

Aircastle LTD
Form 10-K
February 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2012

or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission file number 001-32959

AIRCASTLE LIMITED

(Exact name of Registrant as Specified in its Charter)

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

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

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

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

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 No

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

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

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

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

Form 10-K.

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2012 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately \$707.8 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 14, 2013, there were 68,089,517 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 2012 Annual General Meeting of Shareholders	Part III (Items 10, 11, 12, 13 and 14)

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

Certain items in this Annual Report on Form 10-K (this “report”), and other information we provide from time to time, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “may,” “will,” “would,” “could,” “should,” “seeks,” “estimates” and variations on these words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any forward-looking statements contained in this report. Factors that could have a material adverse effect on our operations and future prospects or that could cause actual results to differ materially from Aircastle expectations include, but are not limited to, capital markets disruption or volatility which could adversely affect our continued ability to obtain additional capital to finance new investments or our working capital needs; government fiscal or tax policies, general economic and business conditions or other factors affecting demand for aircraft or aircraft values and lease rates; our continued ability to obtain favorable tax treatment in Bermuda, Ireland and other jurisdictions; our ability to pay dividends; high or volatile fuel prices, lack of access to capital, reduced load factors and/or reduced yields, operational disruptions caused by political unrest in North Africa, the Middle East or elsewhere, 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's filings with the Securities and Exchange Commission (“SEC”), including as described in Item 1A. “Risk Factors” and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle 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, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under “Investors — SEC Filings” as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

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

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

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

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PART I.

ITEM 1. BUSINESS

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

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to customers throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2012, our aircraft portfolio consisted of 159 aircraft that were leased to 69 lessees located in 36 countries. We manage our fleet through offices in the United States, Ireland and Singapore. As of December 31, 2012, the net book value of our flight equipment and finance lease aircraft was \$4.78 billion compared to \$4.39 billion at the end of 2011. Our revenues and net income for the year ended December 31, 2012 were \$686.6 million and \$32.9 million respectively, and for the fourth quarter 2012 were \$176.6 million and \$29.8 million, respectively.

Typically, we invest in aircraft that we place on operating or finance leases. From time to time we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft.

Commercial air travel and air freight activity have been long-term growth sectors, broadly correlated with world economic activity and expanding at a rate of one to two times the rate of global GDP growth. The expansion of air travel and air cargo has driven a rise in the world aircraft fleet. There are currently more than 17,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at an average annual rate, net of retirements, of approximately 3.5% to 3.8% through 2031. In addition, aircraft leasing companies own an increasing share of the world’s commercial jet fleet, and now account for more than one-third of this fleet.

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

Air traffic data for 2012 showed moderate passenger market growth while the air cargo traffic dropped modestly as global trade levels contracted. According to the International Air Transport Association, during 2012 global passenger traffic increased by 5.3% while air cargo traffic, measured in freight ton kilometers, decreased 1.5%.

Passenger traffic growth began moderating during the second half of 2012, and, in total, was slightly lower than the 5.9% growth in 2011. The air cargo market, which is more sensitive than the passenger sector to economic conditions, deteriorated during 2012 after a weak performance in 2011. The air cargo results were driven by slowing global economic growth rates and weak business confidence levels

There are significant regional variations in both passenger and air cargo demand. Emerging market economies such as China, Brazil, and Turkey, among others, are experiencing significant increases in air traffic, driven by rising levels of per capita air travel. In contrast, more mature markets such as North America and Western Europe are likely to grow more slowly. Additionally, airlines operating in areas with political instability, such as those in North Africa and parts of the Middle East, have seen more modest growth and their outlook is more uncertain. In aggregate, we believe that passenger and cargo traffic will likely increase over time, and as a result, we expect demand for high-utility aircraft will continue to remain strong over the long-term. Moreover, the portable and fungible nature of commercial aircraft allows them to be redeployed to markets where demand is strongest.

Capital availability for aircraft improved over the past year, though access to financing varied significantly depending on the asset and obligor. Strong US capital markets conditions benefited borrowers with access to such financing. On the other hand, European banks, which had traditionally played a critical role in the air finance market, continued to contract as a result of increased funding costs and regulatory challenges. Thanks in part to a continued high level of export credit agency (“ECA”) -backed support for new deliveries, along with increased lending from Asian banks for top tier customers,

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financing for newer aircraft transactions remains adequate notwithstanding a higher level of new aircraft deliveries. However, financing for used aircraft and for smaller airlines was much more limited. Moreover, an increase in the ECA debt pricing scheme may drive more opportunities to aircraft lessors and other commercial financiers. We believe these market forces should generate attractive new investment and trading opportunities upon which we are well placed to capitalize given our access to the U.S. capital markets.

