 million, and we expect that an additional five will close for approximately \$102.0 million during the fourth quarter of 2014 and two will close for approximately \$87.0 million during the first quarter of 2015. The four other aircraft are Boeing 777-300ERs that may be purchased from and leased back to LATAM once the existing financings are repaid. We do not expect this transaction to be completed before the first half of 2015.

During the first nine months of 2014, we sold 35 aircraft, including five freighters and eleven older technology aircraft for \$563.9 million and we repaid \$20.2 million in associated debt. Of these, 12 aircraft were sold during the third quarter. Thirteen of our 2014 dispositions were "exit sales" of aircraft nearing the end of their economic lives. Exit sales



usually follow from a determination that the best economic decision for an aircraft is to sell it as it reaches lease expiry rather than to reinvest and enable a follow-on lease.

The other 22 aircraft sales were “opportunistic” and reflect favorable current market conditions. These sales are intended to capture strong market demand and enable us to realize gains and generally represent situations where we believe we can deploy our capital more efficiently by reinvesting in other assets. Included in these 22 aircraft in the table below was one Boeing 777-300ER on lease with LATAM that was sold to our joint venture with Teachers’.

We also determined that we intend to sell two other Boeing 747-400 converted freighter aircraft by the end of this year. One of these is in the process of being parted-out and the other is due to come off-lease during the fourth quarter.

Nine Months Ended September 30, 2014	Number of Aircraft	Maintenance Revenue	Lease Incentive Revenue <sup>(1)</sup>	Gain (Loss) on Sale of Flight Equipment	Impairment	Pre-tax Impact
Opportunistic sales	22	\$—	\$—	\$29,628	\$—	\$29,628
Exit sales	13	27,952	154	(16,244 )	—	11,862
Total sales	35	27,952	154	13,384	—	41,490
Freighter Exits	2	6,570	3,626	—	(28,306 )	(18,110 )
Total	37	\$34,522	\$3,780	\$13,384	\$(28,306 )	\$23,380

(1)Included in Amortization of lease premiums, discounts and lease incentives.

The following table sets forth certain information with respect to the aircraft owned by us as of September 30, 2014: AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

	Owned Aircraft as of September 30, 2013 <sup>(1)</sup>	Owned Aircraft as of September 30, 2014 <sup>(1)</sup>		
Flight Equipment	\$5,086	\$5,304		
Unencumbered Flight Equipment	\$2,712	\$2,924		
Number of Aircraft	161	140		
Number of Unencumbered Aircraft	80	85		
Number of Lessees	68	61		
Number of Countries	37	37		
Weighted Average Age – Passenger (years) <sup>(2)</sup>	9.2	7.8		
Weighted Average Age – Freighter (years) <sup>(2)</sup>	12.9	12.6		
Weighted Average Age – Combined (years) <sup>(2)</sup>	10.0	8.6		
Weighted Average Remaining Passenger Lease Term (years) <sup>(3)</sup>	5.4	5.3		
Weighted Average Remaining Freighter Lease Term (years) <sup>(3)</sup>	4.0	3.5		
Weighted Average Remaining Combined Lease Term (years) <sup>(3)</sup>	5.1	5.0		
Weighted Average Fleet Utilization during the three months ended September 30, 2013 and 2014 <sup>(4)</sup>	100	%	100	%
Weighted Average Fleet Utilization during the nine months ended September 30, 2013 and 2014 <sup>(4)</sup>	98	%	99	%
Portfolio Yield for the three months ended September 30, 2013 and 2014 <sup>(5)</sup>	13.7	%	13.2	%
Portfolio Yield for the nine months ended September 30, 2013 and 2014 <sup>(5)</sup>	13.5	%	13.3	%

(1) Calculated using net book value of flight equipment held for lease and net investment in finance leases at period end.

(2) Weighted average age by net book value.

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

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

(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 September 30, 2014 is listed in Exhibit 99.1 to this report.

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## PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of September 30, 2014		
	Number of Aircraft	% of Net Book Value <sup>(1)</sup>	
Aircraft Type			
Passenger:			
Narrowbody	86	32	%
Midbody	29	30	%
Widebody	9	22	%
Total Passenger	124	84	%
Freighter	16	16	%
Total	140	100	%
Manufacturer			
Boeing	81	57	%
Airbus	53	40	%
Embraer	6	3	%
Total	140	100	%
Regional Diversification			
Europe	59	28	%
Asia and Pacific	45	42	%
North America	19	8	%
South America	11	12	%
Middle East and Africa	6	10	%
Total	140	100	%

(1) Calculated using net book value of flight equipment held for lease and net investment in finance leases at period end.

Our largest customer represents less than 9% of the net book value of flight equipment held for lease (includes net book value of flight equipment held for lease and net investment in finance leases) at September 30, 2014. Our top 15 customers for aircraft we owned at September 30, 2014, representing 61 aircraft and 64% of the net book value of flight equipment held for lease, are as follows:

Percent of Net Book Value	Customer	Country	Number of Aircraft
Greater than 6% per customer	Thai Airways	Thailand	3
	LATAM	Chile	3
3% to 6% per customer	South African Airways	South Africa	4
	Singapore Airlines	Singapore	4
	Martinair <sup>(1)</sup>	Netherlands	5
	Emirates	United Arab Emirates	2
	Garuda	Indonesia	4
	Virgin Australia	Australia	2
	AirBridge Cargo <sup>(2)</sup>	Russia	2
	Jet Airways	India	6
	Azul	Brazil	5
Less than 3% per customer	US Airways <sup>(3)</sup>	USA	11
	Air Atlanta	Iceland	4
	EVA Airways	Taiwan	4
	Air Canada	Canada	2

(1)If combined with one other affiliated customer, represents 5.1% of flight equipment held for lease.

(2)Guaranteed by Volga-Dnepr Airlines.

(3)US Airways has merged with American Airlines.

#### Finance

We intend to fund new investments through cash on hand, cash flows from operations and 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, 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

## RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2013 to the three months ended September 30, 2014:

	Three Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$161,148	\$178,886
Finance lease revenue	4,122	1,463
Amortization of net lease premiums, discounts and lease incentives	(9,737 )	(1,075 )
Maintenance revenue (including contra maintenance revenue of \$0 and \$8,655 for the three months ended September 30, 2013 and 2014, respectively)	12,932	(4,189 )
Total lease revenue	168,465	175,085
Other revenue	1,625	2,511
Total revenues	170,090	177,596
Operating expenses:		
Depreciation	70,469	75,519
Interest, net	57,843	56,794
Selling, general and administrative	12,830	13,817
Impairment of aircraft	106,136	20,436
Maintenance and other costs	1,914	713
Total operating expenses	249,192	167,279
Other income:		
Gain on sale of flight equipment	3,092	11,390
Loss on extinguishment of debt	—	—
Other	855	1
Total other income	3,947	11,391
Income (loss) from continuing operations before income taxes	(75,155 )	21,708
Income tax provision (benefit)	(597 )	3,484
Earnings of unconsolidated equity method investment, net of tax	—	927
Net income (loss)	\$(74,558 )	\$19,151

## Revenues:

Total revenues increased by 4.4%, or \$7.5 million, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of \$17.7 million for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily the result of:

\$43.3 million of revenue reflecting the full quarter impact of 16 aircraft purchased in 2013 and 12 aircraft purchased in 2014.

