

Aircastle LTD
Form 10-Q
November 03, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File number 001-32959

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

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

c/o Aircastle Advisor LLC 300 First Stamford Place, 5 th Floor, Stamford, CT (Address of principal executive offices)	06902 (Zip Code)
Registrant's telephone number, including area code	(203) 504-1020

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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"/>

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

Edgar Filing: Aircastle LTD - Form 10-Q

As of October 30, 2015, there were 81,187,495 outstanding shares of the registrant's common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries
 Form 10-Q
 Table of Contents

	Page No.
<u>PART I. – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	<u>3</u>
Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014	<u>4</u>
Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014	<u>5</u>
Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014	<u>6</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>7</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>47</u>
Item 4. <u>Controls and Procedures</u>	<u>48</u>
<u>PART II. – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>49</u>
Item 1A. <u>Risk Factors</u>	<u>49</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>49</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>49</u>
Item 5. <u>Other Information</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>50</u>
<u>SIGNATURE</u>	<u>51</u>

PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements

Aircastle Limited and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 149,041	\$ 169,656
Accounts receivable	3,046	3,334
Restricted cash and cash equivalents	84,258	98,884
Restricted liquidity facility collateral	65,000	65,000
Flight equipment held for lease, net of accumulated depreciation of \$1,403,443 and \$1,294,063, respectively	5,885,807	5,579,718
Net investment in finance leases	120,882	106,651
Unconsolidated equity method investment	49,131	46,453
Other assets	131,231	105,450
Total assets	\$6,488,396	\$6,175,146
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs	\$ 1,277,361	\$ 1,373,131
Borrowings from unsecured financings, net of debt issuance costs	2,717,859	2,371,456
Accounts payable, accrued expenses and other liabilities	154,209	140,863
Lease rentals received in advance	60,447	53,216
Liquidity facility	65,000	65,000
Security deposits	114,594	117,689
Maintenance payments	338,515	333,456
Total liabilities	4,727,985	4,454,811
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, \$.01 par value, 250,000,000 shares authorized, 81,181,495 shares issued and outstanding at September 30, 2015; and 80,983,249 shares issued and outstanding at December 31, 2014	812	810
Additional paid-in capital	1,567,692	1,565,180
Retained earnings	210,310	192,805
Accumulated other comprehensive loss	(18,403	) (38,460
Total shareholders' equity	1,760,411	1,720,335
Total liabilities and shareholders' equity	\$6,488,396	\$6,175,146

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

Edgar Filing: Aircastle LTD - Form 10-Q

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,	
	2015	2014	2015	2014
Revenues:				
Lease rental revenue	\$ 188,038	\$ 178,886	\$ 550,023	\$ 536,452
Finance lease revenue	1,868	1,463	5,352	9,347
Amortization of lease premiums, discounts and lease incentives	(2,113)	(1,075)	(10,288)	(7,252)
Maintenance revenue	15,726	(4,189)	55,148	35,035
Total lease revenue	203,519	175,085	600,235	573,582
Other revenue	8,555	2,511	10,700	6,763
Total revenues	212,074	177,596	610,935	580,345
Operating expenses:				
Depreciation	85,324	75,519	237,538	225,230
Interest, net	60,381	56,794	184,063	181,551
Selling, general and administrative (including non-cash share based payment expense of \$1,424 and \$949 for the three months ended and \$3,981 and \$3,167 for the nine months ended September 30, 2015 and 2014, respectively)	14,032	13,817	42,663	41,818
Impairment of Aircraft	78,403	20,436	102,358	67,005
Maintenance and other costs	2,520	713	9,126	5,222
Total expenses	240,660	167,279	575,748	520,826
Other income (expense):				
Gain on sale of flight equipment	15,679	11,390	43,034	13,384
Loss on extinguishment of debt	—	—	—	(36,570)
Other	70	1	341	758
Total other income (expense)	15,749	11,391	43,375	(22,428)
Income (loss) from continuing operations before income taxes	(12,837)	21,708	78,562	37,091
Income tax provision	2,709	3,484	12,037	10,925
Earnings of unconsolidated equity method investment, net of tax	1,557	927	4,563	1,898
Net income (loss)	\$(13,989)	\$ 19,151	\$ 71,088	\$ 28,064
Earnings (loss) per common share — Basic:				
Net income (loss) per share	\$(0.17)	\$ 0.24	\$ 0.88	\$ 0.35
Earnings (loss) per common share — Diluted:				
Net income (loss) per share	\$(0.17)	\$ 0.24	\$ 0.88	\$ 0.35
Dividends declared per share	\$ 0.22	\$ 0.20	\$ 0.66	\$ 0.60

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$(13,989)	\$19,151	\$71,088	\$28,064
Other comprehensive income, net of tax:				
Net change in fair value of derivatives, net of tax expense of \$3 and \$21 for the three months ended and tax expense of \$26 and \$825 for the nine months ended September 30, 2015 and 2014, respectively	272	1,643	708	2,025
Net derivative loss reclassified into earnings	5,006	8,549	19,349	26,730
Other comprehensive income	5,278	10,192	20,057	28,755
Total comprehensive income (loss)	\$(8,711)	\$29,343	\$91,145	\$56,819

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

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$71,088	\$28,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	237,538	225,230
Amortization of deferred financing costs	11,211	10,493
Amortization of net lease discounts and lease incentives	10,288	7,252
Deferred income taxes	(1,455)	(2,623)
Non-cash share based payment expense	3,981	3,167
Cash flow hedges reclassified into earnings	19,349	26,730
Security deposits and maintenance payments included in earnings	(20,645)	(38,257)
Gain on sale of flight equipment	(43,034)	(13,384)
Loss on extinguishment of debt	—	36,570
Impairment of aircraft	102,358	67,005
Other	269	(2,278)
Changes in certain assets and liabilities:		
Accounts receivable	253	(1,603)
Other assets	(4,382)	(1,691)
Accounts payable, accrued expenses and other liabilities	14,085	17,138
Lease rentals received in advance	7,566	4,162
Net cash provided by operating activities	408,470	365,975
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(1,034,578)	(939,651)
Proceeds from sale of flight equipment	343,020	563,882
Restricted cash and cash equivalents related to sale of flight equipment	—	(24,606)
Aircraft purchase deposits and progress payments	(4,421)	1,315
Net investment in finance leases	(24,000)	(14,258)
Collections on finance leases	6,768	8,096
Unconsolidated equity method investment and associated costs	—	(8,592)
Distributions from unconsolidated equity method investment in excess of earnings	—	997
Other	(260)	(466)
Net cash used in investing activities	(713,471)	(413,283)
Cash flows from financing activities:		
Issuance of shares net of repurchases	(1,960)	(2,092)
Proceeds from secured and unsecured debt financings	800,000	803,200
Repayments of secured and unsecured debt financings	(548,359)	(895,459)
Debt extinguishment costs	—	(32,835)
Deferred financing costs	(12,185)	(15,843)
Restricted liquidity facility collateral	—	42,000
Liquidity facility	—	(42,000)
Restricted cash and cash equivalents related to financing activities	14,626	32,987
Security deposits and maintenance payments received	114,644	131,136
Security deposits and maintenance payments returned	(28,797)	(72,030)

Edgar Filing: Aircastle LTD - Form 10-Q

Payments for terminated cash flow hedges	—	(33,427)
Dividends paid	(53,583)	(48,604)
Net cash provided by (used in) financing activities	284,386	(132,967)
Net increase (decrease) in cash and cash equivalents	(20,615)	(180,275)
Cash and cash equivalents at beginning of period	169,656	654,613
Cash and cash equivalents at end of period	\$149,041	\$474,338
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$129,696	\$135,880
Cash paid for income taxes	\$9,665	\$4,382
Supplemental disclosures of non-cash investing activities:		
Purchase deposits, advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	\$8,461	\$20,837
Term debt financings assumed in asset acquisitions	\$—	\$39,061
Advance lease rentals, security deposits, and maintenance payments settled in sale of flight equipment	\$77,624	\$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, 2015

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.

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, 2014.

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, 2015 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Effective July 1, 2015, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance is applied on a retrospective basis. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

Principles of Consolidation

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

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.

7

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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 2018. 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, 2017. 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. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. The Company is currently evaluating the impact of the ASU on its consolidated financial statements and related disclosures.

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. We do not believe the standard will have a material impact on our consolidated financial statements and related disclosures when adopted.

Note 2. Fair Value Measurements

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.
- Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- 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).

8

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

The following tables set forth our financial assets and liabilities as of September 30, 2015 and December 31, 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 Measurements at September 30, 2015 Using Fair Value Hierarchy				
	Fair Value as of September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	\$ 149,041	\$ 149,041	\$—	\$—	Market
Restricted cash and cash equivalents	84,258	84,258	—	—	Market
Total	\$233,299	\$233,299	\$—	\$—	
Liabilities:					
Derivative liabilities	\$2,433	\$—	\$2,433	\$—	Income
	Fair Value Measurements at December 31, 2014 Using Fair Value Hierarchy				
	Fair Value as of December 31, 2014	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Assets:					
Cash and cash equivalents	\$ 169,656	\$ 169,656	\$—	\$—	Market
Restricted cash and cash equivalents	98,884	98,884	—	—	Market
Total	\$268,540	\$268,540	\$—	\$—	
Liabilities:					
Derivative liabilities	\$2,879	\$—	\$2,879	\$—	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.