We intend to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels; however, our ability to pay quarterly dividends will depend upon many factors, including those described in Item 1A. "Risk Factors" and elsewhere in this report. The table below is a summary of our quarterly dividend history for the years ended December 31, 2010, 2011 and 2012, 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 14, 2009	\$ 0.100	\$ 7,955	December 31, 2009	January 15, 2010
March 12, 2010	\$ 0.100	\$ 7,951	March 31, 2010	April 15, 2010
May 25, 2010	\$ 0.100	\$ 7,947	June 30, 2010	July 15, 2010
September 21, 2010	\$ 0.100	\$ 7,947	September 30, 2010	October 15, 2010
December 6, 2010	\$ 0.100	\$ 7,964	December 31, 2010	January 14, 2011
March 8, 2011	\$ 0.100	\$ 7,857	March 31, 2011	April 15, 2011
June 27, 2011	\$ 0.125	\$ 9,364	July 7, 2011	July 15, 2011
September 14, 2011	\$ 0.125	\$ 9,035	September 30, 2011	October 14, 2011
November 7, 2011	\$ 0.150	\$ 10,839	November 30, 2011	December 15, 2011
February 17, 2012	\$ 0.150	\$ 10,865	February 29, 2012	March 15, 2012
May 2, 2012	\$ 0.150	\$ 10,847	May 31, 2012	June 15, 2012
August 1, 2012	\$ 0.150	\$ 10,464	August 31, 2012	September 14, 2012
November 5, 2012	\$ 0.165	\$ 11,493	November 30, 2012	December 14, 2012

Competitive Strengths

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

Diversified portfolio of high-utility aircraft. We have a portfolio of high-utility aircraft that is diversified with respect to lessees, geographic markets, end markets (i.e., passenger and freight), lease maturities and aircraft types. As of December 31, 2012, our aircraft portfolio consisted of 159 aircraft comprising a variety of passenger and freighter aircraft types that were leased to 69 lessees located in 36 countries. We owned 133 passenger aircraft, representing approximately 71% of the net book value of flight equipment, while our 26 freighter aircraft account for 29% of our portfolio value. Our lease expirations are well dispersed, with a weighted average remaining lease term of 5.0 years for aircraft we owned at December 31, 2012. Over the next two years, only approximately 20% of our fleet by net book value has scheduled lease expirations, after taking into account lease commitments, providing the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.

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.

Access to a wide range of financing sources. Aircastle is a publicly listed company trading on the New York Stock Exchange. We have a \$1 billion shelf registration statement on Form S-3 in effect and, through this, would expect to have relatively efficient and quick access to additional equity or debt capital. The Company secured corporate credit ratings from Standard & Poor's Ratings Group, Inc. ("Standard and Poor's") and Moody's

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Investors Services ("Moody's") and completed a \$800.0 million unsecured bond offering in April 2012 and an additional \$500.0 million unsecured bond offering in November 2012. In December 2012, we also replaced our revolving credit facility with a new three year \$150.0 million unsecured revolving credit facility, which was undrawn at December 31, 2012. In addition to demonstrating access to the export credit agency-backed, commercial bank and securitization markets for secured debt, we believe having access to the unsecured bond market is a competitive differentiator which allows us to pursue a more flexible and opportunistic investment strategy.

Disciplined acquisition approach and broad sourcing network. We evaluate the risk and return of any potential acquisition first as a discrete investment and then from a portfolio management perspective. To evaluate potential acquisitions, we employ a rigorous due diligence process focused on (i) cash flow generation with careful consideration of macro trends, industry cyclicalities and product life cycles; (ii) aircraft specifications and maintenance condition; (iii) when applicable, lessee credit worthiness and the local jurisdiction's rules for enforcing a lessor's rights; and (iv) other legal and tax implications. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, financial institutions and other aircraft owners. Since our formation in 2004, we have built our aircraft portfolio through more than 90 transactions with more than 60 counterparties.

Existing fleet financed on a long-term basis with limited future funding commitments. Our aircraft are currently financed under secured and unsecured debt financings with the earliest unsecured bond maturity date being in 2017, thereby limiting our near-term financial markets exposure on our owned aircraft portfolio. As such, we are free to deploy our capital base flexibly to take advantage of what we anticipate will be more attractive investment environment.