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

\$21.1 million due to aircraft sales; and

\$2.9 million from the effect of lease terminations and other changes and \$1.5 million due to lease extensions and transitions.

Finance lease revenue: For the three months ended September 30, 2014, \$1.5 million of interest income from finance leases was recognized as compared to \$4.1 million of interest income from finance leases recorded for the same period in 2013 due to the sale of six aircraft during the second quarter of 2014.

## Amortization of net lease premiums, discounts and lease incentives.

	Three Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Amortization of lease incentives	\$(7,886 )	\$(1,549 )
Amortization of lease premiums	(2,347 )	(2,073 )
Amortization of lease discounts	496	2,547
Amortization of net lease premiums, discounts and lease incentives	\$(9,737 )	\$(1,075 )

As more fully described above under “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 \$6.3 million for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily attributable to the reversal of \$5.3 million of lease incentive amortization in the three months ended September 30, 2014 related to a change in forecasted maintenance events for three leases.

As more fully described above under “Revenues,” lease discounts represent the present value of the amount below current lease rates for acquired aircraft with attached leases. The increase in amortization of lease discounts of \$2.1 million for the three months ended September 30, 2014 as compared to the same period in 2013 resulted from six aircraft purchases in 2014 and the full quarter amortization of four aircraft purchased during the last quarter of 2013.

## Maintenance revenue.

	Three Months Ended September 30,			
	2013		2014	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$12,056	1	\$288	1
Scheduled lease terminations	876	2	(4,477 )	4
Maintenance revenue	\$12,932	3	\$(4,189 )	5

Unscheduled lease terminations. For the three months ended September 30, 2013, we recorded maintenance revenue from unscheduled lease terminations of \$12.1 million primarily associated with one aircraft returned in the third quarter of 2013 resulting from an early termination agreement with the lessee. Comparatively, for the same period in 2014, we recorded \$0.3 million of maintenance revenue from unscheduled lease terminations resulting from an early termination agreement with the lessee.

Scheduled lease terminations. For the three months ended September 30, 2013, we recorded \$0.9 million of maintenance revenue from two scheduled lease terminations. Comparatively, for the same period in 2014, we recorded \$4.2 million of maintenance revenue from two scheduled lease terminations, offset by \$8.7 million of contra maintenance revenue related to two scheduled lease terminations.

Other revenue. For the three months ended September 30, 2013, other revenue was \$1.6 million which represents additional fees paid by one lessee in connection with the early termination of one lease. For the three months ended September 30, 2014, other revenue was \$2.5 million which primarily represents additional fees paid by one lessee in connection with the early termination of one lease.

## Operating expenses:

Total operating expenses decreased by \$81.9 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, primarily as a result of the following:



Depreciation expense increased by 7.2%, or \$5.1 million for the three months ended September 30, 2014 as compared to the same period in 2013. The net increase is primarily the result of:

- \$14.9 million increase in depreciation for aircraft acquired; and
- \$3.0 million increase due to changes in asset lives and residual values.

This increase was partially offset by:

- \$12.3 million decrease in depreciation for aircraft sales; and
- a \$0.6 million decrease due to capitalized aircraft improvements being fully depreciated.

Interest, net consisted of the following:

	Three Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$47,682	\$44,820
Hedge ineffectiveness losses	93	(4 )
Amortization of interest rate derivatives related to deferred losses	7,300	8,549
Amortization of deferred financing fees and notes discount	2,976	3,506
Interest Expense	58,051	56,871
Less interest income	(208 )	(77 )
Interest, net	\$57,843	\$56,794

Interest, net decreased by \$1.0 million, or 1.8%, over the three months ended September 30, 2013. The net decrease is primarily a result of:

- lower interest expense on borrowings of \$2.9 million driven primarily by a lower weighted average interest rate of 4.78% for the three months ended September 30, 2014 as compared to 5.63% a year ago.

The decrease was partially offset by a \$1.2 million increase in amortization of interest rate derivatives related to deferred losses primarily due to the repayment of Securitization No. 1.

Selling, general and administrative expenses for the three months ended September 30, 2014 increased slightly over the same period in 2013. Non-cash share based expense was \$1.1 million and \$0.9 million for the three months ended September 30, 2013 and 2014, respectively.

Impairment of Aircraft - See "Summary of Impairments and Recoverability Assessment" below for a detailed discussion of impairment charges related to certain aircraft.

Maintenance and other costs were \$0.7 million for the three months ended September 30, 2014, a decrease of \$1.2 million over the same period in 2013. The net decrease is primarily related to lower maintenance costs of \$1.1 million related to unscheduled terminations and \$0.2 million related to scheduled terminations and transitions for the three months ended September 30, 2014 versus the same period in 2013. This decrease is partially offset by an increase of \$0.1 million in maintenance costs attributable to routine costs such as inspections.

Other income (expense):

Total other income (expense) increased \$7.4 million for the three months ended September 30, 2014 as compared to the same period in 2013, primarily as a result of the following:

Gain on sale of flight equipment consisted of 11 "opportunistic" aircraft sales reflecting favorable current market conditions in 2014 versus none in 2013. These sales are intended to capture strong market demand and enable us to realize gains and generally represent situations where we believe we can deploy our capital more efficiently by reinvesting in other assets.

Loss on sale of flight equipment consisted of one “exit sale” aircraft disposition nearing the end of its economic life versus four in 2013. Exit sales usually follow from a determination that the best economic decision for an aircraft is to sell it as it reaches lease expiry rather than to reinvest and enable a follow-on lease.

Three Months Ended September 30, 2014	Number of Aircraft	Maintenance Revenue	Gain (Loss) on Sale of Flight Equipment	Pre-tax Impact
Opportunistic sales	11	\$—	\$12,651	\$12,651
Exit sales	1	23	(1,261 )	(1,238 )
Total sales	12	\$23	\$11,390	\$11,413

Other decreased by \$0.9 million, primarily related to the mark to market value of an undesignated interest rate derivative.

#### Income tax provision

Our provision for income taxes for the three months ended September 30, 2013 and 2014 was \$(0.6) million and \$3.5 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, Singapore and the United States. The increase in our income tax provision of approximately \$4.1 million for the three months ended September 30, 2014 as compared to the same period in 2013 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions and treating the \$97.6 million portfolio impairment of aircraft as a discrete item in 2013.

