Aircastle LTD
Form 10-K
March 05, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2009
or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 001-32959
AIRCASTLE LIMITED
(Exact name of Registrant as Specified in its Charter)

Bermuda	**98-0444035**
(State or other Jurisdiction of Incorporation or organization)	*(I.R.S. Employer Identification No.)*

300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902
(Address of Principal Executive Offices)

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Shares, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 x No o

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

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

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

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

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

The aggregate market value of the Registrant s Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2009 (the last business day of registrant s most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately $344.9 million. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 23, 2010, there were 79,511,808 outstanding shares of the registrant s common shares, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion Of Documents Are Incorporated
Proxy Statement for Aircastle Limited 2010 Annual General Meeting of Shareholders	Part III (Items 10, 11, 12, 13 and 14)

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	37
Item 2.	Properties	37
Item 3.	Legal Proceedings	37
Item 4.	Reserved	37
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	39
Item 6.	Selected Financial Data	42
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operation	44
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	82
Item 8.	Financial Statements and Supplementary Data	82
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	83
Item 9A.	Controls and Procedures	83
Item 9B.	Other Information	85
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	86
Item 11.	Executive Compensation	86
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	86
Item 13.	Certain Relationships and Related Transactions, and Director Independence	86
Item 14.	Principal Accountant Fees and Services	87
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	E-1
SIGNATURES		S-1

EX-10.4
EX-10.6
EX-10.24
EX-10.25
EX-10.26
EX-10.27
EX-10.28
EX-10.29
EX-10.30
EX-10.31
EX-10.35
EX-12.1

EX-21.1
EX-23.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-99.1

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

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

WEBSITE AND ACCESS TO COMPANY S REPORTS

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

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.

Table of Contents

PART I.

ITEM 1 BUSINESS

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

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2009, our aircraft portfolio consisted of 129 aircraft that were leased to 60 lessees located in 33 countries, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. Our revenues and income from continuing operations for the year ended December 31, 2009 were $570.6 million and $102.5 million, respectively, and for the fourth quarter of 2009 were $135.8 million and $23.0 million, respectively.

The commercial air travel and air freight markets have been long-term growth sectors, generally increasing with world economic activity roughly at a rate of one to two times global GDP growth. Over time, the growth in air travel and air cargo activity has stimulated increases in the world aircraft fleet, as well as increases in demand for leased aircraft. However, demand for aircraft is subject to volatility arising from cyclical economic forces and other disturbances affecting air travel and cargo market traffic. Notwithstanding the significant current economic slowdown, the worldwide mainline commercial fleet (passenger aircraft with 100 seats or more and freighters) is expected to grow at an average annual rate, net of retirements, of approximately 3.5% to 4.0%.

The current worldwide economic slowdown is depressing air traffic and cargo volumes considerably, and the International Air Transport Association, or IATA, recently characterized 2009 as the worst demand decline in the history of aviation. While passenger traffic declined by 3.5% and cargo traffic fell by 10.1% for the full year 2009, according to IATA, signs of recovery have begun to emerge in both passenger and cargo traffic. During December 2009, passenger and cargo air traffic grew by 4.5% and 24.4% versus the same period in the prior year, respectively, according to IATA. This represents the most significant growth since the downturn began. Early data for 2010 indicates that both the passenger and cargo markets will continue to improve, with passenger and cargo traffic increasing 6.4% and 28.3%, respectively, versus January 2009. IATA recently upgraded its forecast for 2010 from 0.4% and 3.5% growth in the passenger and cargo markets, respectively, in its July 2009 update, to 4.5% and 7.0% growth in the passenger and cargo markets, respectively, in its December 2009 update. We are encouraged by the recent trends and believe that passenger and cargo traffic will return to solid growth rates once the global economy recovers, and that demand for high-utility aircraft will strengthen as a result. Going forward, we believe the market will be driven to a large extent by expansion in larger emerging markets and rising levels of per capita air travel.

The market for mainline commercial aircraft is highly fragmented, with nearly 1,000 owners, including airlines, other aircraft lessors and financial institutions, and as a group, aircraft lessors account for an increasing share of the world s fleet. However, as a result of the current economic slowdown and

Table of Contents

financial markets disruptions, not only will it be more difficult for leasing companies to continue growing, but the composition of this market may undergo substantial changes, which may present both risks and opportunities for our company.

We intend to pay quarterly dividends to our shareholders; however, our ability to pay quarterly dividends will depend upon many factors, including those described in Item 1A. Risk Factors , and elsewhere in this report. The table below is a summary of our quarterly dividend history for the years ended December 31, 2007, 2008 and 2009, respectively. These dividends may not be indicative of the amount of any future dividends.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount (Dollars in thousands)	Record Date	Payment Date
December 13, 2006	$ 0.4375	$ 22,584	December 29, 2006	January 15, 2007
March 14, 2007	$ 0.50	33,634	March 30, 2007	April 13, 2007
June 14, 2007	$ 0.60	40,460	June 29, 2007	July 13, 2007
September 13, 2007	$ 0.65	43,822	September 28, 2007	October 15, 2007
December 11, 2007	$ 0.70	55,004	December 31, 2007	January 15, 2008
March 24, 2008	$ 0.25	19,640	March 31, 2008	April 15, 2008
June 11, 2008	$ 0.25	19,647	June 30, 2008	July 15, 2008
September 11, 2008	$ 0.25	19,655	September 30, 2008	October 15, 2008
December 22, 2008	$ 0.10	7,862	December 31, 2008	January 15, 2009
March 13, 2009	$ 0.10	7,923	March 31, 2009	April 15, 2009
June 10, 2009	$ 0.10	7,923	June 30, 2009	July 15, 2009
September 10, 2009	$ 0.10	7,924	September 30, 2009	October 15, 2009
December 14, 2009	$ 0.10	7,955	December 31, 2009	January 15, 2010

Competitive Strengths

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

Diversified portfolio of high-utility aircraft. We have a portfolio of high-utility aircraft that is diversified with respect to geographic markets, lessees, end markets (i.e., passenger and freight), lease maturities and aircraft type. As of December 31, 2009, our aircraft portfolio consisted of 129 aircraft comprising a variety of passenger and freighter aircraft types that were leased to 60 lessees located in 33 countries, and had lease maturities ranging from 2010 to 2020. Our lease expirations are well dispersed, with a weighted average remaining lease term of 4.9 years for aircraft we owned at December 31, 2009. Moreover, over the next two years, approximately nine percent of our fleet, weighted by net book value has scheduled lease expirations, after taking into account lease and sales commitments. While we seek to place our aircraft on lease to operators and on terms that provide the best risk-adjusted returns, many airlines are in a weak financial condition and suffer from liquidity problems. Accordingly, we believe that our focus on portfolio

diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.

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

our senior management personnel have extensive experience managing lease restructuring and aircraft repossessions, which we believe is critical to mitigate our customer default exposure.

Existing fleet financed on a long-term basis. Our aircraft are currently financed in six separate long-term asset-based financings with the earliest maturity date being in 2013, thereby limiting our near-term financial markets exposure on our owned aircraft portfolio. We have also demonstrated access to several debt financing sources including commercial bank, securitization, and export credit agency-backed markets.

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

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

Business Strategy

Although current market conditions have improved compared to the conditions prevailing in 2008 and 2009, the availability of equity and debt capital remains limited. However, we plan to grow our business and profits over the long term by continuing to employ our fundamental business strategy:

Selectively investing in additional commercial jet aircraft and other aviation assets when attractively priced opportunities and cost effective financing are available. We believe the large and growing aircraft market will continue to provide significant acquisition opportunities over the long term and that the recent economic and financial market dislocations will offer attractive near term investment opportunities. We regularly evaluate potential aircraft acquisitions and expect to resume our investment program through additional passenger and cargo aircraft purchases when attractively priced opportunities and cost effective financing are available.

Maintaining an efficient capital structure by using varying long-term debt structures to obtain cost effective financing and leveraging the efficient operating platform and strong operating track record we have established. We have financed our aircraft acquisitions using varying long-term debt structures obtained through several different markets to obtain cost effective financing. Although we expect our access to capital to continue to be somewhat limited in the short-term, we expect capital to be available in the longer-term, thus allowing us to acquire additional aircraft and other aviation assets to optimize the return on our investments and to grow our business and profits. We will also seek opportunities to increase our profits by leveraging the efficient operating platform we have established.

Reinvest a portion of the cash flows generated by our business and from selective asset dispositions in additional aviation assets and/or our own debt and equity securities. Aircraft have a finite useful life and through a strategy of reinvesting a portion of our cash flows in our business, we will seek to maintain our

asset base. We will also continue to evaluate additional

investment opportunities in the context of the relative risk/return profile as compared to the merits of repurchasing our own debt or equity securities.

We also believe our team s capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities as capital becomes available for such activities. However, the financing markets continue to have limited capacity, which may constrain our ability to undertake new transactions. As such, during the near term, we intend to continue to focus our efforts on investment opportunities that both tap commercial financing capacity where it is accessible on reasonable terms and also where there is potential availability of debt financing that benefits from government guarantees either from the European Export Credit Agencies, or ECAs, or from the Export-Import Bank of the United States, or EXIM. In any case, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital, on our cost of capital or on our business, financial condition or results of operations.

Acquisitions and Dispositions

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

On June 20, 2007, we entered into an acquisition agreement, which we refer to as the Airbus A330 Agreement, under which we agreed to acquire new A330 aircraft, or the New A330 Aircraft, from Airbus SAS, or Airbus. During 2009, we acquired two New A330 Aircraft. We currently have ten New A330 Aircraft remaining to be delivered, with two scheduled for delivery in 2010, seven in 2011 and one in 2012.

Our objective is to develop and maintain a diverse and stable operating lease portfolio; however, we review our operating lease portfolio periodically to make opportunistic divestures of aircraft and to manage our portfolio diversification. In 2008 we sold eight aircraft and in 2009 we sold three Boeing Model 737-300 aircraft. We also purchased, and then sold, a spare engine in the fourth quarter of 2009. We also intend to take advantage of sales opportunities during cyclical upturns.

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

Potential investments and dispositions are evaluated by teams comprised of marketing, technical, credit, financial and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including its price, specification/configuration, age, condition and maintenance history, operating efficiency, lease terms, financial condition and liquidity of the lessee, jurisdiction, industry trends and future redeployment potential and values, among other factors. We believe that utilizing a cross-functional team of experts to consider the investment parameters noted above will help us assess more completely the overall risk and return profile of potential acquisitions and will help us move forward expeditiously on letters of intent and acquisition documentation. Our letters of intent are typically non-binding prior to internal approval, and upon internal approval are binding subject to the fulfillment of customary closing conditions.

Finance

Our debt financing arrangements are typically secured by aircraft and related operating leases, and, in the case of our securitizations and pooled aircraft term financings, the financing parties have limited recourse to Aircastle Limited.