For the three and nine months ended September 30, 2015 and 2014, we had no transfers into or out of Level 3.

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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

Annual Fleet-Wide Review

We perform our annual fleet-wide recoverability assessment during the third quarter of each year. This 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 contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

In our 2015 assessment, we reduced forecasted future cash flows for our six Boeing 747-400 converted freighter aircraft not subject to sales agreements, all of which are more than twenty years old. Our new forecast reflects the persisting glut of supply in the air cargo market resulting from weak growth in demand combined with the growth in capacity arising from new production air freighters and higher belly capacity in latest generation wide-body passenger aircraft. In addition to these market-wide impacts, our older freighters were affected specifically by the imposition of age limits in certain countries and by lower utilization levels.

As a result, we determined that each of our older converted freighter aircraft was on its last lease, and we reduced our residual value assumptions for these aircraft and expect to scrap them following lease expiry. During the third quarter of 2015, we therefore impaired four of these aircraft, which had an aggregate net book value as of August 31, 2015 of \$115,888, writing down their book values by a total of \$34,575, with a fair value date of September 1, 2015. For one of these aircraft, we recorded maintenance revenue of \$5,858, as we no longer plan to reinvest these funds.

In the 2014 assessment, we determined that 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, during the third quarter of 2014, 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 from 25 to 21 years and reduced their residual values.

Other Impairments

In September 2015, Malaysian Airline System ("MAS") informed us that it was effectively rejecting the lease on our Boeing 777-200ER aircraft as part of its restructuring. This aircraft, which was manufactured in 1998, is the only one of its type in our fleet and the only aircraft we had on lease to MAS. We repossessed it in October 2015. We reduced the carrying value of this aircraft to our best estimate of scrap value. While we haven't made a decision to dispose of the aircraft, this write-down was driven by weak overall demand for older widebody aircraft, an increase in the supply of competing aircraft and the difficulty of recovering high redeployment costs given the proliferation of aircraft age limits across the world. This write-down resulted in an impairment of \$37,770, partially offset by \$1,200 of other revenue from a letter of credit we drew following the lease rejection.

Also in September 2015, we modified the lease agreement with respect to one Airbus A321-200 aircraft. We elected not to reinvest in certain major maintenance events during the lease term, and the lessee agreed to release its rights to certain maintenance payments. As a result, we recorded an impairment of \$6,058 and maintenance revenue of \$7,109

for this aircraft.

In the second quarter of 2015, we impaired two McDonnell Douglas MD-11 freighter aircraft and one Boeing 737-800 aircraft and recorded impairment charges totaling \$23,955 and maintenance revenue of \$18,234.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

During the nine months ended September 30, 2014, we impaired three Boeing 747-400 converted freighter aircraft and one Boeing 737-400 aircraft and recorded impairment charges totaling \$46,570. For these aircraft, we recorded maintenance revenue of \$24,262 and other revenue of \$137 and reversed lease incentives of \$3,626.

Other than the aircraft discussed above, management believes that the net book value of each of our 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, if our estimates or assumptions change, we may revise our cash flow assumptions and record 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.

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 No. 2, 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 September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015		December 31, 2014	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Securitization No. 2	\$(229,969)	\$(226,385)	\$(391,680)	\$(376,752)
Credit Facilities	(50,000)	(50,000)	(200,000)	(200,000)
ECA term financings	(415,988)	(441,218)	(449,886)	(471,918)
Bank financings	(653,486)	(674,706)	(554,888)	(560,285)
Senior Notes	(2,700,000)	(2,820,988)	(2,200,000)	(2,300,615)

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

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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, 2015 were as follows:

Year Ending December 31,	Amount
Remainder of 2015	\$182,038
2016	701,166
2017	614,693
2018	535,419
2019	469,377
Thereafter	1,531,375
Total	\$4,034,068

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

Region	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Asia and Pacific	43	% 39	% 42	% 40	%
Europe	28	% 29	% 28	% 29	%
South America	16	% 13	% 15	% 12	%
Middle East and Africa	9	% 9	% 9	% 9	%
North America	4	% 10	% 6	% 10	%
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, 2015, our two largest customers each accounted for more than 5% of lease rental revenue for a combined 12%. No other customer accounted for more than 5% of lease rental revenue. For the three months ended September 30, 2014, our four largest customers each accounted for more than 5% of lease rental revenue for a combined 24%. No other customer accounted for more than 5% of lease rental revenue.

For the nine months ended September 30, 2015, our three largest customers each accounted for more than 5% of lease rental revenue for a combined 17%. No other customer accounted for more than 5% of lease rental revenue. For the nine months ended September 30, 2014, our three largest customers each accounted for more than 5% of lease rental revenue for a combined 17%. No other customer accounted for more than 5% of lease rental revenue.

For the three and nine months ended September 30, 2015 and 2014, respectively, no country represented at least 10% of total revenue based on each lessee's principal place of business.

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 September 30, 2015

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	September 30, 2015			December 31, 2014		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Asia and Pacific	54	42	%	46	40	%
Europe	66	27	%	65	29	%
South America	18	17	%	13	14	%
Middle East and Africa	6	9	%	6	10	%
North America	15	5	%	17	7	%
Off-lease	1	(1) —	%	1	(2) —	%
Total	160	100	%	148	100	%

(1) Consists of one Boeing 777-200ER aircraft, which we are marketing for lease or sale.

(2) Consisted of one Airbus A320-200 aircraft, which was subject to a commitment to lease and was delivered to our customer in February 2015.

The following table sets forth net book value of flight equipment (includes net book value of flight equipment held for lease and net investment in finance leases) attributable to individual countries representing at least 10% of net book value of flight equipment based on each lessee's principal place of business as of:

Region	September 30, 2015			December 31, 2014		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
Indonesia	\$637,810	11	%3	\$—	—	%—

At September 30, 2015 and December 31, 2014, the amounts of lease incentive liabilities recorded in maintenance payments on the consolidated balance sheets were \$27,500 and \$22,833, respectively.

Note 4. Net Investment in Finance Leases

At September 30, 2015, our net investment in finance leases represents six 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 Germany. The following table lists the components of our net investment in finance leases at September 30, 2015:

Total lease payments to be received	Amount \$93,976
Less: Unearned income	(37,227)
Estimated residual values of leased flight equipment (unguaranteed)	64,133
Net investment in finance leases	\$120,882

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 September 30, 2015

At September 30, 2015, minimum future lease payments on finance leases are as follows:

Year Ending December 31,	Amount
Remainder of 2015	\$3,842
2016	15,365
2017	14,843
2018	9,715
2019	9,695
Thereafter	40,516
Total	\$93,976

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 hold a 30% equity interest, to invest in leased aircraft. Teachers' holds 9.7% of our outstanding common shares.

The Company recorded a \$6,270 guarantee liability, which is reflected in Maintenance payments on the balance sheet and a \$5,400 guarantee liability, which is reflected in Security deposits on the balance sheet.

Investment in joint venture at December 31, 2014	\$46,453
Investment in joint venture	2,994
Earnings from joint venture, net of tax	4,563
Distributions	(4,879)
Investment in joint venture at September 30, 2015	\$49,131

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 12 aircraft discussed below.

Securitization

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 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, 2015, the assets of ACS Ireland 2 include four aircraft transferred into the VIE at historical cost basis in connection with Securitization No. 2.

The assets of the ACS Ireland 2, net of intercompany receivables, as of September 30, 2015 are \$88,771. The liabilities of the ACS Ireland 2, net of \$40,351 Class E-1 Securities held by the Company and intercompany payables, which are eliminated in consolidation, as of September 30, 2015 are \$64,787.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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. The related aircraft, with a net book value as of September 30, 2015 of \$625,680 were included in our flight equipment held for lease. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of September 30, 2015 is \$401,339.

Note 7. Secured and Unsecured Debt Financings

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

Debt Obligation	At September 30, 2015			Final Stated Maturity ⁽²⁾	At December 31, 2014
	Outstanding Borrowings	Number of Aircraft	Interest Rate ⁽¹⁾		Outstanding Borrowings
Secured Debt Financings:					
Securitization No. 2	\$229,969	30	0.51%	06/14/37	\$391,680
ECA Term Financings	415,988	8	3.02% to 3.96%	12/3/21 to 11/30/24	449,886
Bank Financings	653,486	13	1.21% to 5.09%	10/26/17 to 01/19/26	554,888
Less: Debt Issuance Costs	(22,082)	—			(23,323)
Total secured debt financings, net of debt issuance costs	1,277,361	51			1,373,131
Unsecured Debt Financings:					
Senior Notes due 2017	500,000		6.75%	04/15/17	500,000
Senior Notes due 2018	400,000		4.625%	12/05/18	400,000
Senior Notes due 2019	500,000		6.250%	12/01/19	500,000
Senior Notes due 2020	300,000		7.625%	04/15/20	300,000
Senior Notes due 2021	500,000		5.125%	03/15/21	500,000
Senior Notes due 2022	500,000		5.50%	02/15/22	—
Revolving Credit Facility	50,000		2.44%	05/13/19	200,000
Less: Debt Issuance Costs	(32,141)				(28,544)

Edgar Filing: Aircastle LTD - Form 10-Q

Total unsecured debt financings, net of debt issuance costs	2,717,859	2,371,456
Total secured and unsecured debt financings, net of debt issuance costs	\$3,995,220	\$3,744,587

15

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 September 30, 2015

- (1) Reflects the floating rate in effect at the applicable reset date plus the margin for Securitization No. 2, five of our Bank Financings, and our Revolving Credit Facility. 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.