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

Business Strategy

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

Investing in additional commercial jet aircraft and other aviation assets when attractively priced opportunities and cost effective financing are available. We believe the large and growing aircraft market, together with ongoing fleet replacements, will provide significant acquisition opportunities. We regularly evaluate potential aircraft acquisitions and expect to continue our investment program through additional passenger and cargo aircraft purchases when attractively priced opportunities and cost effective financing are available.

Maintaining efficient access to financing from multiple sources. We have financed our aircraft acquisitions using various long-term debt structures obtained through several different markets to obtain cost effective financing. In this regard, we believe having corporate credit ratings from Standard & Poor's and Moody's enables us to access a broader pool of capital than many of our peers, enhancing our competitiveness and ability to source attractive investment opportunities. This, in turn, will allow us to grow our business and profits.

Leveraging our efficient operating platform and strong operating track record. We believe our team's capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities and we intend to continue to focus our efforts in areas where we believe we have competitive advantages and on transactions that offer attractive risk/return profiles after taking into consideration available financing options.

Reinvesting a portion of the cash flows generated by our business in additional aviation assets and/or our own debt and equity securities. Aircraft have finite useful lives, but typically provide reliable cash flows. Our strategy is to reinvest a portion of our cash flows from operations and asset sales in our business to grow our asset and earnings bases.

Selling assets when attractive opportunities arise and for portfolio management purposes. We pursue asset sales as opportunities over the course of the business cycle with the aim of realizing profits and reinvesting proceeds where

more accretive investments are available. We also use asset sales for portfolio management

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purposes such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types, and also to exit from an investment when a sale or part-out would provide the greatest expected cash flow for us.

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

Acquisitions and Disposals

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

Our objective is to develop and maintain a diverse and stable operating lease portfolio; however, we review our operating lease portfolio periodically to sell aircraft opportunistically, to manage our portfolio diversification and to exit from aircraft investments when we believe that selling will achieve the maximum expected cash flow rather than reinvesting in and re-leasing the aircraft. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Acquisitions and Disposals."

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

Potential investments and disposals are evaluated by teams comprised of marketing, technical, credit, financial and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including 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

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

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

Segments

We operate in a single segment.

Aircraft Leases

Typically, we lease our aircraft on an operating lease basis. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft upon expiration or early termination of the lease.

Operating leasing can be an attractive alternative to ownership for airlines because leasing increases fleet flexibility,

requires a lower

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capital commitment for the airline, and significantly reduces aircraft residual value risk for the airline. Under our leases, the lessees agree to lease the aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or, in rare cases, terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2012, our three largest customers, Martinair (including its affiliates, KLM, Transavia and Transavia France), U.S. Airways, Inc., and Hainan Airlines Company, accounted for 9%, 6% and 6%, respectively.

The scheduled maturities of our aircraft leases by aircraft type grouping currently are as follows, taking into account lease placement and renewal commitments as of December 31, 2012:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Off- Lease ⁽¹⁾	Total
A319/A320/A321	1	6	9	10	3	—	—	—	—	—	—	—	—	29
A330-200/200F/300	—	2	—	2	8	1	1	1	4	2	1	2	—	24
737-300/300QC/400	3	6	4	—	1	—	—	—	—	—	—	—	—	14
737-700/800	6	10	2	9	4	5	—	4	—	—	—	—	—	40
747-400 Freighters	—	4	—	1	3	3	—	2	—	1	—	—	1	15
757-200	2	4	1	1	2	1	—	—	—	—	—	—	—	11
767-200ER/300ER	6	2	—	1	—	2	2	2	—	—	—	—	1	16
777-200ER/300ER	—	—	—	—	1	1	—	—	—	—	—	—	—	2
E-195	—	—	—	—	—	—	—	—	—	—	—	4	—	4
Other Aircraft Types	1	—	2	—	—	1	—	—	—	—	—	—	—	4
Total	19	34	18	24	22	14	3	9	4	3	1	6	2	159

(1) Includes one Boeing Model 767-300ER aircraft and one Boeing Model 747-400BDSF aircraft that we are marketing for lease or sale.

2012 Lease Expirations and Lease Placements

At the beginning of 2012, we had 17 aircraft with scheduled lease expirations in 2012 and we leased, extended or sold, or committed to lease, extend or sell, 16 of these aircraft. We are marketing one Boeing Model 767-300ER that was returned to us in the third quarter of 2012.