While such financing has historically been available on reasonable terms given the loan to value profile we have pursued, the recent financial markets turmoil has

reduced the availability of both debt and equity capital. Though we expect the financing market to continue to improve in time, current market conditions remain difficult and we are presently taking a very cautious approach to incremental financing and with respect to refinancing risk, which may constrain our ability to undertake new transactions. During the near term, we intend to continue to focus our efforts on investment opportunities that both tap commercial financial capacity where it is accessible on reasonable terms, and also where there is potential availability of debt financing that benefits from government guarantees, either from the ECAs or from EXIM. ECA-supported financing could play an important role in funding our New A330 Aircraft purchases.

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

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Securitizations and Term Debt Financings, Credit Facilities, and Equity Offerings.

Segments

We operate in a single segment.

Aircraft Leases

Typically, we lease our aircraft on an operating lease basis. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft upon expiration or early termination of the lease. Operating leasing can be an attractive alternative to ownership for airlines because leasing (i) increases fleet flexibility, (ii) requires a lower capital commitment for the airline, and (iii) significantly reduces aircraft residual value risk for the airline. Under our leases, the lessees agree to lease the aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2009, our three largest customers, Martinair (including its affiliates, KLM and Transavia), U.S. Airways, Inc., and Emirates, accounted for 10%, 8% and 5%, respectively.

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

	2010[1]	**2011[2]**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Off-Lease[3]**	**Total**
A319/A320/A321	2		6	3	4	6	9						30
A330-200/300		1	6		2		1	1	1				12
737-300/300QC/400/400SF/500	1	3	4	2	4	3				3	1	1	22
737-700/800		3	6	7	8	2					1		27
747- 400BCF/400ERF/400BDSF					1		1	4	4		1		11
757-200	1	1	1	5	1	1						2	12
767-200ER/300ER	1	1	5	2	2	1							12
Other Aircraft Types		1		2									3

Total	5	10	28	21	22	13	11	5	5	3	3	3	129

(1) Includes one Airbus Model A319 aircraft originally scheduled to expire in 2009 but delayed to the first quarter of 2010 to allow the existing customer to complete final maintenance work.

Table of Contents

(2) Includes one Boeing Model 757-200 aircraft which we have contracted to sell when it is scheduled to come off lease.

(3) The three off-lease aircraft comprise two Boeing Model 757-200 aircraft which we contracted to sell in the second quarter of 2010 and one Boeing Model 737-300 aircraft we are actively marketing for sale or lease.

Taking into account lease and sale commitments, we have fifteen aircraft to remarket in 2010 and 2011, representing approximately 9% of our net book value.

2009 Lease Expirations and Lease Placements

Scheduled lease expirations placements. For our 20 aircraft originally having lease expirations in 2009, we executed leases and lease renewals, or commitments to lease or renew, with respect to 19 aircraft, including one aircraft we took back earlier than originally scheduled in 2009 on a consensual basis from a lessee. The lease expiration for the remaining aircraft was delayed to the first quarter of 2010 to allow the existing customer to complete final maintenance work, and we are actively marketing it for lease or sale. For the 19 aircraft, the weighted average lease term for the new leases or renewals will be six years with monthly lease rates that are approximately five percent higher than the previous rentals. The relatively strong lease rate performance reflects a generally strong market at the time the new leases or renewals were executed, when our strategy was to lock in re-lease and renewal rates as far in advance of lease expiry as practicable and to seek longer lease terms.

Aircraft acquisitions placements. In May 2009, we took delivery of one new Airbus Model A330-200 aircraft and immediately placed it on lease with Aerovias del Continente Americano, or Avianca, a new customer. In December 2009, we advanced another New A330 Aircraft position, and acquired and leased another Airbus Model A330-200 aircraft to Avianca.

Repossessions and other lease transitions placements. In 2009, we delivered on lease eight aircraft we repossessed in 2008, seven Boeing Model 737-700 aircraft and one Boeing Model 737-300 aircraft. In addition to the early transition mentioned in Scheduled lease expiration placements above, we also completed consensual early lease terminations for eight aircraft in 2009:

Two Airbus Model A320-200 aircraft, which were placed on lease with new customers in the first and second quarters, respectively, of 2009.

One Boeing Model 767-300ER aircraft, which was placed on a short-term lease, and subsequently extended to 2011.

Two Boeing Model 737-300 aircraft, which were returned to us in the third quarter of 2009, one of which we sold in the third quarter and the other is being marketed for lease or sale.

One Airbus Model A330-300 aircraft with an originally scheduled lease expiry in 2011, for which we approached our then-existing customer to request an early termination, to take advantage of relatively strong market conditions, and leased the aircraft to another customer upon completion of the early return, in the fourth quarter of 2009.

Two Boeing Model 757-200 aircraft, which had scheduled lease expirations in 2010 but were returned to us in the fourth quarter of 2009 and which are contracted for sale in the second quarter of 2010.

2010 Lease Expirations and Lease Placements

Scheduled lease expirations placements. For our 19 aircraft originally having lease expirations in 2010, we have executed lease renewals, or commitments to lease or renew, with respect to 13 aircraft, we have signed sales agreements to sell two aircraft and we are actively

remarketing the remaining four aircraft and are also remarketing an aircraft originally scheduled to expire in 2009 but delayed into 2010 by the existing customer. We estimate that for these 19 aircraft, excluding the two we expect to sell, the weighted average lease term for the new leases or renewals will be between 3.5 and 4.5 years with monthly lease rates that are approximately 30% to 35% percent lower than the previous rentals. The drop in lease rates for these placements reflects more challenging market conditions when these new leases or renewals were executed, as well as a comparatively stronger lease placement environment, on average, when the previous leases where put in place. Given more challenging market conditions, we generally continue to seek shorter lease terms for placements so as to allow for the opportunity to benefit more quickly from possible market improvements.

Aircraft acquisitions placements. We are scheduled to take delivery of two of the New A330 Aircraft in 2010, both in the second half of the year. We have executed lease agreements for both aircraft with an affiliate of the HNA Group, the parent company of Hainan Airlines. We currently have no other commitment to acquire aircraft in 2010.

2011-2014 Lease Expirations and Lease Placements

Scheduled lease expirations placements. We have 13 aircraft with lease expirations scheduled in 2011. We have executed lease renewals, or commitments to lease or renew, with respect to three of these aircraft, and we have a signed sale agreement to sell one aircraft. We are actively remarketing the remaining nine aircraft. Taking into account lease and sale commitments, we currently have 71 aircraft with lease expirations scheduled in the period 2012-2014.

Aircraft acquisitions placements. We are scheduled to take delivery of seven of the New A330 Aircraft in 2011 and one in 2012. We executed a lease agreement for one of the New A330 Aircraft scheduled for delivery in 2011 with an affiliate of the HNA Group, and we executed lease agreements for six of the New A330 Aircraft scheduled for delivery in 2011 with South African Airways PTY LTD., or South African Airways, and we are actively remarketing the remaining one aircraft scheduled for delivery in the second quarter of 2012. We currently have no other commitment to acquire aircraft in the period 2011-2014.

Lease Payments and Security. Each of our leases requires the lessee to pay periodic rentals during the lease term. As of December 31, 2009, rentals on more than 95% of our leases then in effect, as a percentage of net book value, are fixed and do not vary according to changes in interest rates. For the remaining leases, rentals are payable on a floating interest-rate basis. Most lease rentals are payable either monthly or quarterly in advance, and all lease rentals are payable in U.S. dollars.

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which would normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges, certain taxes, licenses, consents and approvals, aircraft registration and insurance premiums. Typically, under an operating lease, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the amount of security deposit which may be provided by the lessee and market conditions at the time. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually shortly following completion of the relevant work.

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

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

Portfolio Risk Management

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

- individual lessee exposures;
- average portfolio credit quality;
- geographic concentrations;
- end market (i.e., passenger and freighter) concentrations;
- lease maturity concentrations; and
- aircraft type concentrations.

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

Lease Management and Remarketing

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

management of aircraft in our portfolio.

Table of Contents

Other Aviation Assets and Alternative Investment Approaches

As of December 31, 2009, our overall portfolio of assets consists of commercial jet aircraft. We believe the current financial markets turmoil will present attractive aircraft and debt investment opportunities, including our own securities, although financing for such acquisitions will be limited and more costly than in the past. Additionally, we believe that investment opportunities may arise in such sectors as aircraft-secured lending, jet engine and spare parts leasing and financing, aviation facility financings or ownership, and commercial turboprop aircraft and helicopter leasing and financing. In the future, we may make opportunistic investments in these or other sectors or in other aviation related assets and we intend to continue to explore other income-generating activities and investments that leverage our experience and contacts, provided that capital is available to fund such investments on attractive terms.

Competition

The aircraft leasing industry is highly competitive and may be divided into three basic activities: (i) aircraft acquisition, (ii) leasing or re-leasing of aircraft, and (iii) aircraft sales. Competition varies among these three basic activities. The competitive playing field for new acquisitions has changed considerably in the wake of the financial crisis, as many large players are restructuring or revisiting their investment appetite. Currently, our competition for aircraft acquisitions includes established aircraft leasing companies such as GE Commercial Aviation Services, BOC Aviation, AerCap Holdings NV, Macquarie Aircraft Leasing, and Aviation Capital Group. We are also seeing increased activity from new market entrants such as the leasing affiliates of China Development Bank, HNA Group and Industrial and Commercial Bank of China as well as new private equity funded start-ups.

We believe that many of our competitors or their parent companies are experiencing difficulty refinancing debt, financing new acquisition commitments or generally accessing capital and/or are reconsidering their strategic role in the aircraft leasing sector. As a result, certain of these competitors are for sale and/or are seeking to dispose of assets. Any large scale sale of companies or assets in our sector may negatively impact the value of leased aircraft in the near term or may absorb scarce available capital and have an adverse effect on the ability of other aircraft leasing companies, including ourselves, to raise capital. At the same time, such circumstances may present interesting strategic opportunities for the Company.

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

Some of our competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. However, we believe that we are able to compete favorably in aircraft acquisition, leasing and sales activities due to the reputation and experience of our management, our extensive market contacts and our expertise in sourcing and acquiring aircraft. Additionally, we believe our relatively limited near-term financial markets exposure is an advantage in the current environment.

Employees

We operate in a capital intensive, rather than a labor intensive, business. As of December 31, 2009, we had 74 employees. None of our employees are covered by a collective bargaining agreement and we believe that we maintain excellent employee relations. We provide certain employee benefits, including retirement, health, life, disability and accident insurance plans.

9

Table of Contents

Insurance

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

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

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

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

Government Regulation

The air transportation industry is highly regulated; however, we generally are not directly subject to most of these regulations because we do not operate aircraft. In contrast, our lessees are subject to extensive, direct regulation under the laws of the jurisdiction in which they are registered and under which they operate. Such laws govern, among other things, the registration, operation and maintenance of our aircraft. Our customers may also be subject to noise or emissions regulations in the jurisdictions in which they operate our aircraft. For example, the United States and other jurisdictions are beginning to impose more stringent limits on nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines. In addition, European countries generally have more strict environmental regulations and, in particular, the European Parliament has confirmed that aviation is to be included in the European Emissions Trading Scheme starting in 2012.