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. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We 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. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

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. 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 (loss):

	Three Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Net income	\$(74,558)	\$19,151
Net change in fair value of derivatives, net of tax expense of \$78 and \$21, respectively	1,798	1,643
Derivative loss reclassified into earnings	7,300	8,549
Total comprehensive income (loss)	\$(65,460)	\$29,343

Other comprehensive income was \$29.3 million for the three months ended September 30, 2014, an increase of \$94.8 million from the \$65.5 million of other comprehensive loss for the three months ended September 30, 2013. Other comprehensive income for the three months ended September 30, 2014 primarily consisted of: \$19.2 million of net income; and





\$8.5 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive loss for the three months ended September 30, 2013 primarily consisted of:

\$74.6 million of net loss;

an \$1.8 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the three months ended September 30, 2013, partially offset by a slight loss due to a downward shift in the one-month LIBOR forward curve; and

\$7.3 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

## RESULTS OF OPERATIONS

Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2014:

	Nine Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$475,656	\$536,452
Finance lease revenue	12,120	9,347
Amortization of net lease premiums, discounts and lease incentives	(25,527 )	(7,252 )
Maintenance revenue (including contra maintenance revenue of \$0 and \$25,037 for the nine months ended September 30, 2013 and 2014, respectively)	42,983	35,035
Total lease revenue	505,232	573,582
Other revenue	11,425	6,763
Total revenues	516,657	580,345
Operating expenses:		
Depreciation	212,448	225,230
Interest, net	183,651	181,551
Selling, general and administrative	39,297	41,818
Impairment of aircraft	112,335	67,005
Maintenance and other costs	11,464	5,222
Total operating expenses	559,195	520,826
Other income (expense):		
Gain on sale of flight equipment	25,601	13,384
Loss on extinguishment of debt	—	(36,570 )
Other	5,016	758
Total other income (expense)	30,617	(22,428 )
Income (loss) from continuing operations before income taxes	(11,921 )	37,091
Income tax provision	6,719	10,925
Earnings of unconsolidated equity method investment, net of tax	—	1,898
Net income (loss)	\$(18,640 )	\$28,064

Revenues:

Total revenues increased by 12.3%, or \$63.7 million, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of \$60.8 million for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily the result of:

\$125.8 million of revenue reflecting the full quarter impact of 20 aircraft purchased in 2013 and 12 aircraft purchased in 2014.

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

\$57.1 million due to aircraft sales; and

\$8.9 million from the effect of lease terminations and other changes offset by \$1.0 million due to lease extensions and transitions.

Finance lease revenue: For the nine months ended September 30, 2014, \$9.3 million of interest income from finance leases was recognized as compared to \$12.1 million of interest income from finance leases recorded for the same period in 2013 due to the sale of six aircraft during the second quarter of 2014.

Amortization of net lease premiums, discounts and lease incentives.

	Nine Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Amortization of lease incentives	\$(20,072 )	\$(7,703 )
Amortization of lease premiums	(6,473 )	(6,586 )
Amortization of lease discounts	1,018	7,037
Amortization of net lease premiums, discounts and lease incentives	\$(25,527 )	\$(7,252 )

As more fully described above under “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 12.4 million for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily attributable to the reversal of \$11.0 million of lease incentive amortization in the nine months ended September 30, 2014 related to a change in forecasted maintenance events for three leases.

As more fully described above under “Revenues,” lease discounts represent the present value of the amount below current lease rates for acquired aircraft with attached leases. The increase in amortization of lease discounts of \$6.0 million for the nine months ended September 30, 2014 as compared to the same period in 2013 resulted from six aircraft purchases in 2014 and the full nine months amortization of four aircraft purchased during the last quarter of 2013.

Maintenance revenue.

	Nine Months Ended September 30,			
	2013		2014	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$32,051	8	\$469	2
Scheduled lease terminations	10,932	6	34,566	20
Maintenance revenue	\$42,983	14	\$35,035	22



Unscheduled lease terminations. For the nine months ended September 30, 2013, we recorded maintenance revenue from unscheduled lease terminations of \$32.1 million primarily associated with eight aircraft returned in the first half of 2013 resulting from early termination agreements with those leases. Comparatively, for the same period in 2014, we recorded maintenance revenue totaling \$0.5 million from unscheduled lease terminations primarily associated with one aircraft returned in the fourth quarter of 2013 resulting from an early termination agreement with the lessee.

Scheduled lease terminations. As more fully described above under "Revenues," contra maintenance revenue represents the net payment to a lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception. For the nine months ended September 30, 2013, we recorded \$10.9 million of maintenance revenue primarily from six scheduled lease terminations. Comparatively, for the same period in 2014, we recorded \$59.6 million of maintenance revenue from 14 scheduled lease terminations offset by \$25.0 million of contra maintenance revenue related to five scheduled lease terminations and \$6.6 from a change in estimate for an aircraft scheduled to return in December 2014.

Other revenue. For the nine months ended September 30, 2013, other revenue was \$11.4 million which was comprised of \$1.7 million of interest on our debt investments and \$9.6 million recognized in additional fees paid by six lessees in connection with the early termination of eight leases. For the nine months ended September 30, 2014, other revenue was \$6.8 million which primarily represents additional fees paid by one lessee in connection with the early termination of one lease.

Operating expenses:

Total operating expenses decreased \$38.4 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, primarily as a result of the following:

Depreciation expense increased by 6.0%, or \$12.8 million for the nine months ended September 30, 2014 as compared to the same period in 2013. The net increase is primarily the result of :

- \$44.3 million increase in depreciation for aircraft acquired; and
- \$5.3 million increase due to changes in asset lives and residual values.

This increase was partially offset by:

- \$34.8 million decrease in depreciation for aircraft sales; and
- a \$1.9 million decrease due to capitalized aircraft improvements being fully depreciated.

Interest, net consisted of the following:

	Nine Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$147,096	\$144,677
Hedge ineffectiveness losses	197	55
Amortization of interest rate derivatives related to deferred losses	25,285	26,730
Amortization of deferred financing fees and notes discount	11,757	10,493
Interest Expense	184,335	181,955
Less interest income	(684 )	(404 )
Interest, net	\$183,651	\$181,551

Interest, net decreased by \$2.1 million, or 1.1%, over the nine months ended September 30, 2013. The net decrease is primarily a result of:

- a \$2.4 million decrease in interest on borrowings reflecting \$3.0 million of loan breakage fees incurred in June 2013 as a result of the early repayment of 2 ECA loans; and

a \$1.3 million decrease in amortization of deferred financing fees primarily due to the write off of fees related to the early repayment of the 2 ECA loans in June 2013.

The decreases were offset by a \$1.4 million increase in the amortization of deferred losses reflecting the increased amortization expense due to the repayment of Securitization No. 1.