2013 Lease Expirations and Lease Placements

Scheduled lease expirations — placements. We started the year with 19 aircraft having scheduled lease expirations in 2013 and we have lease or lease extension commitments for two of these aircraft. The remaining 17 aircraft with scheduled expiries in 2013 that we are marketing for lease or sale represented 5% of our total net book value of flight equipment held for lease (including net investment in finance leases) at December 31, 2012.

In addition:

We entered into early termination agreements for two Boeing Model 737-700 aircraft, one Airbus model A330-200 aircraft, one Boeing Model 767-300ER aircraft and one Airbus Model A319-100 aircraft, all of which were returned to us in the first quarter of 2013 and which we are marketing for sale or lease.

We are also marketing one 747-400 BDSF that was returned to us in the fourth quarter of 2012 following the bankruptcy of one of our customers.

These additional six aircraft represented 3% of our total net book value of flight equipment held for lease (including net investment in finance leases) at December 31, 2012.

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2014-2016 Lease Expirations and Lease Placements

Scheduled lease expirations — placements. Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2014-2016 representing the percentage of our net book value of flight equipment held for lease (including net investment in finance leases) at December 31, 2012 specified below:

2014: 32 aircraft, representing 15%;

2015: 18 aircraft, representing 7%; and

2016: 25 aircraft, representing 11%.

Lease Payments and Security. Each of our leases requires the lessee to pay periodic rentals during the lease term. As of December 31, 2012, rentals on more than 99% of our leases then in effect, as a percentage of net book value, are fixed and do not vary according to changes in interest rates. For the remaining leases, rentals are payable on a floating interest-rate basis. Most lease rentals are payable either monthly or quarterly in advance, and all lease rentals are payable in U.S. dollars.

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

• geographic concentrations;

aircraft type concentrations;
portfolio credit quality distribution;

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aircraft age distribution; and
lease maturity distribution.

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 passenger or freighter deployments, or part-out or other disposal, 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 state-of-the-art lease management information systems and processes to enable efficient management of aircraft in our portfolio.

Other Aviation Assets and Alternative New Business Approaches

As of December 31, 2012, our overall portfolio of assets consists of commercial jet aircraft. We believe the lack of traditional aviation bank debt capacity with respect to financing mid-age, current technology aircraft may present attractive aircraft and debt investment opportunities, including our own securities, although financing for such acquisitions may be limited and more costly than in the past. Additionally, we believe that investment opportunities may arise in such sectors as jet engine and spare parts leasing and financing and commercial turboprop aircraft and helicopter leasing and financing. In the future, we may make opportunistic investments in these or other sectors or in other aviation-related assets and we intend to continue to explore other income-generating activities and investments that leverage our experience and contacts, provided that capital is available to fund such investments on attractive terms. We believe we have a world class servicing platform and may also pursue opportunities to capitalize on these capabilities such as providing aircraft management services for third party aircraft owners.

Competition

The aircraft leasing industry is highly competitive with a significant number of active participants that are active in leasing and trading aircraft markets. We face competition in several different ways, including for the acquisition of aircraft from airlines and other aircraft owners, for the placement of aircraft on lease with airlines and for buyers with an interest in acquiring aircraft assets which we may wish to divest.

Competition for aircraft acquisitions comes from both larger, typically more established aircraft leasing companies as well as from smaller players and new entrants. Larger lessors are generally more focused on acquiring new aircraft and include companies such as GE Commercial Aviation Services, International Lease Finance Corporation ("ILFC"), AerCap Holdings NV, Air Lease Corporation, Aviation Capital Group, CIT Aerospace, AWAS, SMBC Aviation Capital (formerly RBS Aviation Capital), BOC Aviation, FLY Leasing, Ltd. and Avolon. Competition for mid-aged and older aircraft typically comes from smaller players that, in many cases, rely on private equity or hedge fund capital sources. Such competitors include Guggenheim Aviation Partners, Volito, Deucalion, Oak Hill Aviation and AerSale.

The global financial crisis led several large participants to restructure or revisit their investment strategies in the aircraft leasing sector. In June 2012, RBS Aviation Capital was sold to a consortium led by the Sumitomo Mitsui Financial Group. In October, Jackson Square announced it will be purchased by the Mitsubishi UFJ group. Finally, in December, American International Group, Inc. announced an agreement to sell up to 90% of ILFC to a consortium led by New China Trust Co. Ltd. In addition, the global financial crisis curtailed the availability of bank debt, particularly for transactions involving mid-aged and older aircraft and has led to a reduction in aircraft trading volumes. Competition for leasing or re-leasing of aircraft, as well as aircraft sales is based principally upon the availability, type and condition of aircraft, lease rates, prices and other lease terms. Aircraft manufacturers, airlines and other operators, distributors, equipment managers, leasing companies, financial institutions and other parties engaged in leasing, managing, marketing or remarketing aircraft compete with us, although their focus may be on different market

segments and aircraft types.