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

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

Inflation

Inflation generally affects our costs, including SG&A expenses and other expenses. Inflation also will increase the price of the airframes and engines we purchase under the Airbus A330 Agreement, although we have agreed with the manufacturers to certain limitations on price escalation in order to reduce our exposure to inflation. Our contractual commitments described elsewhere in this report include estimates we have made concerning the impact of inflation on our acquisition costs under the Airbus A330 Agreement. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

Subsequent Events

The Company s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2009 through the date of this filing, the date on which the consolidated financial statements included in this Form 10-K were issued.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Risks related to our operations

Adverse financial market conditions may adversely impact our liquidity, our access to capital and our cost of capital.

There continues to be considerable financial market volatility and disruption, notwithstanding signs of improvement following the first quarter of 2009. In many cases, the financial markets have exerted downward pressure on share prices and have limited or eliminated entirely the availability of liquidity and credit capacity for certain companies, without regard to their underlying financial strength. It is not clear when or whether the lease-backed securitization market will re-open and when other long-term credit will once again become readily available in sufficient volume to satisfy the future financing and refinancing needs of the aviation industry. If current levels of financial market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital, on our cost of capital or on our business, financial condition or results of operations.

We are exposed to risk from financial markets volatility and disruption in various ways, including:

- difficulty or inability to finance pre-delivery payment obligations under, or to finance a portion of the remaining purchase price for the New A330 Aircraft to be delivered under, the Airbus A330 Agreement;

- lack of liquidity in the market may continue to make it difficult for buyers to finance acquisitions of aviation assets, which would contribute to a decline in demand for aviation assets and could result in a decline in the value of aviation assets;

aircraft leasing companies and other aircraft investors may decide or be forced to liquidate assets at discounted prices, driving aviation asset values down generally;

Table of Contents

increased risk of default by our lessees resulting from financial market distress, lack of available credit or continuing effects of the global economic recession;

exposure to increased bank or counterparty risk in the current environment, including the risk that our counterparties will not be able to perform their obligations under interest rate hedging contracts and the risk that banks issuing letters of credit we hold as lease security deposits may fail to pay when we seek to draw on these letters of credit; and

increased risk that we will not be able to re-finance our securitizations and other long-term financings before the dates on which the excess cash flow will be applied to reduce the principal balance of the debt rather than made available to us to pay dividends or for other corporate purposes.

We have significant customer concentration and defaults by one or more of our major customers could trigger accelerated amortization or defaults under our financings and could have a material adverse effect on our cash flow and earnings and our ability to meet our debt obligations and pay dividends on our common shares.

Lease rental revenue for the year ended December 31, 2009 from our five largest customers, Martinair (including its affiliates, KLM and Transavia), US Airways, Inc., Emirates, Icelandair (including its affiliate, Smartlynx) and World Airways accounted for 33% of our lease rental revenue. The lease rental revenue for these five customers as a percent for that period was approximately 11%, 9%, 5%, 4% and 4%, respectively. The loss of one or more of our customers or their inability to make operating lease payments due to financial difficulties, bankruptcy or otherwise could have a material adverse effect on our cash flow and earnings, could result in a breach of loan to value, debt service coverage or interest coverage tests in our long-term debt financings, resulting in accelerated amortization or defaults and materially and adversely affecting our ability to meet our debt obligations and pay dividends on our common shares.

We will need additional capital to finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to satisfy our commitments to acquire additional aircraft and compete in the aviation market.

Satisfying our present commitments to acquire aircraft will require additional capital. Financing may not be available to us or may not be available to us on favorable terms. If we are unable to raise additional funds or obtain capital on terms acceptable to us, we may not be able to satisfy funding requirements for our aircraft acquisition commitments under the Airbus A330 Agreement. These risks may be increased by the terms of the Airbus A330 Agreement, which requires significant progress payment commitments during the manufacturing process and which extends our future aircraft acquisition commitments into 2012. These risks may also be increased by the volatility and disruption in the capital and credit markets as noted in the risk factors described above. Further, if additional capital is raised through the issuance of additional equity securities, the interests of our then current common shareholders could be diluted. Newly issued equity securities may have rights, preferences or privileges senior to those of our common shares.

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

Each of our securitization transactions and one of our term financing transactions provides excess cash flow to us only during the initial five years after the closing of such transaction. Conditions in the capital markets or bank debt market may prevent the issuance of aircraft lease-backed securities or other long-term debt financing or make any new issuance of aircraft lease-backed securities or other long-term debt financing more costly or otherwise less attractive to us. Accordingly, we may not refinance any such securitizations and term financing prior to the fifth anniversary of closing and we

may be obliged to leave these financings in place, in which case we would not receive any excess cash flow from the aircraft financed thereunder.

An increase in our borrowing costs may adversely affect our earnings and cash available for distribution to our shareholders; a decrease in interest rates may result in losses on hedging contracts and reduce or adversely affect cash available for distribution to our shareholders.

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

Our financings are primarily London Interbank Offered Rate, or LIBOR, based floating-rate obligations and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. As a result, to the extent we are not sufficiently hedged, changes in interest rates may increase our interest costs and may reduce the spread between the returns on our portfolio investments and the cost of our borrowings.

As of December 31, 2009, if interest rates were to increase by 100 basis points, we would expect the annual interest expense on our securitizations and term facilities to increase by approximately $0.7 million on an annualized basis, net of amounts received from our interest rate hedges. As of December 31, 2009, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of $179.3 million.

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

Our senior management s reputations and relationships with lessees, sellers, buyers and financiers of aircraft are a critical element of our business. We encounter intense competition for qualified employees from other companies in the aircraft leasing industry, and we believe there are only a limited number of available qualified executives in our industry. Our future success depends, to a significant extent, upon the continued service of our senior management personnel, particularly: Ron Wainshal, our Chief Executive Officer; Michael Inglese, our Chief Financial Officer; and David Walton, our Chief Operating Officer and General Counsel, each of whose services are critical to the successful implementation of our business strategies. These key officers have been with us as we have substantially grown our operations and as a result have been critical to our development. If we were to lose the services of any of these individuals, our business and financial results could be adversely affected.

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

On December 14, 2009, our board of directors declared a regular quarterly dividend of $0.10 per common share, or an aggregate of approximately $8.0 million, which was paid on January 15, 2010 to holders of record on December 31, 2009. This dividend may not be indicative of the amount of any future quarterly dividends. Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our board of directors and will depend on many factors, including the difficulty we may experience in raising capital and our ability to finance our aircraft acquisition commitments, including pre-delivery payment obligations, our ability to re-finance our securitizations and other long-term financings before excess cash flows are no longer made available to us to pay dividends and for other purposes, our ability to negotiate favorable lease and other contractual terms, the level of demand for our aircraft, the economic condition of the commercial aviation industry generally, the financial condition and liquidity of our lessees, the lease rates we are able to charge and realize, our leasing costs, unexpected or increased expenses, the level and timing of capital expenditures, principal repayments and other capital needs, the value of our aircraft portfolio, our compliance with loan to value, debt service coverage, interest rate coverage and other financial tests in our financings, our results of operations, financial condition and liquidity, general business

conditions, restrictions imposed by our securitizations or other financings, legal restrictions on the payment of

dividends, including a statutory dividend test and other limitations under Bermuda law, and other factors that our board of directors deems relevant. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur, and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

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

General Risks

Our indebtedness subjects us to certain risks, including:

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

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

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

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

Risks relating to our long-term financings

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

Securitizations. During the first five years from the closing of each securitization, excess cash flow is available to us from such securitization for corporate purposes, to make new investments or to pay dividends to our shareholders. However, if debt service coverage ratio requirements are not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of the applicable securitization and in any month following the fifth anniversary of the closing date, all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness of the applicable securitization and will not be available to us for other purposes.

Term Financings. Our term financings contain loan to value and debt service coverage or interest coverage tests. Under certain circumstances, if we fail these tests, excess cash flow could be applied to pay down principal or, in the case of Term Financing No. 2, a default could occur. In 2010, we will not initially meet the loan to value requirement for Term Financing No. 1 and we anticipate that we will therefore be obliged to make in addition to scheduled principal payments approximately $20 million in supplemental principal

payments. To the extent that supplemental principal payments are required, availability of excess cash flow for other purposes will be reduced.

Table of Contents

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

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

In addition, the terms of our securitizations, term financings and ECA term financings restrict our ability to:

- create liens on assets;
- incur additional indebtedness;
- sell assets;
- make certain investments or capital expenditures;
- engage in mergers, amalgamations or consolidations among our subsidiary companies or between a subsidiary company and a third party;
- engage in certain transactions with affiliates;
- incur secured indebtedness; and
- receive payments or excess cash flows from subsidiaries.

Failure to close the aircraft acquisition commitments could negatively impact our share price and financial results.

At December 31, 2009, we had commitments to acquire a total of 10 aircraft from 2010 through 2012. If we are unable to obtain the necessary financing and if the various conditions to these commitments are not satisfied, we will be unable to close the purchase of some or all of the aircraft which we have commitments to acquire under the Airbus A330 Agreement. If our aircraft acquisition commitments are not closed for these or other reasons, we will be subject

to several risks, including the following:

- forfeiting deposits and progress payments and having to pay and expense certain significant costs relating to these commitments, such as actual damages, and legal, accounting and financial

15

advisory expenses, and will not realize any of the benefits of having the transactions completed; and

the focus of our management having been spent on these commitments instead of on pursuing other opportunities that could have been beneficial to us, without realizing any or all of the benefits of having the transaction completed.

If we determine that the capital we require to satisfy these commitments may not be available to us, either at all, or on terms we deem attractive, we may eliminate or continue to reduce our dividend in order to preserve capital to apply to these commitments. These risks could materially and adversely affect our ability to pay dividends, our share price and financial results.

Risks related to our aviation assets

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

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

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

passenger and air cargo demand;

fuel costs and general economic conditions affecting our lessees operations;

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

outbreaks of communicable diseases and natural disasters;

governmental regulation;

interest rates;

foreign exchange rates;

airline restructurings and bankruptcies;

the availability of credit;

changes in control of, or restructurings of, other aircraft leasing companies which may result in, among other things, a significant volume of asset sales, resulting in downward pressure on aircraft values;

manufacturer production levels and technological innovation;

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

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

reintroduction into service of aircraft previously in storage; and

airport and air traffic control infrastructure constraints.

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

other purposes. This would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends on our common shares.

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

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

- the particular maintenance and operating history of the airframe and engines;
- the number of operators using that type of aircraft;
- whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to the lessor;
- any renegotiation of a lease on less favorable terms;
- any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and
- compatibility of our aircraft configurations or specifications with other aircraft of that type owned by operators.

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

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

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787 and Airbus A350 and potential replacement types for the Boeing 737 and A320 families of aircraft, or if Boeing or Airbus introduce re-engined Next-Generation Boeing 737 or Airbus A320 family models, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. In addition, although all of the aircraft in our portfolio are Stage 3 noise-compliant, the imposition of more stringent noise or emissions standards or the introduction of additional age limitation regulations may limit the potential customer base for certain aircraft in our portfolio or make certain of our aircraft less desirable in the marketplace. Any of these risks could adversely affect our ability to lease or sell our aircraft on favorable terms, or at all, which could have an adverse affect on our financial condition.