Selling, general and administrative expenses for the nine months ended September 30, 2014 increased slightly over the same period in 2013. Non-cash share based expense was \$2.9 million and \$3.2 million for the nine months ended September 30, 2013 and 2014, respectively.

Impairment of Aircraft - See “Summary of Impairments and Recoverability Assessment” below for a detailed discussion of impairment charges related to certain aircraft.

Maintenance and other costs were \$5.2 million for the nine months ended September 30, 2014, a decrease of \$6.2 million over the same period in 2013. The net decrease is primarily related to lower maintenance costs of \$3.7 million related to scheduled terminations and \$2.6 million related to unscheduled terminations and transitions for the nine months ended September 30, 2014 versus the same period in 2013.

Other income (expense):

Total other income (expense) decreased \$53.0 million for the nine months ended September 30, 2014 as compared to the same period in 2013, primarily as a result of the following:

Gain on sale of flight equipment consisted of 22 “opportunistic” aircraft sales reflecting favorable current market conditions in 2014 versus three in 2013. These sales are intended to capture strong market demand and enable us to realize gains and generally represent situations where we believe we can deploy our capital more efficiently by reinvesting in other assets.

Loss on sale of flight equipment consisted of 13 “exit sales” aircraft dispositions nearing the end of their economic lives versus 13 in 2013. Exit sales usually follow from a determination that the best economic decision for an aircraft is to sell it as it reaches lease expiry rather than to reinvest and enable a follow-on lease.

Nine Months Ended September 30, 2014	Number of Aircraft	Maintenance Revenue	Lease Incentive Revenue <sup>(1)</sup>	Gain (Loss) on Sale of Flight Equipment	Pre-tax Impact
Opportunistic sales	22	\$—	\$—	\$29,628	\$29,628
Exit sales	13	27,952	154	(16,244 )	11,862
Total sales	35	\$27,952	\$154	\$13,384	\$41,490

(1) Included in Amortization of lease premiums, discounts and lease incentives.

Loss on extinguishment of debt of \$36.6 million related to the early payment of our 9.75% Senior Notes due 2018. Other decreased by \$4.3 million, primarily related to the mark to market value of an undesignated interest rate derivative.

Income tax provision

Our provision for income taxes for the nine months ended September 30, 2013 and 2014 was \$6.7 million and \$10.9 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, Singapore and the United States. The increase in our income tax provision of approximately \$4.2 million for the nine months ended September 30, 2014 as compared to the same period in 2013 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions and treating as discrete items the \$36.6 million loss on extinguishment of debt relating to Bermuda operations in 2014 and the \$97.6 million portfolio impairment of aircraft in 2013.

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

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subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We 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. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

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. 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:

	Nine Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Net income (loss)	\$(18,640)	\$28,064
Net change in fair value of derivatives, net of tax expense of \$389 and \$825, respectively	13,751	2,025
Derivative loss reclassified into earnings	25,285	26,730
Total comprehensive income	\$20,396	\$56,819

Other comprehensive income was \$56.8 million for the nine months ended September 30, 2014, an increase of \$36.4 million from the \$20.4 million of other comprehensive income for the nine months ended September 30, 2013. Other comprehensive income for the nine months ended September 30, 2014 primarily consisted of:

\$28.1 million of net income;

\$2.0 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the three months ended September 30, 2014 partially offset by a slight loss due to a downward shift in the one-month LIBOR forward curve; and

\$26.7 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive income for the nine months ended September 30, 2013 primarily consisted of:

\$(18.6) million of net loss;

a \$13.8 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the nine months ended September 30, 2013, partially offset by a slight loss due to a downward shift in the one-month LIBOR forward curve; and

\$25.3 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

#### Summary of Impairments and Recoverability Assessment

As more fully described in our Annual Report on Form 10-K for the year ended December 31, 2013, we perform a recoverability assessment of each aircraft in our fleet, at least annually, generally during the third quarter. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, suggest 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 change in aircraft model's storage levels, the introduction of newer technology aircraft, 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 from the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted lease rental and maintenance payments, future projected lease rates, transition costs, estimated down time,





estimated residual or scrap values for an aircraft, economic conditions and other factors. In the event that an aircraft does not meet the recoverability test, the aircraft value will be adjusted down to fair value, resulting in an impairment charge.

Management develops the assumptions used in the recoverability analysis based on 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 projected lease rental and maintenance payments, residual values, economic conditions, technology, airline demand for a particular aircraft type and many of the risk factors discussed in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013. Our lessees may face financial difficulties and return aircraft to us prior to the contractual lease expiry dates which may change our cash flow assumptions and require future impairment charges. While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates.

In the 2014 assessment, we reduced our forecast of future cash flows for certain freighter aircraft to reflect the cumulative effect of increasing supply over the past three years, notwithstanding the modest increase in demand so far in 2014. More specifically, higher production levels for new, large freighter aircraft together with increased belly freight capacity from the latest generation of wide-body passenger aircraft have resulted in a glut of large freighter aircraft. At the same time, air freight demand increased slightly due to modest economic growth rates in certain key economies and structural changes in the freight market (e.g., the evolution of smaller, smarter and lighter electronic devices and modal shifts). The combined effect of these developments has reduced lease rates and driven more freighter aircraft into storage, particularly over the past few years.

More specifically, we determined the cash flows expected to be generated by two of our McDonnell Douglas MD-11 freighter aircraft did not support their carrying values. As a result, we impaired these two aircraft, which had an aggregate net book value as of June 30, 2014 of \$53.8 million, writing down their book values by a total of \$19.5 million. We also shortened their expected lives and reduced their residual values.

In addition, for our five Boeing 747-400 production freighters, all of which passed the recoverability assessment, we shortened the expected lives from 35 years to 30 years from the date of manufacture.

For changes we made to our aircraft mentioned above and other adjustments to lives and/or residual values, our total depreciation expense will increase by approximately \$1.9 million in the fourth quarter of 2014, as compared to the three months ended June 30, 2014. We estimate an increase in depreciation expense for changes we made to our aircraft for the year ended December 31, 2015 of approximately \$7.8 million.

During the second quarter of 2014, we impaired two Boeing 747-400 converted freighters, one of which is off-lease and the other of which has a scheduled lease expiry in December 2014. We intend to sell both aircraft rather than reinvest in further maintenance necessary for releasing. We classified one of these aircraft, which is being sold on a part out basis, as Flight Equipment Held for Sale in Other Assets on our consolidated Balance Sheet. For the off-lease aircraft, we recorded an impairment charge totaling \$17.4 million during the three months ended June 30, 2014. We previously recorded maintenance revenue of \$3.9 million and reversed lease incentives of \$0.9 million during the three months ended December 31, 2013 when this aircraft was returned to us. For the aircraft with a scheduled lease expiry in December 2014, we recorded an impairment charge totaling \$10.7 million and recorded maintenance revenue of \$6.0 million and reversed lease incentives of \$3.6 million during the six months ended June 30, 2014.