Some of our competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. A number also place speculative orders for new aircraft, to be placed on operating lease upon delivery from the manufacturer

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in competition with new and used aircraft offered by other lessors. 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. We also believe our access of unsecured capital markets debt provides us with a competitive advance in acquiring mid-aged aircraft.

Employees

We operate in a capital intensive, rather than a labor intensive, business. As of December 31, 2012, we had 83 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 benefits, and health, life, disability and accident insurance plans.

Insurance

We require our lessees to carry 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. 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 non-aviation risks related to physical damage to our equipment and property, 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' liability insurance providing coverage for liabilities related to the service of our directors, officers and certain employees. Consistent with industry practice, our insurance policies are generally 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 jurisdictions in which they are registered and under which they operate. Such laws govern, among other things, the registration, operation and maintenance of our aircraft. Our customers may also be subject to noise or emissions regulations in the jurisdictions in which they operate our aircraft. For example, the United States and other jurisdictions impose more stringent limits on nitrogen oxide ("NOx"), carbon monoxide ("CO") and carbon dioxide ("CO2") emissions from engines. In addition, European countries generally have more strict environmental regulations and, in particular, the European Union ("EU") has included aviation in the European Emissions Trading Scheme ("ETS"), although the United States, China and other countries continue to oppose the inclusion of aviation emissions in ETS. Most of our aircraft are registered in the jurisdiction in which the lessee of the aircraft is certified as an air operator. As a result, our aircraft are subject to the airworthiness and other standards imposed by such jurisdictions. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft and related equipment are continuously maintained under a program that will enable safe operation of the aircraft. Most countries' aviation laws require aircraft to be maintained under an approved maintenance program having defined procedures and intervals for inspection, maintenance and repair.

Our lessees are sometimes obligated by us to obtain governmental approval to import and lease our aircraft, to operate our aircraft on certain routes and to pay us in U.S. dollars. Usually, these approvals are obtained prior to lease commencement as a condition to our delivery of the aircraft. Governmental leave to deregister and/or re-export an aircraft at lease expiration or termination may also be required.

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

Inflation

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

Subsequent Events

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2012 through the date of this filing, the date on which the consolidated financial statements included in this Form 10-K were issued.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Risks Related to Our Operations

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

The financial crisis that began in the second half of 2008 resulted in significant global market volatility and disruption and a lack of liquidity. While these conditions have stabilized and the capital markets generally have shown signs of improvement since the first quarter of 2009, the availability and pricing of capital in the bank market and in the unsecured bond market can be significantly impacted by global events, including for example the sovereign debt crisis, and there is no assurance that we will be able to raise capital in the unsecured bond market at any particular time to fund future growth or for other purposes.

In Europe, countries such as Greece, Italy, Spain, Portugal and Ireland have been particularly affected by the recent financial and economic conditions, creating a heightened perceived risk of default on the sovereign debt of those countries, with concerns about the effect it would have on European Union economies and the ongoing viability of the euro currency and the European Monetary Union. We do not have any direct European sovereign debt exposure, but a very substantial part of our portfolio is leased into Europe, as further described in "Risks Related to Our Lessees — European Concentration," below, and it is difficult to predict with any certainty the impact that a sovereign debt default or a breakup of the European Monetary Union would have on our lessees, but continuing concerns about default risk on sovereign debt, the austerity packages being put into place by a number of European countries and other related effects are likely to continue to have an adverse effect on growth in Europe, which may have a material adverse impact on our customers based in Europe and our customers operating to or within Europe. Concerns about sovereign debt defaults also puts pressure on banks holding such debt, leading some banks to reduce lending in order to shore up their balance sheets, making bank debt more difficult to access within our industry.

Any of these risks could have an adverse effect, which may be material, on our ability to access capital, on our cost of capital or on our business, financial condition, results of operations or our ability to pay dividends to our shareholders. Risks affecting the airline industry may adversely affect our customers and have a material adverse impact on our financial results.