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

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United

States and the International Civil Aviation Organization, or ICAO, have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the European Union has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These

Table of Contents

regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant.

In addition to more stringent noise restrictions, the United States and other jurisdictions are beginning to impose more stringent limits on nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines, consistent with current ICAO standards. These limits generally apply only to engines manufactured after 1999. Certain of the aircraft engines owned by us were manufactured after 1999. Because aircraft engines are retired or replaced from time to time in the usual course, it is likely that the number of such engines may increase over time. Concerns over global warming or other potentially adverse environmental impact could result in more stringent limitations on the operation of our aircraft or in decreased demand for air travel.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The European Parliament has confirmed that aviation is to be included in the European Union s Emissions Trading Scheme starting from 2012. This inclusion could possibly lead to higher ticket prices in the European transport market and a reduction in the number of airline passengers. The United Kingdom has significantly increased its air passenger duties in 2007 and, for most longer flights, again in 2009, in recognition of the environmental costs of air travel. Similar, or more restrictive, measures may be implemented in other jurisdictions as a result of environmental or climate change concerns, which could have an impact on the global market for certain aircraft and cause behavioral shifts that result in decreased demand for air travel.

Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause the lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial conditions. Consequently, such compliance may affect the lessees ability to make rental and other lease payments and limit the market for certain of our aircraft in our portfolio, which may adversely affect our ability to lease or sell our aircraft on favorable terms, or at all, which could have an adverse effect on our financial condition.

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

As of December 31, 2009, based on net book value, 26% of our aircraft portfolio was 15 years or older and 12% of our aircraft portfolio is not the latest generation technology. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Additionally, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell, particularly if, due to airline insolvencies or other distress, older aircraft are competing with newer aircraft in the lease or sale market. Variable expenses like fuel, crew size or aging aircraft corrosion control or inspection or modification programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. In addition, a number of countries have adopted or may adopt age limits on aircraft imports, which may result in greater difficulty placing affected aircraft on lease or re-lease on favorable terms. Any of these expenses, costs or risks will have a negative impact on our financial results and our ability to pursue additional acquisitions.

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

Our owned aircraft portfolio is concentrated in certain aircraft types. In addition, we have a significant concentration of freighter aircraft in our portfolio and we have growing exposure to risks in the cargo market. Should any of these

aircraft types (or other types we acquire in the future) or Airbus or Boeing encounter technical, financial or other difficulties, a decrease in value of such aircraft, an

inability to lease the aircraft on favorable terms or at all, or a potential grounding of such aircraft could occur. As a result, the inability to lease the affected aircraft types would likely have an adverse effect on our financial results to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio. The composition of our aircraft portfolio may therefore adversely affect our business and financial results.

A portion of the New A330 Aircraft to be purchased under the Airbus A330 Agreement represent a new cargo variant of a passenger model and there is currently no well developed market for this aircraft model.

Under the Airbus A330 Agreement, we have a remaining commitment to acquire 10 New A330 Aircraft with deliveries scheduled for 2010 through 2012. Three of the New A330 Aircraft are expected to be delivered in the A330-200F freighter configuration. While the Airbus A330 family is a successful passenger configuration aircraft, neither Airbus nor any leasing companies holding A330-200F order positions has placed any significant number of order positions with cargo operators and there is no assurance that a robust market will develop for the A330-200F model. If such a market fails to develop, the long-term residual value of any A330-200F aircraft we purchase from Airbus may be less than expected, which may adversely affect our financial condition and results of operation.

The failure of aircraft or engine manufacturers to meet their delivery commitments to us could adversely affect us.

Our ability to obtain the anticipated benefits under the Airbus A330 Agreement will depend in part on the performance of Airbus and Rolls-Royce in meeting their obligations to us with respect to the timing of the deliveries. A failure by Airbus to produce the A330-200F model aircraft, or a failure on the part of Airbus or Rolls-Royce to meet delivery commitments with respect to the New A330 Aircraft, could adversely affect our ability to deliver the New A330 Aircraft to our customers, may result in the termination of, or adverse change to, the lease commitments relating to the affected aircraft and adversely affect our financial condition and results of operation.

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

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

The competitive playing field for new acquisitions has changed considerably in the wake of the financial crisis, as many large players are restructuring or revisiting their investment appetite. Currently, our competition for aircraft acquisitions includes established aircraft leasing companies such as GE Commercial Aviation Services, BOC Aviation, AerCap Holdings NV, Macquarie Aircraft Leasing, and Aviation Capital Group. We are also seeing increased activity from new market entrants such as the leasing affiliates of China Development Bank, HNA Group and Industrial and Commercial Bank of China, as well as new private equity funded start-ups.

Several of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships than us, bid more aggressively on aviation assets available for sale and offer lower lease rates than us. For instance, we may not be able to grant privileged rental rates to airlines in return for equity investments or debt financings in order to lease aircraft and

19

minimize the number of aircraft off lease (unless such equity investments or debt financings are in connection with the bankruptcy, reorganization or similar process of a lessee in settlement of expected or already delinquent obligations, as permitted under the terms of certain of our financings). Certain of our competitors, however, may enter into similar arrangements with troubled lessees to restructure the obligations of those lessees while maximizing the number of aircraft remaining on viable leases to such lessees and minimizing their overall cost. Such disparity could make our acquisitions more costly, and impair our ability to effectively compete in the marketplace, maximize our revenues and grow our business. In addition, some competitors may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. As a result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. Additionally, we may not be able to compete effectively against present and future competitors in the aircraft leasing market or aircraft sales market. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations.

Risks related to our leases

If we fail to re-lease or sell aircraft as current leases expire we may not generate sufficient funds to meet our debt obligations, to finance our growth and operations and to pay dividends on our common shares.

We generally must re-lease aircraft as our current leases expire in order to continue to generate sufficient revenues to meet our debt obligations, to finance our growth and operations and to pay dividends on our common shares. In certain cases, including the New A330 Aircraft, we commit to purchase aircraft that are not subject to lease. The ability to lease or re-lease aircraft at attractive rates will depend on general market and competitive conditions at that particular time. If we are not able to lease or re-lease an aircraft at favorable rates, including aircraft acquired pursuant to the Airbus A330 Agreement, we may be required to attempt to sell the aircraft to provide adequate funds for debt payments and to otherwise finance our growth and operations. Further, our ability to re-lease, lease or sell aircraft on favorable terms or at all or without significant off-lease time and transition costs is likely to be adversely impacted by risks affecting the airline industry.

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

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

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

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

20

incur additional obligations pursuant to the terms of the leases, to contribute to the cost of maintenance work performed by the lessee in addition to maintenance reserve payments.

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

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

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

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

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

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

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

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

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

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

By virtue of holding title to the aircraft directly or through a special purpose entity, in certain jurisdictions around the world aircraft lessors are held strictly liable for losses resulting from the operation of aircraft or may be held liable for

those losses based on other legal theories. Liability may be placed on an aircraft lessor even under circumstances in which the lessor is not directly controlling the operation of the relevant aircraft.

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

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

Our lessees insurance, including any available governmental supplemental coverage, may not be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations or the lack of political risk, hull, war or third-party war risk and terrorism liability insurance will reduce the proceeds that would be received by us upon an event of loss under the respective leases or upon a claim under the relevant liability insurance, which could negatively affect our business, financial condition and results of operations.

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

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

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

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the year ended December 31, 2009, 39 of our lessees which operated 72 aircraft and generated lease rental revenue representing 49% of our lease rental revenue are domiciled or habitually based in

emerging markets.

Table of Contents

Risks related to our lessees

Lessee defaults and other credit problems could materially adversely affect our business, financial condition and results of operations.

We operate as a supplier to airlines and are indirectly impacted by all the risks facing airlines today. Our ability to succeed is dependent upon (i) the financial strength of our lessees, (ii) the ability to diligently and appropriately assess the credit risk of our lessees and (iii) the ability of lessees to perform their contractual obligations to us. The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee s financial condition and cash flow, which may be affected by factors beyond our control, including:

- competition;
- fare levels;
- air cargo rates;
- passenger and air cargo demand;
- availability of financing and other circumstances affecting airline liquidity, including covenants in financings, terms imposed by credit card issuers and collateral posting requirements contained in fuel hedging contracts and the ability of airlines to make or refinance principal payments as they come due;
- geopolitical and other events, including war, acts or threats of terrorism, outbreaks of epidemic diseases and natural disasters;
- aircraft accidents;
- operating costs, including the price and availability of jet fuel and labor costs;
- labor difficulties;
- economic conditions, including recession, financial system distress and currency fluctuations in the countries and regions in which the lessee operates or from which the lessee obtains financing;
- losses on investments, including auction rate securities; and
- governmental regulation of or affecting the air transportation business, including noise regulations, climate change initiatives, and age limitations.

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

certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to us. Given the size of our aircraft portfolio, we expect that from time to time some lessees will be slow in making, or will fail to make, their payments in full under their leases.

Airlines financial condition will be greatly influenced by the overall demand for air travel: in a weak demand environment, airline yields may come under pressure, which may negatively impact airline financial performance in a significant way. To the extent that airline operating costs increase, because of increased fees or taxes associated with climate change initiatives, because of reduced

operating efficiency resulting from noise or emissions limitations, because of changes in consumer behavioral patterns, or otherwise, demand for air travel and/or airline financial performance may be negatively impacted.

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

Our ability to determine the condition of our aircraft while on lease or whether the lessees are properly maintaining the aircraft will be limited to periodic inspections we perform or that are performed on our behalf by third-party service providers or aircraft inspectors, and even these periodic inspections will be summary in nature and will not necessarily reveal any maintenance shortfalls which may exist. A continuous failure by a lessee to meet its maintenance obligations under the relevant lease could:

- result in a grounding of the aircraft;
- in the event of a re-lease of the aircraft, cause us to incur costs, which may be substantial, in restoring the aircraft to an acceptable maintenance condition in order to induce a subsequent lessee to lease the aircraft;
- result in us not being able to re-lease the aircraft promptly or result in a lower rental rate or a shorter term lease following repossession of the aircraft; and
- adversely affect the value of the aircraft.

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

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

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

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

dividends on our common shares.

Significant costs resulting from lease defaults could have an adverse effect on our business.

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

We may also suffer other adverse consequences as a result of a lessee default and the related termination of the lease and the repossession of the related aircraft. Our rights upon a lessee default vary significantly depending upon the jurisdiction and the applicable laws, including the need to obtain a court order for repossession of the aircraft and/or consents for de-registration or re-export of the aircraft. When a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions will give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or will entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or performing all or some of the obligations under the relevant lease. Certain of our lessees are owned in whole or in part by government-related entities, which could complicate our efforts to repossess our aircraft in that government s jurisdiction. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

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

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

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

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

Aircraft Liens in order to repossess the aircraft. Such payments would adversely affect our cash position and our business generally.

Failure to register aircraft in certain jurisdictions could result in adverse effects and penalties which could materially affect our business.