During the first quarter of 2014, we impaired two aircraft, one Boeing 737-400, which was returned to us as scheduled by the lessee and one Boeing 747-400 converted freighter, for which we agreed to an early lease termination with our customer. For these two aircraft, we recorded impairment charges totaling \$18.3 million and recorded maintenance revenue of \$17.2 million during the three months ended March 31, 2014.

Following our recoverability assessment during the third quarter of 2013, we impaired six Boeing 747-400 converted freighter aircraft and one Boeing 737-700 aircraft and recorded impairment charges of \$88.6 million and \$8.9 million, respectively.

During the third quarter of 2013, one Boeing 767-300ER aircraft was returned to us early by its lessee. We recorded an impairment charge of \$8.5 million, maintenance revenue of \$12.1 million and other revenue of \$0.9 million for this aircraft. During the first quarter of 2013, one Airbus A319-100 aircraft and one Boeing 767-300ER aircraft were

returned to us early by their respective lessees. We recorded impairment charges totaling \$6.2 million, maintenance revenue of \$9.0 million and other revenue of \$0.9 million for these two aircraft.

#### Aircraft Monitoring List

At September 30, 2014, we considered six aircraft with a total net book value of \$146.2 million including four freighter aircraft with a total net book value of \$121.5 million to be more susceptible to failing future recoverability assessments due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values.

#### RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1. - Summary of Significant Accounting Policies - Proposed Accounting Pronouncements.

#### PROPOSED ACCOUNTING PRONOUNCEMENTS

See Note 1. - Summary of Significant Accounting Policies - Proposed Accounting Pronouncements.

#### LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity currently are cash on hand, cash generated by our aircraft leasing operations, proceeds from aircraft sales, loans secured by additional 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;
- sales 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.

During the first nine months of 2014, we met our liquidity and capital resource needs with \$366.0 million of cash from operations, \$803.2 million of cash from debt financings, \$563.9 million of cash from aircraft sales including:

- Closing \$500.0 million of Senior Notes due 2021; and
- Closing new secured borrowings in the amount of \$303.2 million.

Proceeds from the issuance of our Senior Notes due 2021 were used to pay-off the balance of our 9.75% Senior Notes due 2018 plus accrued interest of \$10.2 million and the call premium of \$32.8 million on April 25, 2014. We also wrote off \$3.7 million of debt issuance costs associated with the pay-off of the Senior Notes due 2018.

In addition, we increased our revolving credit facility, which was undrawn at September 30, 2014, to \$450.0 million. These increases in capital resources were partially offset by the February 2014 repayment of the outstanding principal plus accrued interest and fees due under Securitization No.1 and the termination of the related interest rate derivative, for a total cash payment of \$255.2 million, with proceeds from our December 2013 Notes issuance. The aircraft that became unencumbered with the repayment of Securitization No. 1 had a net book value of \$410.5 million at December 31, 2013.

As of September 30, 2014, we are in compliance with all applicable covenants in our financings.

We believe that cash on hand, payments received from lessees and other funds generated from operations, secured borrowings for aircraft, borrowings under our 2014 Revolving Credit Facility and other borrowings and proceeds from future 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 aircraft purchase obligations, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment reimbursements and lease incentive payments over the next twelve months.



## Cash Flows

	Nine Months Ended September 30,	
	2013	2014
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$319,313	\$365,975
Net cash flow provided by (used in) investing activities	(523,627 )	(413,283 )
Net cash flow (used in) provided by financing activities	(175,753 )	(132,967 )

## Operating Activities:

Cash flow from operations was \$319.3 million and \$366.0 million for the nine months ended September 30, 2013 and September 30, 2014, respectively. The increase in cash flow from operations of approximately \$46.7 million for the nine months ended September 30, 2014 versus the same period in 2013 was primarily a result of:

- a \$69.5 million increase in cash from lease rentals;
- and

• a \$3.1 million decrease in cash from working capital.

These inflows were offset partially by:

- a \$18.6 million decrease in cash for maintenance revenue primarily due to contra maintenance revenue;
- a \$3.7 million increase in cash paid for taxes; and
- a \$2.8 million decrease in cash interest from finance leases.

## Investing Activities:

Cash used in investing activities was \$523.6 million and \$413.3 million, respectively, for the nine months ended September 30, 2013 and September 30, 2014, respectively. The decrease in cash flow used in investing activities of \$110.3 million for the nine months ended September 30, 2014 versus the same period in 2013, was primarily a result of:

- a \$278.7 million increase in proceeds from the sale of flight equipment; and
- \$7.0 million of lower aircraft purchase deposits.

These inflows were offset by:

- a \$102.5 million increase in the acquisition and improvement of flight equipment;
- a \$42.0 million decrease in principal repayments on debt investments;
- a \$22.4 million increase in restricted cash and cash equivalents related to the sale of flight equipment; and
- an \$8.6 million increase in unconsolidated equity method investment.

## Financing Activities:

Cash used in financing activities was \$175.8 million for the nine months ended September 30, 2013 as compared to \$133.0 million for the nine months ended September 30, 2014. The net decrease in cash flow used in financing activities of \$42.8 million for the nine months ended September 30, 2014 versus the same period in 2013 was a result of:

- a \$465.0 million increase in securitization and term debt repayments primarily due to the repayment of \$219.9 million for Securitization No. 1 in February 2014 and of \$450.0 million for our 9.75% Senior Notes due 2018 in April 2014;
- a \$199.6 million decrease in issuance of common shares net of repurchases;
- a \$33.4 million increase in payments for terminated cash flow hedges related to the pay-off of Securitization No. 1;

- a \$32.8 million increase in debt extinguishment costs related to the call premium on our 9.75% Senior Notes due 2018 repaid in April 2014;
  - a \$12.9 million increase in deferred financing costs related to the issuance of our Senior Notes due 2021 and bank financings on five acquired aircraft in the first quarter of 2014;
  - a \$25.5 million decrease in security deposits received net of security deposits returned;
  - a \$12.7 million increase in dividends paid; and
  - a \$11.0 million decrease in maintenance deposits received net of maintenance deposits returned.
- These increases were offset partially by:
- a \$725.0 million increase in proceeds from our Senior Notes due 2021 and bank debt financings on aircraft purchases; and
  - a \$110.7 million decrease in restricted cash and cash equivalents related to security deposits and maintenance payments.