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

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

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

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

We bear the risk of re-leasing and selling or otherwise disposing of our aircraft in order to continue to generate sufficient revenues to meet our debt obligations, to finance our growth and operations, to pay dividends on our common shares and, ultimately, to realize upon our investment in the aircraft in our portfolio. In certain cases we commit to purchase aircraft that are not subject to lease and therefore are subject to lease placement risk for aircraft we are obliged to purchase. Because only a portion of an aircraft's value is covered by contractual cash flows from an operating lease, we are exposed to the risk that the residual value of the aircraft will not be sufficient to permit us to fully recover or realize a gain on our investment in the aircraft and to the risk that we may have to record impairment charges. Further, our ability to re-lease, lease or sell aircraft on favorable terms, or at all, or without significant off-lease time and transition costs is likely to be adversely impacted by risks affecting the airline industry generally. Other factors that may affect our ability to realize upon the investment in our aircraft and that may increase the likelihood of impairment charges, include higher fuel prices which may increase demand for newer, fuel efficient aircraft, additional environmental regulations, customer preferences and other factors that may effectively shorten the useful life of older aircraft. Such impairment charges may adversely impact our financial results.

We wrote down the value of some of our assets during 2012, and if conditions worsen, or in the event of a customer default, we may be required to record further write-downs.

We test our assets for impairment whenever events or changes in circumstances indicate that the carrying amounts for such assets are not recoverable from their expected, undiscounted cash flows. We also perform a recoverability analysis for all of our aircraft assets at least once a year, regardless of whether a triggering event or change in circumstances has occurred. We performed a recoverability analysis for all of our aircraft in the third quarter of 2012 and recorded an aggregate of \$78.7 million in impairments on 15 aircraft, with an average age of 21 years. For the full year 2012, we recorded an aggregate of \$96.5 million in impairments on 18 aircraft.

If economic conditions or aircraft lease or sales values worsen, or a lessee customer defaults, we may have to reassess the carrying value of one or more of our aircraft assets. In particular, we believe that the carrying value of older aircraft may be more susceptible to non-recoverable declines in value because, among other reasons, such assets have less remaining useful life in which to benefit from a market recovery, and as of December 31, 2012, based on net book value, 22% of our

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aircraft portfolio was 15 years or older. Any such impairment may have a material and adverse impact on our financial results and the market price for our shares.

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

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

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

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

Our ability to obtain debt financing and our cost of debt financing is dependent, in part, on our credit ratings.

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

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

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

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

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

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

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

On November 5, 2012, our board of directors declared a regular quarterly dividend of \$0.165 per common share, or an aggregate of approximately \$11.5 million, which was paid on December 14, 2012 to holders of record on November 30, 2012. This dividend may not be indicative of the amount of any future quarterly dividends. Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our board of directors

and will depend on many factors, including our ability to comply with financial covenants in our financing documents and others that limit our ability

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to pay dividends and make certain other restricted payments; the difficulty we may experience in raising and the cost of additional capital and our ability to finance our aircraft acquisition commitments; our ability to re-finance our securitizations and other long-term financings; our ability to negotiate and enforce favorable lease rates and other contractual terms; the level of demand for our aircraft; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; unexpected or increased aircraft maintenance or other expenses; the level and timing of capital expenditures, principal repayments and other capital needs; maintaining our credit ratings, our results of operations, financial condition and liquidity; general business conditions; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and other factors that our board of directors deems relevant. Some of these factors are beyond our control, and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

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

General Risks

As of December 31, 2012, our total indebtedness was approximately \$3.6 billion, representing approximately 71.8% of our total capitalization. As a result of our substantial amount of indebtedness, we may be unable to generate sufficient cash to pay, when due, the principal of, interest on or other amounts due with respect to our indebtedness, and our substantial amount of indebtedness may increase our vulnerability to adverse economic and industry conditions, reduce our flexibility in planning for or reaction to changes in the business environment or in our business or industry, and adversely affect our cash flow and our ability to operate our business, compete with our competitors and pay dividends to our shareholders.

Our indebtedness subjects us to certain risks, including:

- a significant percentage of our aircraft and aircraft leases serve as collateral for our secured indebtedness and the terms of certain of our indebtedness require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under such indebtedness;
- under terms of certain debt facilities, 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 covenants prohibiting certain investments and other restricted payments, including limitations on our ability to pay dividends, repurchase our common shares, raise additional capital or refinance our existing debt, may reduce our operational flexibility and limit our ability to refinance or grow the business.

Risks Relating to Our Long-term Financings

The provisions of our long-term financings require us to comply with financial and other covenants. Our compliance with these ratios, tests and covenants depends upon, among other things, the timely receipt of lease payments from our lessees and upon our overall financial performance.