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

Facility	Liquidity Facility Provider	Available Liquidity		Unused Fee	Interest Rate on any Advances
		September 30, 2015	December 31, 2014		
Securitization No. 2	HSH Nordbank AG	\$65,000	\$ 65,000	0.50%	1M Libor + 0.75

Secured Debt Financings:

ECA Term Financings

As described in Note 6 - Variable Interest Entities, we refer to our COFACE-supported financings as "ECA Term Financings." In addition, Aircastle has guaranteed the repayment of the ECA Term Financings. The borrowings under these financings at September 30, 2015 have a weighted average rate of interest of 3.57%.

Bank Financings

In May 2015, we entered into two floating rate loans with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Development Bank of Japan Inc. These loans, which total \$150,000, are secured by two A330-300 aircraft that we acquired in the fourth quarter of 2014.

Our Bank Financings contain, among other customary provisions, a \$500,000 minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender. In addition, Aircastle has guaranteed the repayment of the Bank Financings. The borrowings under these financings at September 30, 2015 have a weighted average fixed rate of interest of 3.15%.

Unsecured Debt Financings:

Senior Notes due 2022

On January 15, 2015, Aircastle issued \$500,000 aggregate principal amount of Senior Notes due 2022 (the "2022 Senior Notes") at par. The 2022 Senior Notes will mature on February 15, 2022 and bear interest at the rate of 5.50% per annum, payable semi-annually on February 15 and August 15 of each year, commencing on August 15, 2015. Interest accrues on the 2022 Senior Notes from January 15, 2015.

We may redeem the Senior Notes due 2022 at any time at a redemption price equal to (a) 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date and (b) the sum of the present values of the remaining scheduled payments of principal and interest on the notes from the redemption date through the maturity date of the notes (computed using a discount rate equal to the Treasury Rate (as

defined in the indenture governing the notes) as of such redemption date plus 50 basis points). In addition, on or before February 15, 2018, we may redeem up to 35% of the aggregate principal amount of the notes issued under the indenture at a redemption price equal to 105.50% plus accrued and unpaid interest thereon to, but not including, the redemption date, with the net proceeds of certain equity offerings. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2022 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2022 are not guaranteed by any of the Company's subsidiaries or any third party.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

Revolving Credit Facility

On January 26, 2015, we increased the size of our Revolving Credit Facility from \$450,000 to \$600,000. On May 13, 2015, we extended the maturity of our Revolving Credit Facility to May 13, 2019. At September 30, 2015, we had \$50,000 drawn on the facility.

As of September 30, 2015, 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
August 4, 2015	\$0.220	\$17,860	August 31, 2015	September 15, 2015
May 4, 2015	\$0.220	\$17,863	May 29, 2015	June 15, 2015
February 17, 2015	\$0.220	\$17,860	March 6, 2015	March 13, 2015
October 31, 2014	\$0.220	\$17,817	November 28, 2014	December 15, 2014
July 28, 2014	\$0.200	\$16,201	August 29, 2014	September 12, 2014
May 5, 2014	\$0.200	\$16,202	May 30, 2014	June 13, 2014
February 21, 2014	\$0.200	\$16,201	March 7, 2014	March 14, 2014

Note 9. Earnings (Loss) Per Share

We include all common shares granted under our incentive compensation plan which remain unvested (“restricted common shares”) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (“participating securities”), in the number of shares outstanding in our basic 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 the basic and diluted net loss per common share, no allocation to restricted common shares was made for the three months ended September 30, 2015.

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 September 30, 2015

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average shares:				
Common shares outstanding	80,566,400	80,389,996	80,565,754	80,389,131
Restricted common shares	645,427	600,581	604,179	581,932
Total weighted average shares	81,211,827	80,990,577	81,169,933	80,971,063
Percentage of weighted average shares:				
Common shares outstanding	99.21	% 99.26	% 99.26	% 99.28
Restricted common shares	0.79	% 0.74	% 0.74	% 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,	
	2015	2014	2015	2014
Earnings (loss) per share – Basic:				
Net income (loss)	\$(13,989)	\$19,151	\$71,088	\$28,064
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	—	(142)	(529)	(202)
Earnings (loss) available to common shareholders – Basic	\$(13,989)	\$19,009	\$70,559	\$27,862
Weighted average common shares outstanding – Basic	80,566,400	80,389,996	80,565,754	80,389,131
Earnings (loss) per common share – Basic	\$(0.17)	\$0.24	\$0.88	\$0.35
Earnings (loss) per share – Diluted:				
Net income (loss)	\$(13,989)	\$19,151	\$71,088	\$28,064
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	—	(142)	(529)	(202)
Earnings (loss) available to common shareholders – Diluted	\$(13,989)	\$19,009	\$70,559	\$27,862
Weighted average common shares outstanding – Basic	80,566,400	80,389,996	80,565,754	80,389,131
Effect of dilutive shares ^(b)	—	—	—	—
Weighted average common shares outstanding – Diluted	80,566,400	80,389,996	80,565,754	80,389,131
Earnings (loss) per common share – Diluted	\$(0.17)	\$0.24	\$0.88	\$0.35

(a)

Edgar Filing: Aircastle LTD - Form 10-Q

For the three months ended September 30, 2014, distributed and undistributed earnings to restricted shares is 0.74% of net income. For the nine months ended September 30, 2015 and 2014, distributed and undistributed earnings to restricted shares is 0.74% and 0.72% of net income, respectively. 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, 2015 and 2014, we had no dilutive shares.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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 (loss) from continuing operations before income taxes and earnings of unconsolidated equity method investment for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. operations	\$597	\$772	\$1,817	\$2,293
Non-U.S. operations	(13,434)	20,936	76,745	34,798
Total	\$ (12,837)	\$ 21,708	\$ 78,562	\$ 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, 2015 and 2014 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2015 and 2014, respectively.

The Company's effective tax rate for the three and nine months ended September 30, 2015 was 21.1% and 15.3% respectively, compared to 16.0% and 29.5% for the three and nine months ended September 30, 2014, respectively. 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 and nine months ended September 30, 2015, the interim period effective tax rate reflects impairments of \$78,403 and \$102,358, respectively, which resulted in a higher effective tax rate. For the nine months ended September 30, 2014, the interim period effective tax rate reflects the loss on extinguishment of debt in the amount of \$36,570 related to Bermuda operations, which was treated as a discrete item with no tax benefit.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Notional U.S. federal income tax expense (benefit) at the statutory rate	\$ (4,493	) \$ 7,598	\$ 27,497	\$ 12,982
U.S. state and local income tax, net	57	57	167	176
Non-U.S. operations:				
Bermuda	6,696	215	(9,199	) 6,455
Ireland	2,500	(2,411	) (407	) (3,163
Singapore	(1,385	) (1,418	) (4,116	) (3,895
Other	(860	) (692	) (2,439	) (2,061
Non-deductible expenses in the U.S.	205	146	566	464
Other	(11	) (11	) (32	) (33
Income tax provision	\$ 2,709	\$ 3,484	\$ 12,037	\$ 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,	
	2015	2014	2015	2014
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$ 51,428	\$ 44,820	\$ 153,076	\$ 144,677
Hedge ineffectiveness losses	215	(4	) 509	55
Amortization of interest rate derivatives related to deferred losses	5,006	8,549	19,349	26,730
Amortization of deferred financing fees and debt discount	3,746	3,506	11,211	10,493
Interest Expense	60,395	56,871	184,145	181,955
Less interest income	(14	) (77	) (82	) (404
Interest, net	\$ 60,381	\$ 56,794	\$ 184,063	\$ 181,551

Note 12. Commitments and Contingencies

On June 12, 2015, Aircastle entered into a purchase agreement with Embraer S.A. (“Embraer”) under which we agreed to acquire 25 new E-Jet E2 aircraft with purchase rights for an additional 25 E-Jet E2 aircraft. Deliveries of the 25 aircraft are scheduled to begin in 2018 for the E190-E2 aircraft and 2019 for the E195-E2 aircraft with the last delivery scheduled in March 2021. At September 30, 2015, the table below includes \$142,170 of progress payments, which begin in May 2016.

At September 30, 2015, we had commitments to acquire 34 aircraft, including the above referenced 25 Embraer E-2 aircraft, for \$1,336,950.