#### Debt Obligations

The following table provides a summary of our secured and unsecured debt financings at September 30, 2014:

Debt Obligation	Collateral	Outstanding Borrowing	Number of Aircraft	Interest Rate <sup>(1)</sup>	Final Stated Maturity <sup>(2)</sup>
(Dollars in thousands)					
Secured Debt Financings:					
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	451,544	34	0.47%	06/14/37
ECA Term Financings	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	460,983	8	3.02% to 3.96%	12/3/21 to 11/30/24
Bank Financings	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	572,506	13	1.15% to 5.09%	09/15/15 to 04/19/25
Total secured debt financings		1,485,033			
Unsecured Debt Financings:					
Senior Notes due 2017	None	500,000	—	6.75%	04/15/17
Senior Notes due 2018	None	400,000	—	4.625%	12/05/18
Senior Notes due 2019	None	500,000	—	6.25%	12/01/19
Senior Notes due 2020	None	300,000	—	7.625%	04/15/20
Senior Notes due 2021	None	500,000	—	5.125%	03/15/21
2014 Revolving Credit Facility <sup>(3)</sup>	None	—	—	N/A	03/31/18
Total unsecured debt financings		2,200,000			
Total secured and unsecured debt financings		\$3,685,033			

(1)

Reflects the floating rate in effect at the applicable reset date plus the margin for Securitization No. 2 and four of our Bank Financings. All other financings have a fixed rate.

(2) For Securitization No. 2, all cash flows available after expenses and interest are applied to debt amortization.

(3) On March 31, 2014, we amended and restructured our existing \$335.0 million 2013 Revolving Credit Facility with a new unsecured revolving credit facility (the "2014 Revolving Credit Facility"). The 2014 Revolving Credit Facility was increased to \$450.0 million, has a term of four years, is scheduled to expire in March 2018 and was undrawn at September 30, 2014.

The following Securitization includes a liquidity facility commitment described in the table below:

Facility	Liquidity Facility Provider	Available Liquidity			Interest Rate on any Advances
		December 31, 2013 (Dollars in thousands)	September 30, 2014	Unused Fee	
Securitization No. 2	HSH Nordbank AG	\$65,000	\$65,000	0.50%	1M Libor + 0.75

Secured Debt Financings:

Securitizations

In February 2014, we repaid the outstanding amount plus accrued interest and fees due under Securitization No.1 and terminated the related interest rate derivative, for a total cash payment of \$255.2 million, with proceeds from our December 2013 issuance of our Senior Notes due 2018.

Bank Financings

In February 2014, we entered into two floating rate loans and one fixed rate loan totaling \$303.2 million secured by two Boeing 777-300ER aircraft and one Airbus A330-200 aircraft we acquired in 2013. In March 2014, we assumed two floating rate loans totaling \$40.8 million in connection with the acquisition of two Boeing 737-800 aircraft. During the third quarter of 2014, we converted both of the floating rate loans related to the Boeing 737-800 aircraft to fixed rate loans.

We include these loan facilities in “Bank Financings”. Aircastle Limited has guaranteed the repayment of these Bank Financings.

Unsecured Debt Financings:

Senior Notes due 2021

On March 26, 2014, Aircastle Limited issued \$500.0 million aggregate principal amount of Senior Notes due 2021 (the “2021 Senior Notes”). The 2021 Senior Notes will mature on March 15, 2021 and bear interest at the rate of 5.125% per annum, payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2014. Interest will accrue on the 2021 Senior Notes from March 26, 2014. Proceeds from the issuance were used to pay-off the outstanding amount of our 9.75% Senior Notes due 2018 plus accrued interest of \$10.2 million and the call premium of \$32.8 million on April 25, 2014. We also wrote off \$3.7 million of debt issuance costs associated with the pay-off of the Senior Notes due 2018. Both the call premium and the write-off of debt issuance costs are included in Other income (expense) - Loss on Extinguishment of Debt on our consolidated statement of income.

2014 Revolving Credit Facility

On March 31, 2014, we amended and restructured our existing \$335.0 million 2013 Revolving Credit Facility with the 2014 Revolving Credit Facility. The 2014 Revolving Credit Facility was increased to \$450.0 million, has a term of four years and is scheduled to expire in March 2018.

As of September 30, 2014, we are in compliance with all applicable covenants in all of our financings.

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 increased from \$5.28 billion at December 31, 2013 to approximately \$5.37 billion at September 30, 2014 due primarily to:



an increase in borrowings and interest payments as a result of the closing of our Senior Notes due 2021 in March 2014;

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an additional bank financings on five aircraft; and  
an increase in aircraft purchase obligations.

These increases were offset by:

the repayments of Securitization No. 1 in February 2014 and our 9.75% Senior Notes due 2018 in April 2014, respectively.

The following table presents our actual contractual obligations and their payment due dates as of September 30, 2014.

Contractual Obligations	Payments Due By Period as of September 30, 2014				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in thousands)				
Principal payments:					
Senior Notes due 2017 - 2021	\$2,200,000	\$—	\$500,000	\$400,000	\$1,300,000
Securitization No. 2 <sup>(1)</sup>	451,544	147,375	214,009	90,160	—
ECA Term Financings <sup>(2)</sup>	460,984	44,996	94,886	101,838	219,264
Bank Financings <sup>(3)</sup>	578,921	62,097	104,571	160,180	252,073
Total principal payments	3,691,449	254,468	913,466	752,178	1,771,337
Interest payments:					
Interest payments on debt obligations <sup>(4)</sup>	854,688	170,709	329,018	230,097	124,864
Interest payments on interest rate derivatives <sup>(5)</sup>	7,625	3,870	3,755	—	—
Total interest payments	862,313	174,579	332,773	230,097	124,864
Office leases <sup>(6)</sup>	6,977	1,122	1,774	1,508	2,573
Purchase obligations <sup>(7)</sup>	805,740	805,740	—	—	—
Total	\$5,366,479	\$1,235,909	\$1,248,013	\$983,783	\$1,898,774

Estimated principal payments for these non-recourse financings are based on excess cash flows available from forecasted lease rentals, net maintenance funding and proceeds from asset dispositions after the payment of forecasted operating expenses and interest payments, including interest payments on existing interest rate derivative agreements and policy provider fees.

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

(2) Includes principal payments based upon individual loan amortization schedules.

(3) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at September 30, 2014.

(4) 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 September 30, 2014.

(5) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.

At September 30, 2014, we had commitments to acquire 16 aircraft. Of those, three acquisitions have closed, and we expect that an additional five will close during the fourth quarter of 2014 and two will close in the first quarter of 2015. The other four aircraft are Boeing 777-300ERs that may be purchased from and leased back to LATAM once the existing financings are repaid. We do not expect this transaction to be completed before the first half of 2015.

### 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 nine months ended September 30, 2013 and 2014, we incurred a total of \$22.3 million and \$15.5 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of September 30, 2014, the weighted average age (by net book value) of our aircraft was approximately 8.6 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 September 30, 2014, we had a \$422.2 million maintenance payment liability on

our balance sheet, which is a \$20.3 million decrease from December 31, 2013. The decrease consisted of net maintenance cash outflows of \$14.7 million and a decrease in lease incentive liabilities of \$5.6 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.