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

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

In addition to the general aviation authority regulations and requirements regarding maintenance of aircraft, our aircraft may be subject to further maintenance requirements imposed by airworthiness directives, or Airworthiness Directives, issued by aviation authorities. Airworthiness Directives typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

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

Risks associated with the concentration of our lessees in certain geographical regions could harm our business.

Our business is exposed to local economic and political conditions that can influence the performance of lessees located in a particular region. Such adverse economic and political conditions include additional regulation or, in extreme cases, requisition. In 2009, the combination of increasing fuel prices, the inability of many companies to access the capital markets and a slowing economy has impacted the global aviation market, causing severe financial strain and a number of bankruptcies. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions. For the year ended December 31, 2009, lease rental revenues from lessees by region, were 46% in Europe, 16% in North America, 20% in Asia (including 9% in China), 7% in Latin America, and 11% in the Middle East and Africa.

European Concentration

Thirty-five lessees based in Europe accounted for 46% of our lease rental revenues for the year ended December 31, 2009 and accounted for 58 aircraft totaling 46% of the net book value of our aircraft at December 31, 2009. Commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures, in part as a result of the deregulation of the airline industry by the European Union, the resultant development of low-cost carriers and due to pressures from stronger airlines that are consolidating. Moreover, the European airline sector is expected to face a more challenging recovery as their home market economies undergo a slower recovery and

potential further

disruptions arising from the sovereign debt market concerns about Greece and other EU member countries.

European countries generally have relatively strict environmental regulations and traffic constraints that can restrict operational flexibility and decrease aircraft productivity, which could significantly increase aircraft operating costs of all aircraft, including our aircraft, and which could place yields under pressure or lead to reduced demand for air travel, thereby adversely affecting lessees. The airline industry in European countries, as in the rest of the world generally, is highly sensitive to general economic conditions. A recession or other worsening of economic conditions or a terrorist attack in one or more of these countries, particularly if combined with high and volatile fuel prices and a weakening Euro or other local currency, may have a material adverse effect on the ability of European lessees to meet their financial and other obligations under our leases.

North American Concentration

Six lessees based in North America accounted for 16% of our lease rental revenues for the year ended December 31, 2009 and accounted for 15 aircraft totaling 12% of the net book value of our aircraft at December 31, 2009. Despite recent improvements in the financial results of many carriers, airlines remain highly susceptible to macroeconomic and geopolitical factors outside their control. The prolonged conflicts in Iraq and Afghanistan and the September 11, 2001 terrorist attacks and subsequent attempted attacks in the United States have resulted in tightened security measures and reduced demand for air travel, which, together with high and volatile fuel costs, have imposed additional financial burdens on most U.S. airlines.

Asian Concentration

Thirteen lessees based in Asia accounted for 20% of our lease rental revenues for the year ended December 31, 2009 and accounted for 30 aircraft totaling 20% of the net book value of our aircraft at December 31, 2009. The outbreak of SARS in 2003 had the largest negative impact on Asia, particularly China, Hong Kong and Taiwan. More recently, the Asian airline industry has experienced significant declines in both passenger and cargo traffic, due largely to economic conditions but also other factors, including more restrictive visa issuance, particularly by China, and over capacity in the case of India. Certain Asian governments have recently announced programs to assist airlines in the region, however, continued demand weakness, a recurrence of SARS or the outbreak of another epidemic disease, such as avian influenza, which many experts think would originate in Asia, would likely adversely affect the Asian airline industry.

Five lessees based in China accounted for 9% of our lease rental revenues for the year ended December 31, 2009. Chinese airline industry performance during 2009 was relatively strong and benefited from the government s significant economic stimulus measures which included significant credit market growth. However, Chinese airline performance could suffer if such measures do not continue and if the economy starts contracting. Additionally, major obstacles to the Chinese airline industry s development exist, including the continuing government control and regulation of the industry, as evidenced by a moratorium on all types of visas during the Beijing Olympics. More recently, the Chinese government imposed a moratorium on new aircraft import commitments by Chinese airlines. If such control and regulation persists or expands, the Chinese airline industry would likely experience a significant decrease in growth or restrictions on future growth, and it is conceivable that our interests in aircraft on-lease to, or our ability to lease to, Chinese carriers could be adversely affected.

Latin American Concentration

Seven lessees based in Latin America accounted for 7% of our lease rental revenues for the year ended December 31, 2009 and accounted for 10 aircraft totaling 9% of the net book value of our aircraft at December 31, 2009. Air travel in Latin America continues to grow strongly, fueled by economic improvement and the introduction of low cost

carriers to the region. Brazil, Latin America s largest

aviation market, has been plagued by two recent major accidents, both of which raised questions as to the adequacy of its transportation infrastructure to support future growth. Brazilian airlines have large capacity additions planned, including the 2008 launch and subsequent rapid buildup of a new Brazilian low cost carrier, and any restrictions imposed on airport or other infrastructure usage or further degradation of the region s aviation safety record, and high and volatile fuel prices, could have a material adverse effect on carriers financial performance and thus our ability to collect lease payments.

Middle East and African Concentration

Six lessees based in the Middle East and Africa accounted for 11% of our lease rental revenues for the year ended December 31, 2009 and accounted for 13 aircraft totaling 12% of the net book value of our aircraft at December 31, 2009. Middle Eastern, and particularly Gulf based carriers, have a large number of aircraft on order and continue to capitalize on the region s favorable geographic position as an East-West transfer hub. However, ongoing geopolitical tension, the sharp fall in fuel prices, financial and real estate market distress emanating from Dubai and any aviation related act of terrorism in the region could adversely affect financial performance.

In addition, we have committed to lease six of the New A330 Aircraft to South African Airways, with deliveries scheduled for 2011. South Africa s economy is heavily dependent on natural resources, particularly precious metals, and it is exposed to economic and social risks arising from volatility in commodity prices. In addition, South Africa is susceptible to socio-economic pressures relating to earlier apartheid policies.

Risks Related to the Aviation Industry

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

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

Fuel prices currently remain volatile. The high cost of fuel in 2007 and early 2008 had a material adverse impact on most airlines (including our lessees) profitability. Fuel hedging contracts entered into during the recent high fuel price environment resulted in significant losses and/or additional cash collateral required to be posted related to fuel hedges for certain airlines in late 2008 as fuel prices fell significantly. Fuel prices in 2009 were less volatile, but increased steadily over the course of the year. Due to the competitive nature of the airline industry, airlines have been, and may continue to be, unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully compensates for the costs incurred. In addition, airlines may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. If fuel prices increase due to future terrorist attacks, acts of war, armed hostilities, natural disasters or for any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Fuel cost volatility may contribute to the reluctance of airlines to make future commitments to lease aircraft and, accordingly, reduce the demand for lease aircraft. Consequently, these conditions may (i) affect our lessees ability to make rental and other lease payments, (ii) result in lease restructurings and/or aircraft repossessions, (iii) increase our costs of servicing and marketing our aircraft, (iv) impair our ability to re-lease the aircraft or re-lease or otherwise dispose of the aircraft on a timely basis at favorable rates or terms, or at all, and (v) reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects.

28

Table of Contents

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

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent actual and attempted terrorist attacks, notably in the Middle East, Southeast Asia and Europe, increased security restrictions were implemented on air travel, airline costs for aircraft insurance and enhanced security measures have increased, and airlines in certain countries continue to rely on government-sponsored programs to acquire war risk insurance. In addition, war or armed hostilities in the Middle East, Iran, North Korea or elsewhere, or the fear of such events, could further exacerbate many of the problems experienced as a result of terrorist attacks. The situation in Iraq continues to be uncertain, tension over Iran s nuclear program continues, the war in Afghanistan continues to escalate, and any or all of these may lead to further instability in the Middle East. The 2008 attacks in Mumbai have also raised tensions in South Asia. Future terrorist attacks, war or armed hostilities, or the fear of such events, could further negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results and growth prospects.

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

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

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

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

results and growth prospects.

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

The spread of SARS in 2003 was linked to air travel early in its development and negatively impacted passenger demand for air travel at that time. While the World Health Organization s travel bans related to SARS have been lifted, SARS had a severe impact on the aviation industry, which was evidenced by a sharp reduction in passenger bookings and cancellation of many flights and employee layoffs. While these effects were felt most acutely in Asia, SARS did spread to other areas, including North America. Since 2003, there have been several outbreaks of avian influenza, and, most recently, H1N1 influenza outbreaks in Mexico, spreading to other parts of the world, although the impact has so far been relatively limited. In the event of a human influenza pandemic, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Additional outbreaks of SARS or other epidemic diseases such as avian influenza, or the fear of such events, could negatively impact passenger demand for air travel and the aviation industry, which could result in our lessees inability to satisfy their lease payment obligations to us, which in turn would have an adverse effect on our financial results and growth prospects.

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

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

Risks Related to Our Organization and Structure

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

As of February 23, 2010, entities affiliated with Fortress funds and an officer of Fortress beneficially own 30,560,877 shares, or approximately 38.4% of our common shares. As a result, Fortress may be able to control fundamental corporate matters and transactions, including: the election of directors; mergers or amalgamations (subject to prior board approval), consolidations or acquisitions; the sale of all or substantially all of our assets; in certain circumstances, the amendment of our bye-laws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other shareholders. The interests of the Fortress funds may not always coincide with our interests or the interests of our other shareholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company. Also, the Fortress funds may seek to cause us to take courses of action that, in their judgment, could enhance their investment in us, but which might involve risks to our other

shareholders or adversely affect us or our other shareholders. In addition, under our Shareholders Agreement between us and the Fortress funds, based on the current ownership of our common stock by entities affiliated with Fortress funds, an affiliate of Fortress is entitled to designate three directors for election to our board of directors. Also, a sale of shares by one or more of the Fortress funds could add further downward pressure on the market price of our common shares. As a result of these or other factors, the market price of our common shares could decline or shareholders might not receive a premium over the then-current market price of our common shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder.

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

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our common shares. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

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

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

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

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

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

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

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

- provisions in our bye-laws regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the

directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;

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

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

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

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

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

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

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

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

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

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits

article of such treaty) of the number of issued and outstanding common shares beneficially owned by any shareholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our board of directors).

Table of Contents

Risks Related to Our Common Shares

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

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

- variations in our quarterly or annual operating results;
- failure to meet any earnings estimates;
- actual or perceived reduction in our growth or expected future growth;
- actual or anticipated accounting issues;
- publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares or the decision to suspend or terminate coverage in the future;
- additions or departures of key management personnel;
- increased volatility in the capital markets and more limited or no access to debt financing, which may result in an increased cost of, or less favorable terms for, debt financing or may result in sales to satisfy collateral calls or other pressure on holders to sell our shares;
- redemptions, or similar events affecting funds or other investors holding our shares, which may result in large block trades that could significantly impact the price of our common shares;
- adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;
- changes in or elimination of our dividend;
- actions by shareholders;
- changes in market valuations of similar companies;
- announcements by us, our competitors or our suppliers of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market, political and economic conditions and local conditions in the markets in which our lessees are located.