Aircastle Limited and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Dollars in thousands, except per share amounts)
 September 30, 2015

Commitments, including contractual price escalations and other adjustments, for these aircraft at September 30, 2015, net of amounts already paid, are as follows:

Year Ending December 31, Remainder of 2015	Amount
2016	\$ 130,500
2017	132,122
2018	170,252
2019	258,130
Thereafter	293,267
Total	352,679
	\$1,336,950

Note 13. Other Assets

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

	September 30, 2015	December 31, 2014
Deferred federal income tax asset	\$ 1,072	\$ 567
Lease incentives and lease premiums, net of amortization of \$29,813 and \$26,477, respectively	96,214	75,587
Flight equipment held for sale	5,212	7,455
Other assets	28,733	21,841
Total other assets	\$ 131,231	\$ 105,450

Note 14. 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:

	September 30, 2015	December 31, 2014
Accounts payable and accrued expenses	\$ 38,561	\$ 40,765
Deferred federal income tax liability	36,416	37,340
Accrued interest payable	51,728	27,795
Lease discounts, net of amortization of \$16,775 and \$9,247, respectively	25,071	32,084
Fair value of derivative liabilities	2,433	2,879
Total accounts payable, accrued expenses and other liabilities	\$ 154,209	\$ 140,863

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
September 30, 2015

Note 15. Accumulated Other Comprehensive Loss

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

Changes in accumulated other comprehensive loss by component ^(a)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	\$(23,681)	\$(57,342)	\$(38,460)	\$(75,905)
Amount recognized in other comprehensive loss on derivatives, net of tax expense of \$10 and \$7 for the three months and tax expense of \$10 and \$728 for the nine months ended September 30, 2015 and 2014, respectively	(545)	509	(1,940)	(3,068)
Amounts reclassified from accumulated other comprehensive loss into income, net of tax benefit of \$7 and expense of \$14 for the three months and tax expense of \$16 and \$97 for the nine months ended September 30, 2015 and 2014, respectively	5,823	9,683	21,997	31,823
Net current period other comprehensive income	5,278	10,192	20,057	28,755
Ending balance	\$(18,403)	\$(47,150)	\$(18,403)	\$(47,150)

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

Reclassifications from accumulated other comprehensive loss ^(a)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Amount of effective amortization of net deferred interest rate derivative losses ^(b)	\$5,006	\$8,549	\$19,349	\$26,730
Effective amount of net settlements of interest rate derivatives, net of tax benefit of \$7 and expense of \$14 for the three months and tax expense of \$16 and \$97 for the nine months ended September 30, 2015 and 2014, respectively ^(b)	817	1,134	2,648	5,093
Amount of loss reclassified from accumulated other comprehensive loss into income ^(c)	\$5,823	\$9,683	\$21,997	\$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.

At September 30, 2015, the amount of deferred net loss expected to be reclassified from OCI into interest expense over the next twelve months related to our terminated interest rate derivatives is \$12,883, of which \$1,154 relates to Senior Notes due 2017 and 2020 interest rate derivatives, \$7,547 relates to Senior Notes due 2018 interest rate derivatives, \$2,865 relates to ECA Term Financings for New A330 Aircraft, and \$1,317 relates to other financings. At September 30, 2015, the amount of loss expected to be reclassified from OCI into interest expense over the next twelve months related to net interest settlements on active interest rate derivatives was \$1,987.

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, 2014 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.

All statements included or incorporated by reference in this Quarterly Report on Form 10-Q (this "report"), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are 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 our historical performance and that of our subsidiaries and on our current plans, estimates and expectations 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 such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle's filings with the SEC and previously disclosed under "Risk Factors" in Part I - Item 1 A of Aircastle's 2014 Annual Report on Form 10-K and our Form 10-Q filed for the quarter ended June 30, 2015, 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 revise or update publicly any forward-looking statement to reflect future events or circumstances.

WEBSITE AND ACCESS TO THE COMPANY'S REPORTS

The Company's website can be found at 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 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, 2015, our portfolio consisted of 160 aircraft leased to 51 lessees located in 32 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. As of September 30, 2015, the net book value of our flight equipment and finance lease aircraft was \$6.01 billion compared to \$5.69 billion at December 31, 2014. Our revenues and net income (loss) for the three and nine months ended September 30, 2015 were \$212.1 million and \$(14.0) million, and \$610.9 million and \$71.1 million, respectively.

Growth in commercial air traffic is broadly correlated with world economic activity and, in recent years, has been expanding at a rate one and a half 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 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 variability on a global basis and regional basis, as well as to changes in macroeconomic relations such as fuel price levels and foreign exchange rates. The industry is 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 so far this year continues to show strong passenger market growth. According to the International Air Transport Association, during the first eight months of 2015, global passenger traffic increased 6.6% compared to the same period in 2014. Air cargo demand, which is more sensitive to economic conditions, appears to have stabilized but continues to be hampered by overcapacity. During the first eight months of 2015, air cargo increased 2.6% but capacity increased 5.6%, further depressing load factors.

There are significant regional variations in demand for air travel. Emerging market economies have been experiencing significant increases in air traffic, driven by rising levels of per capita income. Air traffic growth in some regions is being driven by the proliferation of low cost carriers, which have stimulated demand through lower prices, and by the expansion of long-haul "hub and spoke" traffic, such as that flowing through the Persian Gulf. Mature markets, such as North America and Western Europe, are likely to grow more slowly in tandem with their economies. Also, airlines operating in areas with political instability or where there are geopolitical conflicts, such as Russia, have seen more modest growth, and their outlook is more uncertain. Periodic health concerns may also play a role in the near-term development of air traffic in certain regions. On balance, we believe that air travel will likely increase over time, and as a result, we expect demand for modern, fuel efficient aircraft will continue to remain strong over the long-term. Capital availability for aircraft has varied over time, and we consider this variability to be a basic characteristic of our business. However, both debt and equity markets have improved globally over the past several years with the recovery from the global financial crisis. Strong U.S. debt capital markets conditions benefited certain borrowers by permitting access to financing at historic lows while higher fees have driven down export credit agency demand. Commercial bank debt continues to play a critical role in the air finance market, although we believe regulatory pressures have limited the extent of this market's recovery. 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 and the bank market. Over the longer term, our strategy is to achieve an investment grade credit rating, which we believe will reduce our borrowing costs and enable more reliable access to debt capital throughout the business cycle. We believe our business approach is differentiated from those of other large leasing companies. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets vary with market opportunities. We focus on discerning investment value in situations that are often more bespoke and generally less competitive.

We plan to grow our business and profits over the long-term while maintaining a countercyclical orientation, a bias towards limiting long-dated capital commitments and a conservative and flexible capital structure. Our business strategy entails the following elements:

Pursuing a disciplined and differentiated investment strategy. In our view, aircraft values change in different ways over time. As a consequence, 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. We believe the financing flexibility offered through unsecured debt and our team's experience with a wide range of asset types enables our value oriented strategy and provides us with a competitive advantage for many investment opportunities.

Originating investments from many different sources across the globe. Our strategy is to seek out worthwhile investments broadly leveraging our team's wide range of contacts around the world. We utilize a multi-channel approach to sourcing acquisitions and have purchased aircraft from a large number of airlines, lessors, original equipment manufacturers, lenders and other aircraft owners. Since our formation in 2004, we have acquired aircraft from 75 different sellers.

Leveraging our strategic relationships. We intend to capture the benefits provided through the extensive global contacts and relationships maintained by Marubeni Corporation, which is both our biggest shareholder and one of the largest Japanese trading companies. Our joint venture with Ontario Teachers' Pension Plan provides us with an opportunity to pursue larger transactions and to manage portfolio concentrations.

Maintaining efficient access to capital from a wide range of sources while targeting an investment grade credit rating. We believe the aircraft investment market is subject to forces related to the business cycle and our strategy is to increase our purchase activity when prices are low and to emphasize asset sales when competition 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. Our strategy is to improve our corporate credit ratings to an investment grade level by maintaining strong portfolio and capital structure metrics while achieving a critical size through accretive growth. We believe improving our credit rating will not only reduce our borrowing costs but also facilitate more reliable access to debt capital throughout the business cycle.

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 as an exit from investments when a sale would provide the greatest expected cash flow for us.

Capturing the value of 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 2014 Annual Report on Form 10-K. On August 4, 2015, our board of directors declared a regular quarterly dividend of \$0.22 per common share, or an aggregate of \$17.9 million for the three months ended September 30, 2015, which was paid on September 15, 2015 to holders of record on August 31, 2015. These dividends may not be indicative of the amount of any future dividends.

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 arising during the term of the lease. 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

25

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.

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay. This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

2015 Lease Expirations and Lease Placements

At September 30, 2015, we had two aircraft which are scheduled to come off lease during 2015 for which we have not yet secured lease or sales commitments. These aircraft account for 0.3% of our net book value of flight equipment (including flight equipment held for lease and net investment in finance leases). We currently expect to sell one of these aircraft and are marketing the other for sale or lease.

2016-2019 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 2016-2019, 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, 2015 specified below:

- 2016: 4 aircraft, representing 2%;
- 2017: 20 aircraft, representing 12%;
- 2018: 12 aircraft, representing 9%; and
- 2019: 12 aircraft, representing 9%.