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

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

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

In addition, under the terms of the securitizations, certain transactions will require the consent or approval of one or more of the independent directors, the rating agencies that rated the applicable portfolio's certificates or the financial guaranty insurance policy issuer for the applicable securitization or the bank providing the financing for certain activities, including aircraft sales or leasing aircraft to certain airlines. Absent the aforementioned consent, which we may not receive, the limits under the securitization may place limits on our ability to lease our aircraft to certain customers in certain jurisdictions or to sell an aircraft, even if to do so would provide the best risk/return outcome at that time. In addition, because the financial guarantee insurance policy issuer is currently experiencing financial distress, it is unclear whether such policy issuer will be in a position to continue to consider to any request for consent, or may refuse or be unable to grant its consent, to any such proposed transaction which may, with respect to aircraft financed under the securitizations, limit our ability to place aircraft on lease to provide the best returns or to sell aircraft that we believe would be in our best interest to sell.

In addition, the terms of our financings restrict our ability to incur or guarantee additional indebtedness or engage in mergers, amalgamations or consolidations among our subsidiary companies or between a subsidiary company and a third party or otherwise dispose of all or substantially all of our assets.

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

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

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

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

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Risks Related to Our Aviation Assets

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

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

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

- passenger and air cargo demand;
- operating costs, including fuel costs, and general economic conditions affecting our lessees' operations;
- geopolitical events, including war, prolonged armed conflict and acts of terrorism;
- outbreaks of communicable diseases and natural disasters;
- governmental regulation;
- interest rates;
- foreign exchange rates;
- airline restructurings and bankruptcies;
- the availability of credit;
- changes in control of, or restructurings of, other aircraft leasing companies;
- manufacturer production levels and technological innovation;
- climate change initiatives, technological change, aircraft noise and emissions regulations, aircraft age limits and other factors leading to retirement and obsolescence of aircraft models;
- manufacturers merging, exiting the industry or ceasing to produce aircraft types;
- new-entrant manufacturers producing additional aircraft models, or existing manufacturers producing newly engineered aircraft models or new aircraft models, in competition with existing aircraft models;
- reintroduction into service of aircraft previously in storage; and
- airport and air traffic control infrastructure constraints.

These and other factors may produce sharp decreases or increases in aircraft values and lease rates, which would impact our cost of acquiring aircraft, and which may result in lease defaults and also prevent the aircraft from being re-leased or sold on favorable terms. This could have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations or to pay dividends to our shareholders.

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

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

- the age of the aircraft;
- the particular maintenance and operating history of the airframe and engines;
- the number of operators using that type of aircraft;
- whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to us;
- applicable airworthiness directives or manufacturer's service bulletins that have not yet been performed to the aircraft;
- grounding orders or other regulatory action that could prevent or limit utilization of our aircraft;
- any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and
- compatibility of our aircraft configurations or specifications with those desired by the operators of other aircraft of that type.

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

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

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787 and Airbus A350 and re-engined and/or replacement types for the Boeing 737 and A320 families of aircraft, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. In 2010 Airbus announced that it intends to produce the A320 NEO family aircraft for 2016, which it claims will reduce fuel burn, cut noise emission and maintenance costs. In 2011, Boeing announced a plan to produce the 737 MAX for 2017, which it also claims will reduce fuel burn. In 2012, Embraer announced that it intends to produce a second generation of E-Jets with Pratt & Whitney of aircraft for 2018 which it claims will result in improvements in fuel burn, maintenance costs, emissions and external noise. Further, Bombardier Inc., Commercial Aircraft Corporation of China Ltd and Sukhoi Company (JSC) are developing aircraft models that will compete with Airbus Model A319 and Boeing Model 737-700 aircraft in our fleet

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 and results of operations or on our ability to pay dividends to our shareholders.

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

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

In addition to more stringent noise restrictions, the United States and other jurisdictions impose more stringent limits on other aircraft engine emissions, such as NO_x, CO and CO₂, consistent with current ICAO standards. These limits generally apply only to engines manufactured after 1999. Certain of the aircraft engines owned by us were manufactured after 1999. Because aircraft engines are retired or replaced from time to time in the usual course, it is likely that the number of such engines may increase over time. Also, the U.S. has adopted more stringent NO_x emission standards for newly manufactured aircraft engines, beginning in 2013, and ICAO has recently adopted a resolution designed to cap greenhouse gas emissions from aircraft and has committed to propose a greenhouse gas emission standard for aircraft engines by 2012. Concerns over energy security, environmental sustainability, and climate change could result in more stringent limitations on the operation of our aircraft; particularly aircraft equipped with older-technology engines, or could result in decreased demand for air travel.