#### Off-Balance Sheet Arrangements

We have entered into a joint venture with an affiliate of Ontario Teachers' Pension Plan, in which we have a 30% equity interest, which does not qualify for consolidated accounting treatment. The assets and liabilities of this joint venture are off our balance sheet and we only record our net investment under the equity method of accounting. See Note 5. - Unconsolidated Equity Method Investment.

#### Foreign Currency Risk and Foreign Operations

At September 30, 2014, 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 subsidiaries in Ireland and Singapore. For the nine months ended September 30, 2014, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$10.9 million in U.S. dollar equivalents and represented approximately 26% 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 nine months ended September 30, 2013 and 2014, 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 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 September 30, 2014:

Hedged Item	Derivative Liabilities			Future			Balance Sheet Location	Fair Value
	Current Notional Amount	Effective Date	Maturity Date	Maximum Notional Amount	Floating Rate	Fixed Rate		
(Dollars in thousands)								
Interest rate derivatives designated as cash flow hedges:								
Securitization No. 2	\$389,484	Jun-12	Jun-17	\$389,484	1M LIBOR			\$3,090

1.26% Fair value of  
to derivative  
1.28% liabilities

In connection with the repayment of Securitization No. 1, two interest rate derivatives hedging the facility were terminated on February 18, 2014, resulting in a net deferred loss of \$26.9 million which is being amortized into interest expense using the interest method over the original hedge term.

The weighted average interest pay rates of these derivatives at December 31, 2013 and September 30, 2014 were 3.03%, and 1.27%, respectively.

For the nine months ended September 30, 2014, 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 \$5.2 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 \$3.6 million.

Our interest rate derivatives involve counterparty credit risk. As of September 30, 2014, our interest rate derivatives are held with JP Morgan Chase Bank NA and Wells Fargo Bank NA. Both of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of Aa3 or above) by Moody’s Investors Service. Both are also considered investment grade (long-term foreign issuer ratings of AA- or above) by Standard and Poor’s. We do not anticipate that either 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 September 30, 2014, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$0.3 million related to interest rate derivatives designated as cash flow hedges.

On an ongoing basis, terminated interest rate derivative 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.

The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the nine months ended September 30, 2013 and 2014:

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		Next Twelve Months <sup>(2)</sup>	
							September 30, 2013 <sup>(1)</sup>	September 30, 2014 <sup>(1)</sup>		
(Dollars in Thousands)										
Securitization No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)	(456)	(230)	(210)	(227)
Senior Notes due 2017 and 2020	150,000	Jul-07	Dec-17	5.14	Mar-08	15,281	3,536	1,093	984	1,191
Term Financing No. 1	440,000	Jun-07	Feb-13	4.88	Partial – Mar-08 Full – Jun-08	26,281	—	384	—	—
Term Financing No. 1	248,000	Aug-07	May-13	5.33	Jun-08	9,888	—	721	—	—
Term Financing No. 1	710,068	Jun-08	May-13	4.04	De-designated – Mar-12 Terminated – April-12	19,026	—	5,695	—	—
Senior Notes due 2019	491,718	May-13	May-15	5.31	De-designated – Mar-12 Terminated –	–31,403	7,712	7,783	11,544	7,712

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Senior Notes due 2018	360,000	Jan-08	Feb-19	5.16	April-12 Partial – Jun-08 Full – Oct-08	23,077	5,837	765	1,187	1,494
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Partial – Jun-08 Full – Dec-08	15,310	1,208	3,631	520	1,208
ECA Term Financing for New A330 Aircraft	238,000	Jan-11	Apr-16	5.23	Dec-08	19,430	4,295	2,629	2,407	2,942
ECA Term Financing for New A330 Aircraft	238,000	Jul-11	Sep-16	5.27	Dec-08	17,254	3,351	1,645	1,506	1,840
Senior Notes due 2018	451,911	Jun-06	Jun-16	5.78	Feb-14	20,762	14,391	—	6,371	8,557
Senior Notes due 2018	108,089	Jun-06	Jun-16	5.78	Feb-14	6,101	4,228	—	1,872	2,515
Total						\$200,694	\$44,102	\$24,116	\$26,181	\$27,232

(1) Amount of deferred (gain) or loss amortized (including accelerated amortization) into interest expense for the nine months ended September 30, 2013 and 2014.

(2) Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months.

On an ongoing basis, terminated interest rate derivative 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.

For the nine months ended September 30, 2014, the amount of deferred net loss reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$26.2 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 \$27.2 million, of which \$7.7 million relates to Term Financing No. 1 interest rate derivatives terminated in 2012, \$11.1 million relates to Securitization No. 1 interest rate derivatives terminated in 2014, \$6.0 million relates to ECA Term Financings for New A330 Aircraft, \$1.3 million relates to other financings and \$1.2 million relates to Term Financing No. 1 derivatives terminated in 2008.

For the nine months ended September 30, 2014, the amount of effective deferred loss reclassified from OCI into interest expense related to our designated active interest rate derivative was \$0.5 million.

The following table summarizes amounts charged directly to the consolidated statement of income for the three and nine months ended September 30, 2013 and 2014, respectively, related to our interest rate derivatives:

	Three Months		Nine Months Ended	
	Ended September		September 30, 2014	
	2013	2014	2013	2014
	(Dollars in thousands)			
Interest expense:				
Hedge ineffectiveness losses	\$93	\$(4 )	\$197	\$55
Amortization:				
Accelerated amortization of deferred losses <sup>(1)</sup>	(2 )	(17 )	2,025	(14 )
Amortization of loss on designated interest rate derivative	423	—	1,168	548
Amortization of deferred losses	6,879	8,566	22,092	26,196
Total Amortization	7,300	8,549	25,285	26,730
Total charged to interest expense	\$7,393	\$8,545	\$25,482	\$26,785
Other income:				
Mark to market gains on undesignated interest rate derivatives	\$855	\$—	\$3,727	\$681
Total charged to other income	\$855	\$—	\$3,727	\$681

(1) For the three and nine months ended September 30, 2013, represents accelerated amortization of deferred hedge losses related to two aircraft sold in June 2013.