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 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 2015, we acquired 32 aircraft for \$1.04 billion. At September 30, 2015, we had commitments to acquire 34 additional aircraft for \$1.34 billion, including the acquisition of 25 new E-Jet E-2 aircraft from Embraer. As of October 30, 2015, after taking into account one aircraft acquisition October 2015, we have commitments to acquire 33 aircraft for \$1.29 billion.

During the first nine months of 2015, we sold 20 aircraft and other flight equipment for \$343.0 million which resulted in a net gain of \$43.0 million. During October 2015, we completed several additional sales including one Boeing 747-400 converted freighter, one older Airbus A330-300 and our last Boeing 767-300ER. In aggregate, these sales have been profitable. In addition, we concluded an agreement to sell our last remaining MD-11 freighter in January 2016 for an amount approximately equal to break-even.

Nine Months Ended September 30, 2015	Number of Aircraft	Weighted Average Age of Aircraft in Years	Maintenance Revenue	Gain (Loss) on Sale of Flight Equipment		
				Impairment	Pre-tax Impact	
Narrowbody	14	14.4	\$7,034	\$30,648	\$(5,328)	\$32,354
Widebody	4	15.8	—	12,782	—	12,782
Freighter	2	17.7	11,412	(396)	(17,852)	(6,836)
Total	20	14.9	\$18,446	\$43,034	\$(23,180)	\$38,300

The following table sets forth certain information with respect to the aircraft owned by us as of September 30, 2015:

AIRCATTLE AIRCRAFT INFORMATION (dollars in millions)

	Owned Aircraft as of September 30, 2015 ⁽¹⁾	Owned Aircraft as of September 30, 2014 ⁽¹⁾		
Flight Equipment	\$6,007	\$5,304		
Unencumbered Flight Equipment	\$3,722	\$2,924		
Number of Aircraft	160	140		
Number of Unencumbered Aircraft	109	85		
Number of Lessees	51	61		
Number of Countries	32	37		
Weighted Average Age – Passenger (years) ⁽²⁾	7.0	7.8		
Weighted Average Age – Freighter (years) ⁽²⁾	12.4	12.6		
Weighted Average Age – Combined (years) ⁽²⁾	7.7	8.6		
Weighted Average Remaining Passenger Lease Term (years) ⁽³⁾	6.2	5.3		
Weighted Average Remaining Freighter Lease Term (years) ⁽³⁾	3.9	3.5		
Weighted Average Remaining Combined Lease Term (years) ⁽³⁾	5.9	5.0		
Weighted Average Fleet Utilization during the three months ended September 30, 2015 and 2014 ⁽⁴⁾	99.9	%	100.0	%
Weighted Average Fleet Utilization during the nine months ended September 30, 2015 and 2014 ⁽⁴⁾	99.2	%	99.5	%
Portfolio Yield for the three months ended September 30, 2015 and 2014 ⁽⁵⁾	12.7	%	13.2	%
Portfolio Yield for the nine months ended September 30, 2015 and 2014 ⁽⁵⁾	12.6	%	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, 2015 is listed in Exhibit 99.1 to this report.

PORTFOLIO DIVERSIFICATION

Aircraft Type	Owned Aircraft as of September 30, 2015			Owned Aircraft as of September 30, 2014		
	Number of Aircraft	% of Net Book Value ⁽¹⁾		Number of Aircraft	% of Net Book Value ⁽¹⁾	
Passenger:						
Narrowbody	113	44	%	86	32	%
Widebody	34	44	%	38	52	%
Total Passenger	147	88	%	124	84	%
Freighter	13	12	%	16	16	%
Total	160	100	%	140	100	%
Manufacturer						
Airbus	85	53	%	53	40	%
Boeing	70	45	%	81	57	%
Embraer	5	2	%	6	3	%
Total	160	100	%	140	100	%
Regional Diversification						
Asia and Pacific	54	42	%	45	42	%
Europe	66	27	%	59	28	%
South America	18	17	%	11	12	%
Middle East and Africa	6	9	%	6	10	%
North America	15	5	%	19	8	%
Off-lease	1	⁽²⁾ —	%	—	—%	
Total	160	100	%	140	100	%

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

(2) Consists of one Boeing 777-200ER aircraft, which we are marketing for lease or sale.

Our largest customer represents less than 7% 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, 2015. Our top 15 customers for aircraft we owned at September 30, 2015, representing 85 aircraft and 68% 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	LATAM	Chile	3
	Lion Air	Indonesia	11
3% to 6% per customer	Iberia	Spain	18
	South African Airways	South Africa	4
	Avianca Brazil	Brazil	7
	Thai Airways	Thailand	2
	Singapore Airlines	Singapore	4
	AirBridgeCargo	Russia	3
	AirAsia X	Malaysia	3
	Air Berlin	Germany	12
	Emirates	United Arab Emirates	2
	Garuda	Indonesia	4
AirAsia	Malaysia	8	
Less than 3% per customer	Virgin Australia	Australia	2
	Avianca	Colombia	2

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 “Liquidity and Capital Resources” below.

RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2015 to the three months ended September 30, 2014:

	Three Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 188,038	\$ 178,886
Finance lease revenue	1,868	1,463
Amortization of net lease premiums, discounts and lease incentives	(2,113)	(1,075)
Maintenance revenue	15,726	(4,189)
Total lease revenue	203,519	175,085
Other revenue	8,555	2,511
Total revenues	212,074	177,596
Operating expenses:		
Depreciation	85,324	75,519
Interest, net	60,381	56,794
Selling, general and administrative	14,032	13,817
Impairment of aircraft	78,403	20,436
Maintenance and other costs	2,520	713
Total operating expenses	240,660	167,279
Other income:		
Gain on sale of flight equipment	15,679	11,390
Loss on extinguishment of debt	—	—
Other	70	1
Total other income	15,749	11,391
Income (loss) from continuing operations before income taxes	(12,837)	21,708
Income tax provision	2,709	3,484
Earnings of unconsolidated equity method investment, net of tax	1,557	927
Net income (loss)	\$(13,989)	\$ 19,151

Revenues

Total revenues increased by 19.4%, or \$34.5 million, for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014.

Lease rental revenue. The increase in lease rental revenue of \$9.2 million for the three months ended September 30, 2015 as compared to the same period in 2014 was primarily the result of \$47.6 million of revenue reflecting the impact of 31 aircraft purchased in 2015 and 24 aircraft purchased in 2014.

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

\$32.4 million due to aircraft sales; and

\$6.1 million due to lease extensions, amendments, transitions and other changes.

Finance lease revenue. For the three months ended September 30, 2015, \$1.9 million of interest income from finance leases was recognized as compared to \$1.5 million of interest income from finance leases recorded for the same period in 2014 due to the addition of four aircraft over the last twelve months, partially offset by the sale of two aircraft during the second quarter of 2015.

Amortization of net lease premiums, discounts and lease incentives.

	Three Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Amortization of lease incentives	\$(1,846)	\$(1,549)
Amortization of lease premiums	(2,852)	(2,073)
Amortization of lease discounts	2,585	2,547
Amortization of net lease premiums, discounts and lease incentives	\$(2,113)	\$(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 increase in amortization of lease incentives of \$0.3 million for the three months ended September 30, 2015 as compared to the same period in 2014 was primarily attributable to \$1.3 million of lease incentive amortization related to aircraft that were transitioned during the three months ended September 30, 2015, partially offset by the reversal of \$1.0 million of lease incentives related to the sale of 11 aircraft during the last twelve months.

Maintenance revenue. For the three months ended September 30, 2015, we recorded \$15.7 million of maintenance revenue from four scheduled lease terminations. For the same period in 2014, we recorded \$4.2 million of maintenance revenue from two scheduled lease terminations that was offset by \$8.7 million of contra maintenance revenue related to two scheduled lease terminations.

Other revenue. For the three months ended September 30, 2015, other revenue was \$8.6 million, which primarily represents additional fees earned from three lessees in connection with the early termination of four leases. For the three months ended September 30, 2014, other revenue was \$2.5 million, which primarily represented additional fees paid by a lessee in connection with the early termination of one lease.

Operating expenses

Total operating expenses increased for the three months ended September 30, 2015 as compared to the three months ended September 30, 2014, primarily as a result of the following:

Depreciation expense increased by 13.0%, or \$9.8 million, for the three months ended September 30, 2015 as compared to the same period in 2014. The increase is primarily the result of:

- \$15.8 million increase in depreciation for aircraft acquired;
- \$6.6 million increase due to changes in asset lives and residual values; and
- a \$2.3 million increase due to capitalized aircraft improvements being fully depreciated.

This increase was offset by a \$14.8 million decrease in depreciation for aircraft sales.

Interest, net consisted of the following:

	Three Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$51,428	\$44,820
Hedge ineffectiveness losses (gains)	215	(4)
Amortization of interest rate derivatives related to deferred losses	5,006	8,549
Amortization of deferred financing fees and debt discount	3,746	3,506
Interest expense	60,395	56,871
Less interest income	(14)	(77)
Interest, net	\$60,381	\$56,794

Interest, net increased by \$3.6 million, or 6.3%, over the three months ended September 30, 2014. The net increase is primarily a result of higher interest on borrowings of \$6.6 million, driven primarily by a higher weighted average debt outstanding for the three months ended September 30, 2015 as compared to a year ago. This increase was partially offset by a \$3.5 million decrease in amortization of interest rate derivatives related to deferred losses.