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

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

In the future, we may attempt to increase our capital resources by incurring debt or issuing additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or loans and series of preference shares or common shares. Upon liquidation, holders of our debt investments and preference shares and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings would dilute the holdings of our then current common shareholders and could reduce the market price of our common shares, or both. Preference shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments. Restrictive provisions in our debt and/or preference shares could limit our ability to make a distribution to the holders of our common shares. Because our decision to incur more debt or issue additional equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising activities. Thus, holders of our common shares bear the risk of our future debt and equity issuances reducing the market price of our common shares and diluting their percentage ownership.

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

As of February 23, 2010, there were 79,511,808 shares issued and outstanding, all of which are freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. The remaining outstanding common shares will be deemed restricted securities as that term is defined in Rule 144 under the Securities Act.

Pursuant to our Amended and Restated Shareholders Agreement, the Fortress funds and certain Fortress affiliates and permitted third-party transferees have the right, in certain circumstances, to require us to register their 29,000,000 common shares under the Securities Act for sale into the public markets. Upon the effectiveness of such a registration statement, all shares covered by the registration statement will be freely transferable. A sale, or a report of the possible sale, of any substantial portion of these shares may negatively impact the market price of our shares.

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

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

As of February 23, 2010, we had an aggregate of 168,399,989 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, the exercise of outstanding share options or otherwise would dilute the percentage ownership held by existing shareholders.

Table of Contents

Risks Related to Taxation

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

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

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

We expect that we are currently eligible for an exemption under Section 883 of the Internal Revenue Code of 1986, as amended (the Code) which provides an exemption from U.S. federal income taxation with respect to rental income derived from aircraft used in international traffic, by certain foreign corporations. No assurances can be given that we will continue to be eligible for this exemption as our stock is traded on the market and changes in our ownership or the amount of our shares that are traded could cause us to cease to be eligible for such exemption. To qualify for this exemption in respect of rental income, the lessor of the aircraft must be organized in a country that grants a comparable exemption to U.S. lessors (Bermuda and Ireland each do), and certain other requirements must be satisfied. We can satisfy these requirements in any year if, for more than half the days of such year, our shares are primarily and regularly traded on a recognized exchange and certain shareholders, each of whom owns 5% or more of our shares (applying certain attribution rules), do not collectively own more than 50% of our shares. Our shares will be considered to be primarily and regularly traded on a recognized exchange in any year if: (1) the number of trades in our shares effected on such recognized stock exchanges exceed the number of our shares (or direct interests in our shares) that are traded during the year on all securities markets; (2) trades in our shares are effected on such stock exchanges in more than de minimis quantities on at least 60 days during every calendar quarter in the year; and (3) the aggregate number of our shares traded on such stock exchanges during the taxable year is at least 10% of the average number of our shares outstanding in that class during that year. If our shares cease to satisfy these requirements, then we may no longer be eligible for the Section 883 exemption with respect to rental income earned by aircraft used in international traffic. If we were not eligible for the exemption under Section 883 of the Code, we expect that the U.S. source rental income of Aircastle Bermuda generally would be subject to U.S. federal taxation, on a gross income basis, at a rate of not in excess of 4% as provided in Section 887 of the Code. If, contrary to expectations, Aircastle Bermuda did not comply with certain administrative guidelines of the Internal Revenue Service, such that 90% or more of Aircastle Bermuda s U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda s U.S. source rental income would be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda s U.S. source rental income would be subject to U.S. federal income taxation on its net income at a maximum rate of 35% as well as state and local taxation. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 19,200 square feet of office space in Stamford, Connecticut for our corporate operations. This lease expires in December 2012. We lease approximately 3,380 square feet of office space in Dublin, Ireland for our acquisition, aircraft leasing and asset management operations in Europe. The lease for the Irish facility expires in June 2016. We also lease approximately 1,550 square feet of office space in Singapore for our acquisition, aircraft leasing and asset management operations in Asia. The lease for the Singapore facility expires in November 2012.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. RESERVED

Executive Officers of the Registrant

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

Set forth below is information pertaining to our executive officers who held office as of February 23, 2010:

Ron Wainshal, 45, became our Chief Executive Officer in May 2005. Prior to joining Aircastle, Mr. Wainshal was in charge of the Asset Management group of General Electric Commercial Aviation Services, or GECAS, from 2003 to 2005. After joining GECAS in 1998, Ron led many of GECAS U.S. airline restructuring efforts and its bond market activities, and played a major marketing and structured finance role in the Americas. Before joining GECAS, he was a principal and co-owner of a financial advisory company specializing in transportation infrastructure from 1994 to 1998 and prior to that held positions at Capstar Partners and The Transportation Group in New York and Ryder System in Miami. He received a BS in Economics from the Wharton School of the University of Pennsylvania and an MBA from the University of Chicago s Booth Graduate School of Business.

Michael Inglese, 48, became our Chief Financial Officer in April 2007. Prior to joining the Company, Mr. Inglese served as an Executive Vice President and Chief Financial Officer of PanAmSat Holding Corporation, where he served as Chief Financial Officer from June 2000 until the closing of PanAmSat s sale to Intelsat in July 2006. Mr. Inglese joined PanAmSat in May 1998 as Vice President, Finance after serving as Chief Financial Officer for DIRECTV Japan, Inc. He is a Chartered Financial Analyst who holds a BS in Mechanical Engineering from Rutgers

University College of Engineering and his MBA from Rutgers Graduate School of Business Management.

David Walton, 48, became our General Counsel in March 2005 and our Chief Operating Officer in January 2006. Prior to joining Aircastle, Mr. Walton was Chief Legal Officer of Boullioun Aviation

Table of Contents

Services, Inc. from 1996 to 2005. Prior to that, Mr. Walton was a partner at the law firm of Perkins Coie in Seattle and Hong Kong. Mr. Walton has over 20 years of experience in aircraft leasing and finance. He received a BA in Political Science from Stanford University and a JD from Boalt Hall School of Law, University of California, Berkeley.

Michael Platt, 49, became our Chief Investment Officer in February 2007. Prior to joining Aircastle, Mr. Platt was Senior Vice President of International Lease Finance Corporation (ILFC) in Los Angeles, California where his responsibilities included heading the sales department and leasing aircraft to airlines throughout the world. Prior to working in marketing and sales at ILFC, Mr. Platt was Vice President, Secretary and Corporate Legal Counsel at ILFC. Before joining ILFC, from 1987 to 1992 he was a transactional lawyer for the former McDonnell Douglas Finance Corporation in Long Beach, California where, among other responsibilities, he was involved in commercial aircraft leasing. Mr. Platt received his BA from the University of North Carolina, Chapel Hill in 1982 and his JD from the University of Virginia School of Law in 1985.

Joseph Schreiner, 52, became our Executive Vice President, Technical in October 2004. Prior to joining Aircastle, Mr. Schreiner oversaw the technical department at AAR Corp, a provider of products and services to the aviation and defense industries from 1998 to 2004 where he managed aircraft and engine evaluations and inspections, aircraft lease transitions, reconfiguration and heavy maintenance. Prior to AAR, Mr. Schreiner spent 19 years at Boeing (McDonnell-Douglas) in various technical management positions. Mr. Schreiner received a BS from the University of Illinois and a MBA from Pepperdine University.

Aaron Dahlke, 41, became our Chief Accounting Officer in June 2005. Prior to joining Aircastle, Mr. Dahlke was Vice President and Controller of Boullioun Aviation Services Inc. from January 2003 to May 2005. Prior to Boullioun, Mr. Dahlke was at ImageX.com, Inc. and Ernst & Young LLP. He received a B.S. in Accounting from California State University San Bernardino. He is a Certified Public Accountant.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares are listed for trading on the New York Stock Exchange under the symbol AYR . As of February 22, 2010, there were approximately 15,495 record holders of our common shares.

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

	High	Low	Dividends Declared Per Share ($)
Year Ending December 31, 2008:			
First Quarter	$ 26.54	$ 10.98	$ 0.25
Second Quarter	$ 16.73	$ 7.68	$ 0.25
Third Quarter	$ 14.40	$ 8.20	$ 0.25
Fourth Quarter	$ 9.93	$ 2.80	$ 0.10
Year Ending December 31, 2009:			
First Quarter	$ 5.47	$ 2.54	$ 0.10
Second Quarter	$ 7.98	$ 4.47	$ 0.10
Third Quarter	$ 10.62	$ 6.31	$ 0.10
Fourth Quarter	$ 10.23	$ 7.52	$ 0.10

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

Table of Contents

Issuer Purchases of Equity Securities

During the periods listed below in 2007, 2008 and 2009, we purchased shares of our common stock as follows:

Period[(a)]	Total Number of Shares Purchased[(b)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(c)]	Maximum Number of Shares that may yet be Purchased under the Plans or Programs[(c)]
2007:				
April		$	N/A	N/A
May	4,278	35.98	N/A	N/A
June			N/A	N/A
Total	4,278	$ 35.98	N/A	N/A
October		$	N/A	N/A
November			N/A	N/A
December	2,982	26.16	N/A	N/A
Total	2,982	$ 26.16	N/A	N/A
2008:				
January	13,243	$ 26.33	N/A	N/A
February			N/A	N/A
March			N/A	N/A
Total	13,243	$ 26.33	N/A	N/A
April		$	N/A	N/A
May	22,765	16.00	N/A	N/A
June			N/A	N/A
Total	22,765	$ 16.00	N/A	N/A
October		$	N/A	N/A
November			N/A	N/A
December	1,491	4.33	N/A	N/A
Total	1,491	$ 4.33	N/A	N/A
2009:				

January	33,422	$	4.78	N/A	N/A
February				N/A	N/A
March				N/A	N/A
Total	33,422	$	4.78	N/A	N/A
October		$		N/A	N/A
November				N/A	N/A
December	1,492		10.15	N/A	N/A
Total	1,492	$	10.15	N/A	N/A

(a) Information is presented on a financial calendar basis, consistent with our quarterly financial reporting.

Table of Contents

(b) Our Compensation Committee approved the repurchase of common shares pursuant to an irrevocable election made under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan, in satisfaction of minimum tax withholding obligations associated with the vesting of restricted common shares on December 31, 2007, 2008 and 2009.

(c) The Company does not participate in any Publicly Announced Plans or Programs.

Performance Graph

The following graph compares the cumulative 41-month total return to holders of our common shares relative to the cumulative total returns of the S&P 500 Index and a customized peer group. The peer group consists of three companies which are: AerCap Holdings NV (NYSE: AER), Babcock & Brown Air Ltd. (NYSE: FLY) and Genesis Lease Limited (NYSE: GLS). The peer group investment is weighted among shares in the peer group by market-capitalization as of August 7, 2006, and is adjusted monthly. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common shares and in the peer group on August 7, 2006, and is assumed to have been made in the S&P 500 Index on July 31, 2006 and the relative performance of each tracked through December 31, 2009.

COMPARISON OF 41 MONTH CUMULATIVE TOTAL RETURN*

Among Aircastle Limited, The S&P 500 Index

And A Peer Group

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

* $100 invested on 8/7/06 in Aircastle s common shares or 7/31/06 in the S&P 500 Index, including reinvestment of dividends.