#### Management's Use of EBITDA and Adjusted 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,

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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.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2013 and 2014, respectively.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
	(Dollars in thousands)			
Net income (loss)	\$(74,558 )	\$19,151	\$(18,640 )	\$28,064
Depreciation	70,469	75,519	212,448	225,230
Amortization of net lease discounts and lease incentives	9,737	1,075	25,527	7,252
Interest, net	57,843	56,794	183,651	181,551
Income tax provision	(597 )	3,484	6,719	10,925
EBITDA	\$62,894	\$156,023	\$409,705	\$453,022
Adjustments:				
Impairment of aircraft	106,136	20,436	112,335	67,005
Loss on extinguishment of debt	—	—	—	36,570
Non-cash share based payment expense	1,067	949	2,931	3,167
Gain on mark to market of interest rate derivative contracts	(855 )	—	(3,727 )	(681 )
Adjusted EBITDA	\$169,242	\$177,408	\$521,244	\$559,083

#### 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, provides useful information about operating and period-over-period performance, and provides 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, changes related to refinancing activity and non-cash share based payment expense.

Under the two-class method, earnings per common share is 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. Because the holders of the participating restricted common shares were not contractually required to share in the Company's losses, in applying the two-class method to compute basic and diluted net loss per common share, no allocation to restricted common shares was made for the three and nine months ended September 30, 2013.

The table below shows the reconciliation of net income to ANI for the three and nine months ended September 30, 2013 and 2014, respectively.

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
	(Dollars in thousands)			
Net income (loss)	\$(74,558 )	\$19,151	\$(18,640 )	\$28,064
Loss on extinguishment of debt <sup>(2)</sup>	—	—	—	36,570
Loan termination fee <sup>(1)</sup>	—	—	2,954	—
Ineffective portion and termination of hedges <sup>(1)</sup>	91	(21 )	2,222	41
Gain on mark to market of interest rate derivative contracts <sup>(2)</sup>	(855 )	—	(3,727 )	(681 )
Write-off of deferred financing fees <sup>(1)</sup>	150	—	3,975	—
Non-cash share based payment expense <sup>(3)</sup>	1,067	949	2,931	3,167
Term Financing No. 1 hedge loss amortization charges <sup>(1)</sup>	4,591	3,601	13,478	11,544
Securitization No. 1 hedge loss amortization charges <sup>(1)</sup>	423	2,865	1,168	8,792
Adjusted net income (loss)	\$(69,091 )	\$26,545	\$4,361	\$87,497

(1)Included in Interest, net.

(2)Included in Other income (expense).

(3)Included in Selling, general and administrative expenses.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
Weighted-average shares:				
Common shares outstanding	78,544,380	80,389,996	71,462,264	80,389,131
Restricted common shares	669,489	600,581	562,612	581,932
Total weighted-average shares	79,213,869	80,990,577	72,024,876	80,971,063

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2013	2014	2013	2014	2013	2014	2013	2014
Percentage of weighted-average shares:								
Common shares outstanding	99.15	% 99.26	%	99.22	% 99.28	%	99.28	%
Restricted common shares	0.85	% 0.74	%	0.78	% 0.72	%	0.72	%
Total	100.00	% 100.00	%	100.00	% 100.00	%	100.00	%

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2014	2013	2014
Weighted-average common shares outstanding – Basic	78,544,380	80,389,996	71,462,264	80,389,131
Effect of dilutive shares	—	—	—	—
Weighted-average common shares outstanding - Diluted <sup>(b)</sup>	78,544,380	80,389,996	71,462,264	80,389,131

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(Dollars in thousands, except per share amounts)			
Adjusted net income allocation:				
Adjusted net income (loss)	\$ (69,091 )	\$ 26,545	\$ 4,361	\$ 87,497
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(a)</sup>	—	(197 )	(34 )	(629 )
Adjusted net income (loss) allocable to common shares – Basic and Diluted	\$ (69,091 )	\$ 26,348	\$ 4,327	\$ 86,868
Adjusted net income (loss) per common share – Basic and Diluted	\$ (0.88 )	\$ 0.33	\$ 0.06	\$ 1.08

For the three months ended September 30, 2013 and 2014, distributed and undistributed earnings to restricted shares is 0.85% and 0.74% of net income. For the nine months ended September 30, 2013 and 2014, distributed and undistributed earnings to restricted shares is 0.78% and 0.72% 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 three and nine months ended September 30, 2013 and 2014, we had no dilutive shares.

#### Limitations of EBITDA, Adjusted EBITDA and ANI

An investor or potential investor may find EBITDA, Adjusted 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, Adjusted 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, Adjusted 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;
- loss on the extinguishment of debt related to our 9.75% Senior Notes due 2018;
- hedge loss amortization charges related to Term Financing No. 1 and Securitization No. 1; and
- adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes.

EBITDA, Adjusted 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 report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA and ANI are not measures of financial performance under US GAAP and are susceptible to varying calculations, EBITDA, Adjusted EBITDA and ANI as presented in this report, may differ from and may not be comparable to, similarly titled measures used by other companies.



### ITEM 3. 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 interest expense impacts on our financial instruments 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 September 30, 2014 by \$5.2 million and \$2.0 million, respectively, over the next twelve months. As of September 30, 2014, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$2.2 million and \$0.9 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months.

#### Item 4. 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 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 September 30, 2014. 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 September 30, 2014.

##### 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 September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. — OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

There have been no material changes to the disclosure related to the risk factors described in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

During the third quarter of 2014, we purchased our common shares as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(a)</sup>	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(a)</sup>
(Dollars in thousands, except per share amounts)				
July	—	\$—	—	\$ —
August	—	—	—	—
September	58,169	(b) 0.01	—	—
Total	58,169	\$0.01	—	\$ —

(a) The remaining dollar value of common shares that may be purchased under the repurchase program approved by the Company's Board of Directors on November 5, 2012 was \$30,000. This authorization expired on July 28, 2014.

(b) Reflects the repurchase of unvested common shares from a former officer of the Company.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.



Item 6. Exhibits	
Exhibit No.	Description of Exhibit
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	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).
4.3	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).
4.4	Indenture, dated as of April 4, 2012, 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 April 4, 2012).
4.5	Indenture, dated as of November 30, 2012, 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 November 30, 2012).
4.6	Shareholder Agreement dated as of June 6, 2013, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed with the SEC on June 6, 2013).
4.7	Second Supplemental Indenture, dated as of March 26, 2014 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 March 26, 2014).
10.1	Form of Restricted Share Agreement for Certain Executive Officers Under the Aircastle Limited 2014 Omnibus Incentive Plan. *
10.2	Form of Non-Officer Director Restricted Share Agreement Under the Aircastle Limited 2014 Omnibus Incentive Plan. *
10.3	Separation Agreement, dated September 5, 2014, among Aircastle Advisor LLC and David Walton. *
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002. *
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. *
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. *
99.1	Owned Aircraft Portfolio at September 30, 2014. *
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2013 and September 30, 2014, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2014, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2014, and (v) Notes to Unaudited Consolidated Financial Statements. *

\* Filed herewith.



**SIGNATURE**

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

Dated: November 4, 2014

**AIRCASTLE LIMITED**

(Registrant)

By: /s/ Aaron Dahlke

Aaron Dahlke

Chief Accounting Officer and Authorized Officer