Selling, general and administrative expenses for the three months ended September 30, 2015 increased slightly over the same period in 2014. Non-cash share based expense was \$1.4 million and \$0.9 million for the three months ended September 30, 2015 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 \$2.5 million for the three months ended September 30, 2015, an increase of \$1.8 million over the same period in 2014. The net increase is primarily related to higher maintenance costs of \$1.0 million related to unscheduled terminations and \$0.4 million related to scheduled terminations and transitions, and by an increase in other costs of \$0.5 million for the three months ended September 30, 2015 versus the same period in 2014.

Other income (expense)

Gain on sale of flight equipment increased by \$4.3 million for the three months ended September 30, 2015, resulting from gains of \$15.7 million on sales of five narrowbody, one widebody and two freighter aircraft during the period versus gains of \$11.4 million on sales of 12 aircraft in the same period in 2014.

Income tax provision

Our provision for income taxes for the three months ended September 30, 2015 and 2014 was \$2.7 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 decrease in our income tax provision of approximately \$0.8 million for the three months ended September 30, 2015 as compared to the same period in 2014 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. 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,	
	2015	2014
	(Dollars in thousands)	
Net income (loss)	\$(13,989)	\$19,151
Net change in fair value of derivatives, net of tax expense of \$3 and \$21, respectively	272	1,643
Derivative loss reclassified into earnings	5,006	8,549
Total comprehensive income (loss)	\$(8,711)	\$29,343

Other comprehensive income (loss) was \$(8.7) million for the three months ended September 30, 2015, a decrease of \$38.1 million from the \$29.3 million of other comprehensive income for the three months ended September 30, 2014.

Other comprehensive loss for the three months ended September 30, 2015 consisted primarily of:

• \$(14.0) million of net income (loss); and

• \$5.0 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive income for the three months ended September 30, 2014 consisted primarily 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.

RESULTS OF OPERATIONS

Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014:

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$550,023	\$536,452
Finance lease revenue	5,352	9,347
Amortization of net lease premiums, discounts and lease incentives	(10,288)	(7,252)
Maintenance revenue	55,148	35,035
Total lease revenue	600,235	573,582
Other revenue	10,700	6,763
Total revenues	610,935	580,345
Operating expenses:		
Depreciation	237,538	225,230
Interest, net	184,063	181,551
Selling, general and administrative	42,663	41,818
Impairment of aircraft	102,358	67,005
Maintenance and other costs	9,126	5,222
Total operating expenses	575,748	520,826
Other income (expense):		
Gain on sale of flight equipment	43,034	13,384
Loss on extinguishment of debt	—	(36,570)
Other	341	758
Total other income (expense)	43,375	(22,428)
Income from continuing operations before income taxes	78,562	37,091
Income tax provision	12,037	10,925
Earnings of unconsolidated equity method investment, net of tax	4,563	1,898
Net income	\$71,088	\$28,064

Revenues

Total revenues increased by 5.3%, or \$30.6 million, for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014.

Lease rental revenue. The increase in lease rental revenue of \$13.6 million for the nine months ended September 30, 2015 as compared to the same period in 2014 was primarily the result of \$125.9 million of revenue reflecting the 31 aircraft purchased in 2015 and 31 aircraft purchased in 2014.

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

\$87.6 million due to aircraft sales; and

\$24.8 million due to lease extensions, amendments, transitions and other changes.

Finance lease revenue. For the nine months ended September 30, 2015, \$5.4 million of interest income from finance leases was recognized as compared to \$9.3 million of interest income from finance leases recorded for the same period in 2014 as a result of the sale of two aircraft during the second quarter of 2015 and six aircraft during the second quarter of 2014, partially offset by the addition of four aircraft during the last twelve months.

Amortization of net lease premiums, discounts and lease incentives.

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Amortization of lease incentives	\$ (9,597)	\$ (7,703)
Amortization of lease premiums	(8,218)	(6,586)
Amortization of lease discounts	7,527	7,037
Amortization of net lease premiums, discounts and lease incentives	\$ (10,288)	\$ (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 increase in amortization of lease incentives of \$1.9 million for the nine months ended September 30, 2015 as compared to the same period in 2014 was primarily attributable to \$3.1 million of lease incentive amortization related to aircraft that were transitioned during the nine months ended September 30, 2015 and the reversal of \$1.8 million of lease incentive amortization during the nine months ended September 30, 2014 related to a change in the forecasted maintenance events for three leases. This increase was partially offset by the reversal of \$3.1 million of lease incentives amortization related to the sale of 21 aircraft during the last twelve months.

As more fully described above under “Revenues,” lease premiums represent the present value of the amount above current lease rates for acquired aircraft with attached leases. The increase in amortization of lease premiums of \$1.6 million for the nine months ended September 30, 2015 as compared to the same period in 2014 resulted primarily from seven aircraft purchased during the first nine months of 2015 and ten aircraft purchased during the fourth quarter of 2014.

Maintenance revenue. For the nine months ended September 30, 2015, we recorded \$55.1 million of maintenance revenue from 15 scheduled lease terminations, including \$11.2 million from the sale of two MD-11 freighters during the period. 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 million from a change in estimate for an aircraft returned in December 2014.

Other revenue. For the nine months ended September 30, 2015, other revenue was \$10.7 million, which primarily represents additional fees earned from five lessees in connection with the early termination of ten leases. For the nine months ended September 30, 2014, other revenue was \$6.8 million, which primarily represented additional fees paid by one lessee in connection with the early termination of one lease.

Operating expenses

Total operating expenses increased by 10.5%, or \$54.9 million, for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014, primarily as a result of the following:

Depreciation expense increased by 5.5%, or \$12.3 million, for the nine months ended September 30, 2015 as compared to the same period in 2014. The net increase is primarily the result of:

- a \$41.7 million increase in depreciation for aircraft acquired;
- a \$10.9 million increase due to changes in asset lives and residual values; and
 - a \$3.8 million increase due to capitalized aircraft improvements being fully depreciated.

This increase was offset by a \$44.1 million decrease in depreciation for aircraft sales.

Interest, net consisted of the following:

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$153,076	\$144,677
Hedge ineffectiveness losses	509	55
Amortization of interest rate derivatives related to deferred losses	19,349	26,730
Amortization of deferred financing fees and debt discount	11,211	10,493
Interest Expense	184,145	181,955
Less interest income	(82)	(404)
Interest, net	\$184,063	\$181,551

Interest, net increased by \$2.5 million, or 1.4%, over the nine months ended September 30, 2014. The net increase is primarily a result of higher interest on borrowings of \$8.4 million, driven primarily by a higher weighted average debt outstanding for the nine months ended September 30, 2015 as compared to a year ago. This increase was partially offset by a \$7.4 million decrease in amortization of interest rate derivatives related to deferred losses.

Selling, general and administrative expenses for the nine months ended September 30, 2015 increased \$0.8 million over the same period in 2014. Non-cash share based expense was \$4.0 million and \$3.2 million for the nine months ended September 30, 2015 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 \$9.1 million for the nine months ended September 30, 2015, an increase of \$3.9 million over the same period in 2014. The net increase is primarily related to higher maintenance costs of \$5.1 million related to unscheduled terminations and \$0.8 million related to scheduled terminations and transitions, partially offset by a decrease in other costs of \$1.9 million for the nine months ended September 30, 2015 versus the same period in 2014.

Other income (expense)

Total other income increased \$65.8 million for the nine months ended September 30, 2015 as compared to total other (expense) in the same period in 2014, primarily as a result of the following:

Gain on sale of flight equipment increased \$29.7 million in the nine months ended September 30, 2015, resulting from gains of \$43.0 million on sales of 20 aircraft during the period versus gains of \$13.4 million on sales of 35 aircraft in the same period in 2014.

Nine Months Ended September 30, 2015	Number of Aircraft	Weighted Average Age of Aircraft in Years	Maintenance Revenue	Gain (Loss) on Sale of Flight Equipment			Pre-tax Impact
				Equipment	Impairment	Impact	
Narrowbody	14	14.4	\$7,034	\$30,648	\$(5,328)	\$32,354	
Widebody	4	15.8	—	12,782	—	12,782	
Freighter	2	17.7	11,412	(396)	(17,852)	(6,836)	
Total	20	14.9	\$18,446	\$43,034	\$(23,180)	\$38,300	

Loss on extinguishment of debt. We did not record any loss on extinguishment of debt in the nine months ended September 30, 2015. During the second quarter of 2014, we repaid our 9.75% Senior Notes due 2018 and recorded \$36.6 million in debt extinguishment costs.

Other decreased by \$0.4 million related to the mark to market value of an undesignated interest rate derivative.

37

Income tax provision

Our provision for income taxes for the nine months ended September 30, 2015 and 2014 was \$12.0 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 \$1.1 million for the nine months ended September 30, 2015 as compared to the same period in 2014 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions and the treatment of the \$36.6 million loss on extinguishment of debt relating to Bermuda operations as a discrete item with no tax benefit in 2014.