9/30/06	12/31/06	3/31/07	6/30/07	9/30/07	12/31/07	3/31/08	6/30/08	9/30/08	12/31/08	3/31/09
126.35	130.97	159.31	181.96	155.55	125.83	54.83	42.31	51.10	25.22	25.06
105.02	112.05	112.77	119.85	122.28	118.21	107.04	104.13	95.41	74.47	66.27
100.00	102.11	124.27	135.50	110.77	90.24	76.48	53.84	47.00	18.39	16.61

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial, operating and other data as of December 31, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 presented in this table are derived from our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2005 and 2006 presented in this table are derived from our audited consolidated financial statements and related notes thereto, which are not included in this Annual Report. You should read these tables along with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report.

	Year Ended December 31,				
	2005	2006	2007	2008	2009
Selected Financial Data:					
Consolidated Statements of Operation:					
Total revenues	$ 31,638	$ 182,852	$ 381,091	$ 582,587	$ 570,585
Selling, general and administrative expenses	12,493	27,836	39,040	46,806	46,016
Depreciation	11,286	53,424	126,403	201,759	209,481
Interest, net	6,846	49,566	92,660	203,529	169,810
Income (loss) from continuing operations	(803)	45,920	114,403	115,291	102,492
Discontinued operations	1,031	5,286	12,941		
Net income	228	51,206	127,344	115,291	102,492
Earnings per common share Basic:[1]					
Income (loss) from continuing operations	$ (0.02)	$ 0.99	$ 1.68	$ 1.47	$ 1.29
Earnings from discontinued operations	$ 0.03	$ 0.11	$ 0.19		
Net income	$ 0.01	$ 1.10	$ 1.87	$ 1.47	$ 1.29
Earnings per common share Diluted:[1]					
Income (loss) from continuing operations	$ (0.02)	$ 0.99	$ 1.68	$ 1.47	$ 1.29
Earnings from discontinued operations	$ 0.03	$ 0.11	$ 0.19		
Net income	$ 0.01	$ 1.10	$ 1.87	$ 1.47	$ 1.29
Cash dividends declared per share		$ 1.1375	$ 2.45	$ 0.85	$ 0.40
Other Operating Data:					
EBITDA[2]	$ 19,003	$ 149,349	$ 333,745	$ 526,305	$ 501,672
Consolidated Statements of Cash Flows:					
Cash flows (used in) provided by operations	$ (20,974)	$ 42,712	$ 200,210	$ 321,806	$ 300,811

Cash flows (used in) provided by investing activities	(710,317)	(858,002)	(2,369,796)	37,640	(269,434)
Cash flows provided by (used in) financing activities	811,234	793,465	2,125,014	(292,045)	30,342
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 79,943	$ 58,118	$ 13,546	$ 80,947	$ 142,666
Flight equipment held for lease, net of accumulated depreciation	712,092	1,559,365	3,807,116	3,837,543	3,812,970
Debt investments, available for sale	26,907	121,273	113,015	14,349	
Total assets	967,532	1,918,703	4,427,642	4,251,572	4,454,512
Borrowings under credit facilities	490,588	442,660	798,186		
Borrowings under securitizations and term debt financings		549,400	1,677,736	2,476,296	2,464,560
Repurchase agreements	8,665	83,694	67,744		
Shareholders equity	410,936	637,197	1,294,577	1,112,166	1,291,237
Other Data:					
Number of Aircraft (at the end of period)	31	68	133	130	129
Total debt to total capitalization	54.9%	62.8%	66.3%	69.0%	65.6%

(1) Effective January 1, 2009, ASC 260 *Earnings Per Share,* determined that unvested share-based payment awards that contain nonforfeitable rights to receive dividend or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation for

Table of Contents

the purpose of applying the two-class method when calculating earnings per share (EPS). The adoption requires us to present EPS using the two-class method for our current period EPS computations and to retrospectively revise our comparative prior period EPS computations using the two-class method. The adoption did not have a material effect on EPS.

(2) EBITDA is a measure of operating performance that is not calculated in accordance with US GAAP. EBITDA should not be considered a substitute for net income, income from operations or cash flows provided by or used in operations, as determined in accordance with US GAAP. EBITDA is a key measure of our operating performance used by management to focus on consolidated operating performance exclusive of income and expense that relate to the financing and capitalization of the business.

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

The table below shows the reconciliation of net income (loss) to EBITDA for the years ended December 31, 2005, 2006, 2007, 2008 and 2009.

	Year Ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
Net (loss) income	$ 228	$ 51,206	$ 127,344	$ 115,291	$ 102,492
Depreciation	11,286	53,424	126,403	201,759	209,481
Amortization of net lease premiums (discounts) and lease incentives	734	(4,406)	(7,379)	(1,815)	11,229
Interest, net	6,846	49,566	92,660	203,529	169,810
Income tax provision	940	4,845	7,658	7,541	8,660
(Earnings) loss from discontinued operations, net of income taxes	(1,031)	(5,286)	(12,941)		
EBITDA	$ 19,003	$ 149,349	$ 333,745	$ 526,305	$ 501,672

Table of Contents

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

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

OVERVIEW

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2009, our aircraft portfolio consisted of 129 aircraft that were leased to 60 lessees located in 33 countries, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. Our revenues and income from continuing operations for the year ended December 31, 2009 were $570.6 million and $102.5 million, respectively, and for the fourth quarter 2009 were $135.8 million and $23.0 million, respectively.

Revenues

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease. In addition, we recognize revenue from lease termination payments and retained maintenance payments related to lease expirations. We also earn interest income from our debt investments.

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

Operating Expenses

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, or SG&A, 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 has been nominal; however, to the extent our customers failed to pay operating, maintenance, insurance or transition costs, our portion of these expenses for unscheduled lease terminations reflected in our income statement has increased significantly as compared to prior years.

Income Tax Provision

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland and the United States.

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

Segments

We operate in a single segment.

History

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

Acquisitions and Dispositions

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

On June 20, 2007, we entered into an acquisition agreement, which we refer to as the Airbus A330 Agreement, under which we agreed to acquire new A330 aircraft, or the New A330 Aircraft, from Airbus. During 2009, we acquired two New A330 Aircraft. We currently have ten New A330 Aircraft remaining to be delivered, with two scheduled for delivery in 2010, seven in 2011 and one in 2012.

Our objective is to develop and maintain a diverse and stable operating lease portfolio and, in that regard, our investment strategy is oriented towards longer-term holding horizons rather than shorter-term trading. However, we review our operating lease portfolio periodically to make opportunistic divestures of aircraft and to manage our portfolio diversification. In 2008 we sold eight aircraft and in

Table of Contents

2009 we sold three Boeing Model 737-300 aircraft. We also purchased, and then sold, a spare engine in the fourth quarter of 2009.

The following table sets forth certain information with respect to the aircraft owned by us as of December 31, 2009:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

	Owned Aircraft as of December 31, 2009[1]
Flight Equipment Held for Lease	$ 3,813
Number of Aircraft.	129
Number of Lessees	60
Number of Countries	33
Weighted Average Age Passenger (years)[2][5]	11.1
Weighted Average Age Freighter (years)[2][5]	10.3
Weighted Average Age Combined (years)[2][5]	10.9
Weighted Average Remaining Passenger Lease Term (years)[3][5]	3.8
Weighted Average Remaining Cargo Lease Term (years)[3][5]	7.7
Weighted Average Remaining Combined Lease Term (years)[3][5]	4.9
Weighted Average Fleet Utilization during Fourth Quarter 2009[4]	99%
Weighted Average Fleet Utilization for the year ended December 31, 2009[4]	98%

(1) Calculated using net book value as of December 31, 2009.

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

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

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

(5) One Boeing Model 737-400 aircraft which was being converted to freighter configuration and which we delivered in the first quarter of 2010 is included as Freighter aircraft; the remaining lease term for this aircraft, for which we have an executed lease post-conversion, is measured based on the ten-year term of the post-conversion lease.

Our owned aircraft portfolio as of December 31, 2009 is listed in Exhibit 99.1 to this report. Approximately 88% of the total aircraft and 87% of the freighters we owned as of December 31, 2009 are what we consider to be the most current technology for the relevant airframe and engine type and airframe size, as listed under the headings Latest Generation Narrowbody Aircraft, Latest Generation Midbody Aircraft, Latest Generation Widebody Aircraft and Latest Generation Widebody Freighter Aircraft in Exhibit 99.1 to this report.

PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of December 31, 2009	
	Number of Aircraft	% of Net Book Value
Aircraft Type		
Passenger:		
Narrowbody	83	44%
Midbody	24	25%
Widebody	1	2%
Total Passenger	108	71%
Freighter(1)	21	29%
Total	129	100%
Manufacturer		
Boeing	86	64%
Airbus	43	36%
Total	129	100%
Regional Diversification		
Europe	58	46%
Asia(1)	30	20%
North America	15	12%
Latin America	10	9%
Middle East and Africa	13	12%
Off-lease(2)	3	1%
Total	129	100%

(1) Includes one Boeing Model 737-400 aircraft which was being converted to freighter configuration and for which we have an executed lease with a carrier in Asia post-conversion and which we delivered in the first quarter of 2010.

(2) Includes one Boeing Model 737-300 aircraft which was returned to us on a consensual early lease termination in the third quarter of 2009 which we are actively marketing for sale or lease and two Boeing Model 757-200 aircraft which were returned to us early on a consensual basis in the third quarter of 2009 for which we have executed sales agreements with expected delivery dates in the second and third quarters of 2010.

Our largest customer represents less than 8% of the net book value of flight equipment held for lease at December 31, 2009. Our top 15 customers for aircraft we owned at December 31, 2009,

representing 52 aircraft and 59% 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	Martinair[(1)]	Netherlands	5
	Emirates	United Arab Emirates	2
	US Airways	USA	8
3% to 6% per customer	Avianca	Colombia	2
	Iberia Airlines[(2)]	Spain	6
	GOL[(2)]	Brazil	6
	Airbridge Cargo[(3)]	Russia	1
	KLM[(1)]	Netherlands	1
	World Airways	USA	2
Less than 3% per customer	Swiss International Air Lines	Switzerland	2
	Icelandair[(4)]	Iceland	5
	China Eastern Airlines[(5)]	China	4
	Korean Air	South Korea	2
	Cimber-Sterling	Denmark	4
	SriLankan Airlines	Sri Lanka	2

(1) Martinair is a wholly owned subsidiary of KLM. Although KLM does not guarantee Martinair s obligations under the relevant lease, if combined, the two, together with another affiliated customer, represent 11% of flight equipment held for lease.

(2) GOL has guaranteed the obligations of an affiliate, VRG Linhas Aereas, and accordingly, the two are shown combined in the above table.

(3) Guaranteed by Volga-Dnepr.

(4) Icelandair Group hf, the parent company of Icelandair, has guaranteed the obligations of an affiliate, SmartLynx, and accordingly, the two are shown combined in the above table.