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

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in thousands)	
Net income	\$71,088	\$28,064
Net change in fair value of derivatives, net of tax expense of \$26 and \$825, respectively	708	2,025
Derivative loss reclassified into earnings	19,349	26,730
Total comprehensive income	\$91,145	\$56,819

Other comprehensive income was \$91.1 million for the nine months ended September 30, 2015, an increase of \$34.3 million from the \$56.8 million of other comprehensive income for the nine months ended September 30, 2014. Other comprehensive income for the nine months ended September 30, 2015 consisted primarily of:

- \$71.1 million of net income; and

- \$19.3 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, 2014 consisted primarily 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.

Summary of Impairments and Recoverability Assessment

Annual Fleet-Wide Review

We perform our annual fleet-wide recoverability assessment during the third quarter of each year. This 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 contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

In our 2015 assessment, we reduced our forecasted future cash flows for our six Boeing 747-400 converted freighter aircraft not subject to sales agreements, all of which are more than twenty years old. Our new forecast reflects the persisting glut of supply in the air cargo market resulting from weak growth in demand combined with the growth in capacity arising from new production air freighters and higher belly capacity in latest generation wide-body passenger aircraft. In addition to these market-wide impacts, our older freighters were affected specifically by the imposition of age limits in certain countries and by lower utilization levels. For changes we made to our aircraft mentioned above and other adjustments to lives and/or residual values, we estimate an increase in depreciation expense for the year ended December 31, 2016, of approximately \$11.0 million.

As a result, we determined that each of our older converted freighter aircraft was on its last lease, and we reduced our residual value assumptions for these aircraft and expect to scrap them following lease expiry. During the third quarter of 2015, we therefore impaired four of these aircraft, which had an aggregate net book value as of August 31, 2015 of \$115.9 million, writing down their book values by a total of \$34.6 million, with a fair value date of September 1, 2015. For one of these aircraft, we recorded maintenance revenue of \$5.9 million, as we no longer plan to reinvest these funds.

In the 2014 assessment, we determined that 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, during the third quarter of 2014, 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 from 25 to 21 years and reduced their residual values.

Other Impairments

In September 2015, Malaysian Airline System ("MAS") informed us that it was effectively rejecting the lease on our Boeing 777-200ER aircraft as part of its restructuring. This aircraft, which was manufactured in 1998, is the only one of its type in our fleet and the only aircraft we had on lease to MAS. We repossessed it in October 2015. We reduced the carrying value of this aircraft to our best estimate of scrap value. While we haven't made a decision to dispose of the aircraft, this write-down was driven by weak overall demand for older widebody aircraft, an increase in the supply of competing aircraft and the difficulty of recovering high redeployment costs given the proliferation of aircraft age limits across the world. This write-down resulted in an impairment of \$37.8 million, partially offset by \$1.2 million of other revenue from a letter of credit we drew following the lease rejection.

Also in September 2015, we modified the lease agreement with respect to one Airbus A321-200 aircraft. We elected not to reinvest in certain major maintenance events during the lease term, and the lessee agreed to release its rights to certain maintenance payments. As a result, we recorded an impairment of \$6.1 million and maintenance revenue of \$7.1 million for this aircraft.

In the second quarter of 2015, we impaired two McDonnell Douglas MD-11 freighter aircraft and one Boeing 737-800 aircraft and recorded impairment charges totaling \$24.0 million and maintenance revenue of \$18.2 million.

During the nine months ended September 30, 2014, we impaired three Boeing 747-400 converted freighter aircraft and one Boeing 737-400 aircraft and recorded impairment charges totaling \$46.6 million. For these aircraft, we recorded maintenance revenue of \$24.3 million and other revenue of \$0.1 million and reversed lease incentives of \$3.6 million.

Other than the aircraft discussed above, management believes that the net book value of each of our 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, if our

estimates or assumptions change, we may revise our cash flow assumptions and record 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.

Aircraft Monitoring List

At September 30, 2015, we considered six freighter aircraft and two passenger aircraft with a total net book value of \$179.2 million to be more susceptible to failing our recoverability assessments due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values.

RECENT ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 - Summary of Significant Accounting Policies - Organization and Basis of Presentation in the Notes to Unaudited Consolidated Financial Statements above.

RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 - Summary of Significant Accounting Policies - Proposed Accounting Pronouncements in the Notes to Unaudited Consolidated Financial Statements above.

LIQUIDITY AND CAPITAL RESOURCES

Our business is very capital intensive, requiring significant investments in order to expand our fleet and to maintain and improve our existing portfolio. Our operations generate a significant amount of cash, primarily from lease rentals and maintenance collections. We have also met our liquidity and capital resource needs by utilizing several sources over time, including:

- various forms of borrowing secured by our aircraft, including bank term facilities, limited recourse securitization financings, and export credit agency-backed financings for new aircraft acquisitions;
- unsecured indebtedness, including our current 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 and other sources, subject to pricing and conditions we consider satisfactory.

During the first nine months of 2015, we met our liquidity and capital resource needs with \$408.5 million of cash from operations, \$500.0 million in gross proceeds from the issuance of our Senior Notes due 2022, \$150.0 million of bank financings secured by two aircraft, \$150.0 million draw down on our Revolving Credit Facility and \$343.0 million of cash from aircraft sales.

In addition, we increased our revolving credit facility from \$450.0 million to \$600.0 million and we extended the maturity of our Revolving Credit Facility to May 13, 2019.

As of September 30, 2015, the weighted average maturity of our secured and unsecured debt financings was 4.2 years and we are in compliance with all applicable covenants.

We believe that cash on hand, payments received from lessees and other funds generated from operations, secured borrowings for aircraft, borrowings under our 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,	
	2015	2014
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$408,470	\$365,975
Net cash flow used in investing activities	(713,471)	(413,283)
Net cash flow provided by (used in) financing activities	284,386	(132,967)

Operating Activities:

Cash flow from operations was \$408.5 million and \$366.0 million for the nine months ended September 30, 2015 and 2014, respectively. The increase in cash flow from operations of approximately \$42.5 million for the nine months ended September 30, 2015 versus the same period in 2014 was primarily a result of:

- a \$38.9 million increase in maintenance revenues;
 - a \$17.0 million increase in cash lease rentals;
 - and
- a \$6.2 million decrease in cash interest.

These inflows were offset by:

- a \$5.3 million increase in cash taxes;
- a \$4.0 million decrease in cash interest from finance leases; and
- a \$3.9 million increase in cash maintenance.

Investing Activities:

Cash used in investing activities was \$713.5 million and \$413.3 million, for the nine months ended September 30, 2015 and 2014, respectively. The increase in cash flow used in investing activities of \$300.2 million for the nine months ended September 30, 2015 versus the same period in 2014, was primarily a result of:

- a \$220.9 million decrease in proceeds from the sale of flight equipment;
- a \$94.9 million increase in the acquisition and improvement of flight equipment;
- an \$11.1 million decrease in net investments in finance leases; and
- a \$5.7 million net decrease in aircraft purchase deposits received.

These outflows were offset partially by:

- a \$24.6 million decrease in restricted cash and cash equivalents related to the sale of flight equipment in 2014; and
- an \$8.6 million decrease in unconsolidated equity method investment in 2014.

Financing Activities:

Cash provided by financing activities was \$284.4 million for the nine months ended September 30, 2015 as compared to \$133.0 million of cash used in financing activities for the nine months ended September 30, 2014. The net increase in cash flow provided by financing activities of \$417.4 million for the nine months ended September 30, 2015 versus the same period in 2014 was a result of:

- a \$347.1 million decrease in securitization and term debt financing repayments, primarily due to the repayment of \$219.9 million for Securitization No. 1 and \$450.0 million of our 9.75% Senior Notes due 2018 in 2014;
- a \$33.4 million decrease in payments for terminated cash flow hedges in 2014;
- a \$32.8 million decrease in debt extinguishment costs in 2014;
- a \$19.4 million net increase in maintenance payments received;
- a \$7.3 million net increase in security deposits received; and

a \$3.7 million decrease in deferred financings costs.

These increases were offset partially by:

an \$18.4 million decrease in restricted cash and cash equivalents related to financing activities;

a \$5.0 million increase in dividends; and

a \$3.2 million decrease in proceeds from notes and term debt financings.

Debt Obligations

For complete information on our debt obligations, please refer to Note 7 - Secured and Unsecured Debt Financings in the Notes to Unaudited Consolidated Financial Statements above.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on debt, payments on interest rate derivatives, other aircraft acquisition agreements and rent payments pursuant to our office leases. Total contractual obligations increased to \$6.29 billion at September 30, 2015 from approximately \$5.30 billion at December 31, 2014 due primarily to:

• an increase in borrowings and interest payments as a result of the closing of our Senior Notes due 2022 in January

2015, additional secured bank financings and borrowing on our revolving credit facility; and

• an increase in aircraft purchase obligations due primarily to the Embraer purchase agreement signed in June 2015.

The following table presents our actual contractual obligations and their payment due dates as of September 30, 2015:

Contractual Obligations	Payments Due By Period as of September 30, 2015				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in thousands)				
Principal payments:					
Senior Notes due 2017 - 2022	\$2,700,000	\$—	\$500,000	\$1,200,000	\$1,000,000
Revolving Credit Facility	50,000	—	—	50,000	—
Securitization No. 2 ⁽¹⁾	229,969	187,797	42,172	—	—
ECA Term Financings	415,988	46,601	98,305	105,496	165,586
Bank Financings	658,074	60,333	178,149	125,861	293,731
Total principal payments	4,054,031	294,731	818,626	1,481,357	1,459,317
Interest payments on debt obligations and derivative instruments ⁽²⁾	895,961	201,168	351,083	249,660	94,050
Office leases ⁽³⁾	5,825	1,011	1,479	1,537	1,798
Purchase obligations ⁽⁴⁾	1,336,950	257,480	322,055	607,290	150,125
Total	\$6,292,767	\$754,390	\$1,493,243	\$2,339,844	\$1,705,290

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) Future interest payments on variable rate, LIBOR-based debt obligations and derivative instruments are estimated using the interest rate in effect at September 30, 2015.

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

(3) At September 30, 2015, we had commitments to acquire 34 aircraft for \$1,336,950, including 25 new E-Jet E-2 aircraft from Embraer S.A. These amounts include estimated amounts for pre-delivery deposits, contractual price escalation and other adjustments. As of October 30, 2015, after taking into account one aircraft acquisition during October 2015, we have commitments to acquire 33 aircraft for \$1,293,450.

Capital Expenditures

From time to time, we make capital expenditures to maintain or improve 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, 2015 and 2014, we incurred a total of \$31.5 million and \$15.5 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of September 30, 2015, the weighted average age by net book value of our aircraft was approximately 7.7 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Our lease agreements call for the lessee to be 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, 2015, we had a \$338.5 million maintenance payment liability on our balance sheet, which is a \$5.1 million increase from December 31, 2014. The increase consisted of net maintenance cash inflows of \$0.4 million and an increase in lease incentive liabilities of \$4.7 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 hold 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 in the Notes to Unaudited Consolidated Financial Statements above. At September 30, 2015, the net book value of the joint venture's five aircraft was approximately \$489 million.

Foreign Currency Risk and Foreign Operations

At September 30, 2015, 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, 2015, 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, our international operations and our exposure to foreign currency risk will likely 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, 2015 and 2014, we incurred insignificant net gains and losses on foreign currency transactions.

Edgar Filing: Aircastle LTD - Form 10-Q

Hedging

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, 2015 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 September 30, 2015	Amount of Deferred (Gain) or Loss Amortized (including Accelerated Amortization) into Interest Expense for the Nine Months Ended September 30, 2015	Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months	
(Dollars in Thousands)										
Securitization No. 2 Senior Notes due 2017 and 2020	\$410,000	Feb-07	Apr-17	5.14	Jun-07	\$(3,119)	\$(82)	\$(250)	\$(210)	\$(76)
Senior Notes due 2019	491,718	May-13	May-15	5.31	De-designated – Mar-12 Terminated – April-12	31,403	—	4,401	11,544	—
Senior Notes due 2018	360,000	Jan-08	Feb-19	5.16	Partial – Jun-08 Full – Oct-08	23,077	4,342	1,112	1,187	1,393
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Partial – Jun-08 Full – Dec-08	15,310	—	1,002	520	—
ECA Term Financing for New A330 Aircraft	238,000	Jan-11	Apr-16	5.23	Dec-08	19,430	1,353	2,176	2,407	1,353
ECA Term Financing for New A330 Aircraft	238,000	Jul-11	Sep-16	5.27	Dec-08	17,254	1,512	1,360	1,506	1,512
Senior Notes due 2018	451,911	Jun-06	Jun-16	5.78	Feb-14	20,762	5,833	6,375	6,371	5,833
Senior Notes due 2018	108,089	Jun-06	Jun-16	5.78	Feb-14	6,101	1,714	1,873	1,872	1,714
Total						\$145,499	\$17,017	\$18,924	\$26,181	\$12,883

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.

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, 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.

Edgar Filing: Aircastle LTD - Form 10-Q

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income (loss)	\$(13,989)	\$19,151	\$71,088	\$28,064
Depreciation	85,324	75,519	237,538	225,230
Amortization of net lease discounts and lease incentives	2,113	1,075	10,288	7,252
Interest, net	60,381	56,794	184,063	181,551
Income tax provision	2,709	3,484	12,037	10,925
EBITDA	136,538	156,023	515,014	453,022
Adjustments:				
Impairment of aircraft	78,403	20,436	102,358	67,005
Loss on extinguishment of debt	—	—	—	36,570
Non-cash share based payment expense	1,424	949	3,981	3,167
Gain on mark to market of interest rate derivative contracts	(54)	—	(220)	(681)
Adjusted EBITDA	\$216,311	\$177,408	\$621,133	\$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.

The table below shows the reconciliation of net income to ANI for the three and nine months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income (loss)	\$(13,989)	\$19,151	\$71,088	\$28,064
Loss on extinguishment of debt ⁽²⁾	—	—	—	36,570
Ineffective portion and termination of hedges ⁽¹⁾	215	(21)	509	41
Gain on mark to market of interest rate derivative contracts ⁽²⁾	(54)	—	(220)	(681)
Non-cash share based payment expense ⁽³⁾	1,424	949	3,981	3,167
Term Financing No. 1 hedge loss amortization charges ⁽¹⁾	—	3,601	4,401	11,544
Securitization No. 1 hedge loss amortization charges ⁽¹⁾	2,725	2,865	8,248	8,792
Adjusted net income (loss)	\$(9,679)	\$26,545	\$88,007	\$87,497

(1) Included in Interest, net.

(2) Included in Other income (expense).

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

Edgar Filing: Aircastle LTD - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average shares:				
Common shares outstanding	80,566,400	80,389,996	80,565,754	80,389,131
Restricted common shares	645,427	600,581	604,179	581,932
Total weighted average shares	81,211,827	80,990,577	81,169,933	80,971,063
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Percentage of weighted average shares:				
Common shares outstanding	99.21	% 99.26	% 99.26	% 99.28
Restricted common shares	0.79	% 0.74	% 0.74	% 0.72
Total	100.00	% 100.00	% 100.00	% 100.00
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding – Basic	80,566,400	80,389,996	80,565,754	80,389,131
Effect of dilutive shares	—	—	—	—
Weighted average common shares outstanding – Diluted ^(b)	80,566,400	80,389,996	80,565,754	80,389,131
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Adjusted net income allocation:				
Adjusted net income (loss)	\$ (9,679)	\$ 26,545	\$ 88,007	\$ 87,497
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	—	(197)	(655)	(629)
Adjusted net income (loss) allocable to common shares – Basic and Diluted	\$ (9,679)	\$ 26,348	\$ 87,352	\$ 86,868
Adjusted net income (loss) per common share – Basic and Diluted	\$ (0.12)	\$ 0.33	\$ 1.08	\$ 1.08

For the three months ended September 30 2014, distributed and undistributed earnings to restricted shares was 0.74% of net income. For the nine months ended September 30, 2015 and 2014, distributed and undistributed earnings to restricted shares are 0.74% and 0.72%, respectively, of net income. The amount of restricted share forfeitures for all periods present is immaterial to the allocation of distributed and undistributed earnings.

(b) For the three and nine months ended September 30, 2015 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, 2015 by \$3.6 million and \$2.2 million, respectively, over the next twelve months. As of September 30, 2015, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$2.4 million and \$1.3 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, 2015. 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, 2015.

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, 2015 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, 2014 and our Form 10-Q filed with the SEC for the quarter ended June 30, 2015.

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

Issuer Purchases of Equity Securities

During the third quarter of 2015, 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 ^(a)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ^(a)
July 1 through July 31	—	\$—	—	\$ 100,000,000
August 1 through August 31	—	—	—	100,000,000
September 1 through September 30	—	—	—	100,000,000
Total	—	\$—	—	\$ 100,000,000

^(a) On October 31, 2014, our Board of Directors authorized the repurchase of \$100.0 million of the Company's common shares.

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	Amended Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3 (No. 333-182242) filed on June 20, 2012).
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 April 4, 2012, by and between 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 5, 2012).
4.3	Indenture, dated as of November 30, 2012, by and between 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).
4.4	Indenture, dated as of December 5, 2013, by and between 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 6, 2013).
4.5	First Supplemental Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed with the SEC on December 6, 2013).
4.6	Second Supplemental Indenture, dated as of March 26, 2014, by and between 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).
4.7	Third Supplemental Indenture, dated as of January 15, 2015, by and between 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 January 15, 2015).
4.8	Amended and Restated Shareholder Agreement, dated February 18, 2015 by and among Aircastle Limited, Marubeni Corporation and Marubeni Aviation Holding Coöperatief U.A. (incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2015).
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, 2015. *
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 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 3, 2015

AIRCASTLE LIMITED

(Registrant)

By:

/s/ Aaron Dahlke

Aaron Dahlke

Chief Accounting Officer and Authorized Officer