(5) China Eastern Airlines has announced that it will acquire Shanghai Airlines, a customer to which we lease four aircraft. If combined, the entity would be our fourth largest customer, with over 4% of net book value of flight equipment held for lease.

Finance

Our debt financing arrangements are typically secured by aircraft and related operating leases, and in the case of our securitizations and pooled aircraft term financings, the financing parties have limited recourse to Aircastle Limited. While such financing has historically been available on reasonable terms given the loan to value profile we have pursued, the recent financial markets turmoil has reduced the availability of both debt and equity capital. Though we expect the financing market to continue to improve in time, current market conditions remain difficult and we are presently taking a very cautious approach to incremental financing and with respect to refinancing risk, which may

constrain our ability to undertake new transactions. During the near term, we intend to focus our efforts on investment opportunities that both tap commercial financial capacity where it accessible on reasonable terms and also where there is potential availability of debt financing that benefits from government guarantees either from the ECAs or from EXIM.

To the extent that we acquire additional aircraft directly, we intend to fund such investments through medium to longer-term financings and cash on hand. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation

Table of Contents

assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Securitizations and Term Debt Financings, Credit Facilities, and Equity Offerings.

Comparison of the year ended December 31, 2008 to the year ended December 31, 2009:

(Dollars in thousands)	**Year Ended December 31, 2008**	**2009**
Revenues:		
Lease rental revenue	$ 542,270	$ 511,459
Amortization of net lease discounts and lease incentives	1,815	(11,229)
Maintenance revenue	34,460	58,733
Total lease rentals	578,545	558,963
Interest income	3,174	1,924
Other revenue	868	9,698
Total revenues	582,587	570,585
Expenses:		
Depreciation	201,759	209,481
Interest, net	203,529	169,810
Selling, general and administrative	46,806	46,016
Impairment of flight equipment		18,211
Maintenance and other costs	3,982	19,431
Total operating expenses	456,076	462,949
Other income (expense):		
Gain on sale of flight equipment	6,525	1,162
Other	(10,204)	2,354
Total other income (expense)	(3,679)	3,516
Income from continuing operations before income taxes	122,832	111,152
Income tax provision	7,541	8,660
Net income	$ 115,291	$ 102,492

Revenues:

Total revenues decreased by 2% or $12.0 million for the year ended December 31, 2009 as compared to the year ended December 31, 2008, primarily as a result of the following:

Lease rental revenue. The decrease in lease rental revenue of $30.8 million for the year ended December 31, 2009 as compared to the same period in 2008 was primarily the result of decreases of:

$24.1 million of revenue as a result of aircraft sales (eight aircraft were sold during 2008 and three aircraft were sold during 2009);

$15.0 million of revenue due to downtime in connection with aircraft in transition and freighter conversions;

$9.9 million of revenue due to lower floating rate lease rentals and lease rate changes.

These decreases were offset partially by an increase in revenue of $18.2 million due to the effect of a full year of lease rental revenue from the acquisition of five new aircraft purchased during the first half of 2008 and additional rental revenue from two new aircraft purchased during 2009.

Amortization of net lease discounts and lease incentives. The decrease in amortization of net lease discounts and lease incentives of $13.0 million for the year ended December 31, 2009 as compared to the same period in 2008 results from the decrease in amortization of net lease discounts of $2.6 million and an increase in amortization of lease incentives of $10.4 million for aircraft transitions.

Maintenance revenue. The increase in maintenance revenue of $24.3 million is the result of $17.1 million of higher maintenance revenue from scheduled lease terminations ($28.3 million in the year ended December 31, 2009 as compared to $11.2 million in the year ended December 31, 2008) and $7.2 million of maintenance revenue from early terminations of leases ($30.4 million in the year ended December 31, 2009 as compared to $23.2 million in the year ended December 31, 2008).

Interest income. The decrease in interest income of $1.3 million was due primarily to the sale of two of our debt investments in February 2008 and our remaining debt investments which were sold in the third and fourth quarters of 2009.

Other Revenue. The increase in other revenue of $8.8 million is due primarily to additional fees paid by lessees in connection with the early termination of four leases. The early termination of the four leases, along with a change in the forecasted cash flows, triggered an impairment for the related two Boeing Model 737-300 aircraft and two Boeing Model 757-200 aircraft in the amount of $18.2 million for the year ended December 31, 2009 (See Impairment of aircraft below). For the year ended December 31, 2009, the Company received $18.2 million, of which $8.4 million represented lease termination payments included in other revenue and $9.8 million related to maintenance revenue from the previous lessees of these aircraft.

Operating Expenses:

Total operating expenses increased by 1.5% or $6.9 million for the year ended December 31, 2009 as compared to the year ended December 31, 2008 primarily as a result of the following:

Depreciation expense increased by $7.7 million for the year ended December 31, 2009 over the same period in 2008 as a result of an increase in the gross aircraft book value due to the aircraft acquired in 2009, offset partially by the reduction in depreciation expense as a result of the sales of owned aircraft in 2009.

Interest, net consisted of the following:

	Year Ended December 31,	
(Dollars in thousands)	**2008**	**2009**
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	$ 169,860	$ 146,617
Hedge ineffectiveness losses	16,623	463
Amortization of interest rate derivatives related to deferred losses	15,488	12,894
Losses on termination of interest rate derivatives	1,003	
Amortization of deferred financing fees	13,603	12,232

Interest Expense	216,577	172,206
Less interest income	(7,311)	(939)
Less capitalized interest	(5,737)	(1,457)
Interest, net	$ 203,529	$ 169,810

Table of Contents

Interest, net decreased by $33.7 million, or 16.6%, over the year ended December 31, 2008. The net decrease is primarily a result of:

a $23.2 million decrease in interest expense on our borrowings due primarily to a lower average debt balance (average debt balance during the year ended December 31, 2009 was $2.45 billion as compared to $2.71 billion in the same period in 2008) and lower interest rates during 2009 as compared to 2008;

a $16.2 million decrease resulting from changes in measured hedge ineffectiveness due primarily to prior year debt changes;

a $2.6 million decrease in amortization of deferred losses on interest rate derivatives due primarily to:

$6.6 million decrease related to accelerated amortization of deferred losses from terminated interest rate derivatives for borrowings that we are no longer making (i.e., that are no longer probable of occurring) as a result of a lower forecasted debt financings.

This decrease was offset by:

$4.0 million increase related to amortization of deferred losses on terminated interest rate derivatives for borrowings we anticipate making in the future (i.e., that are probable of occurring). The deferred losses are amortized into interest expense as the interest payments being hedged occur;

a $1.4 million decrease in amortization of deferred financing fees resulting primarily from the closing of our revolving credit facilities during 2008; and

a $1.0 million decrease in hedge termination charges.

These decreases were offset partially by:

a $6.4 million decrease in interest income earned on our cash balances, resulting from significantly lower interest rates during the year ended December 31, 2009 compared to the same period in 2008; and

a $4.3 million decrease in capitalized interest due to lower interest rates during the year ended December 31, 2009 compared to the same period in 2008 and the delivery of aircraft from freighter conversion and the manufacturer.

Selling, general and administrative expenses, or SG&A, for the year ended December 31, 2009 decreased slightly over the same period in 2008. Our headcount decreased from 76 employees at December 31, 2008 to 74 employees at December 31, 2009. Non-cash share based expense was $6.5 million in 2008 and $6.9 million in 2009, respectively.

Impairment of aircraft was $18.2 million during the year ended December 31, 2009 which related to two Boeing Model 737-300 aircraft and two Boeing Model 757-200 aircraft. The impairment was triggered by the early termination of the related leases and changes to estimated future cash flows. See Maintenance Revenue and Other Revenue above for additional information.

Maintenance and other costs was $19.4 million for the year ended December 31, 2009, an increase of $15.4 million over the same period in 2008, primarily as a result of:

$5.9 million in aircraft maintenance and other transition costs relating to unscheduled lease terminations for eight aircraft returned to us in 2009;

$4.7 million in aircraft maintenance and other transition costs relating to unscheduled lease terminations for eight aircraft returned to us in 2008 and transitioned to new lessees in 2009;

$2.9 million in aircraft maintenance and transition costs for four aircraft in freighter conversion; and

$1.0 million in aircraft maintenance and transition costs relating to scheduled lease terminations for six aircraft returned to us in 2009.

Other income (expense):

Total other income for the year ended December 31, 2009 was $3.5 million as compared to a $3.7 million expense for the same period in 2008, or an increase in income of $7.2 million. The increase is primarily a result of:

$12.4 million lower mark-to-market adjustments on our undesignated interest rate derivatives;

a $5.2 million increase in the gain on sale of debt investments; and

a $1.0 million gain on the purchase and re-sale of a spare engine.

These increases were offset partially by:

a $6.4 million decrease in gain on sale of flight equipment for the three aircraft sold in 2009 (compared to eight aircraft sold in 2008); and

a $4.0 million termination fee to cancel our engine purchase commitments for the New Airbus A330 program.

Income Tax Provision

Our provision for income taxes for the years ended December 31, 2008 and 2009 was $7.5 million and $8.7 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of approximately $1.1 million for the year ended December 31, 2009 as compared to the same period in 2008 was attributable to the increase in our operating income subject to tax in Ireland and the United States.

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

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

Other comprehensive income:

Other comprehensive income was $205.2 million for the year ended December 31, 2009, an increase of $327.2 million over the $121.9 million of other comprehensive loss for the year ended December 31, 2008. The increase in comprehensive income is primarily a result of:

a $337.8 million decrease in deferred losses resulting from a decrease in the net change in the fair value of outstanding interest rate derivatives qualifying for and designated as cash flow hedges due to significant decreases in the 1-Month LIBOR rates during 2008, causing large losses, and a leveling off of the 1-Month LIBOR rates during 2009. 1-Month LIBOR rates as of December 31, 2007, 2008 and 2009 were 4.6%, 0.44% and 0.23% respectively; and

a $10.7 million increase in the fair value of debt investments as a result of the sale of our remaining debt investments in 2009.

These increases in comprehensive income were offset partially by:

a $3.6 million decrease in amortization into earnings of deferred net losses from terminated interest rate derivatives;

a $5.0 million decrease in gain on debt investments reclassified into earnings; and

a $12.8 million decrease in net income.

The amount of loss expected to be reclassified from accumulated other comprehensive income into interest expense over the next 12 months consists of net interest settlements on active interest rate derivatives in the amount of $90.0 million and the amortization of deferred net losses from terminated interest rate derivatives in the amount of $8.8 million. See Liquidity and Capital Resources Hedging below for more information on deferred net losses as related to terminated interest rate derivatives.

Comparison of the year ended December 31, 2007 to the year ended December 31, 2008:

(Dollars in thousands)	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**
Revenues:		
Lease rental revenue	$ 362,497	$ 542,270
Amortization of net lease discounts and lease incentives	7,379	1,815
Maintenance revenue		34,460
Total lease rentals	369,876	578,545
Interest income	10,400	3,174
Other revenue	815	868
Total revenues	381,091	582,587
Expenses:		
Depreciation	126,403	201,759
Interest, net	92,660	203,529
Selling, general and administrative	39,040	46,806
Other expense	2,081	3,982