The Environmental Protection Agency (the “EPA”) has periodically revised its NO_x, CO, and CO₂ emission standards to incorporate the ICAO’s standards. In July 2012, EPA promulgated final regulations that would set more stringent NO_x emission standards for aircraft gas turbine engines in line with those already endorsed by the ICAO. EPA anticipates establishing a future production cutoff to require all engine models that were originally certified prior to January 1, 2014 to comply with the new standards. These regulations also include several new reporting requirements

applicable to manufacturers of aircraft gas turbine engines. Furthermore, since 2006, EPA has seen significant pressure from environmental groups to make a finding under the Clean Air Act ("CAA") that greenhouse gas ("GHG") emissions and lead emissions from aircrafts endanger public health. In both instances, environmental groups filed petitions urging EPA to make this finding, and later filed suit against the agency when it did not act. The court in both cases held that EPA was required to respond to the petitions. In the summer of 2012, EPA stated that it intends to initiate a notice and comment proceeding regarding whether

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regulation of GPH is required under the CAA. However, it is unclear whether (and if so, when) EPA will initiate such a proceeding. The legal challenge against EPA regarding lead emissions from aviation fuel remains pending.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The EU has attempted to include the aviation sector in its Emissions Trading Scheme (“ETS”), which was slated to become effective in January 2012, but has now been put on hold in light of the ICAO's effort to introduce a global program to reduce aircraft GHGs. The United States, China, and other countries continue to oppose the inclusion of aviation emissions in the ETS, and the U.S. supports the ICAO as the proper venue for international regulation of emissions, and maintains that the EU's approach is contrary to ICAO's charter. In November 2012, the U.S. passed legislation prohibiting U.S. airlines from taking part in an EU emissions program. The U.S. continues to engage in discussions within other nations regarding methods for reducing GHGs from aircrafts, as an alternative to including aircraft in the ETS. The group will meet again in early 2013.

Over time, it is possible that governments will adopt additional regulatory requirements and/or market-based policies that are intended to reduce energy usage, emissions, and noise levels from aircraft. Such initiatives may be based on concerns regarding climate change, energy security, public health, local impacts, or other factors, and may also impact 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 energy usage, fuel type, emissions, noise levels, or related issues could cause the lessees to incur higher costs and, due to higher ticket prices, lower demand for travel, leading to lower net airline revenues, resulting in an adverse impact on the financial condition of our lessees. Consequently, such compliance may affect the lessees' ability to make rental and other lease payments and limit the market for certain of our aircraft in our portfolio, which may adversely affect our ability to lease or sell our aircraft on favorable terms, or at all, which could have an adverse effect on our financial condition and results of operations or on our ability to pay dividends to our shareholders.

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

As of December 31, 2012, based on net book value, 22% of our aircraft portfolio was 15 years or older. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Additionally, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell, particularly if, due to airline insolvencies or other distress, older aircraft are competing with newer aircraft in the lease or sale market. Variable expenses like fuel, crew size or aging aircraft corrosion control or inspection or modification programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. In addition, a number of countries have adopted or may adopt age limits on aircraft imports, which may result in greater difficulty placing affected aircraft on lease or re-lease on favorable terms. Any of these expenses, costs or risks will have a negative impact on our financial results, our ability to pursue additional acquisitions or on our ability to pay dividends to our shareholders.

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

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

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

A number of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not

available to us. In addition, some of our competitors may have higher risk tolerances or different risk or residual value assessments, which could allow them to consider a wider variety of investments, establish more relationships, bid more aggressively on

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aviation assets available for sale and offer lower lease rates than we can. For instance, some of our competitors may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. As a result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. Additionally, we may not be able to compete effectively against present and future competitors in the aircraft leasing market or aircraft sales market. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations or on our ability to pay dividends to our shareholders.

Risks Related to Our Leases

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

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

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

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

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

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

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

- the costs of casualty, liability and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required, or is insufficient in amount or scope;
- the costs of licensing, exporting or importing an aircraft, airport charges, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions, which can be substantial;
- penalties and costs associated with the failure of lessees to keep the aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals; and

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

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

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

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

Lessees are required under our leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risk and hull war risk insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. 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 or our ability to pay dividends to our shareholders.

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

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

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

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the year ended December 31, 2012, 44 of our lessees which operated 100 aircraft and generated lease rental revenue representing 59% of our lease rental revenue are domiciled or habitually based in emerging markets.

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Risks Related to Our Lessees

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

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

The financial condition of our lessees will be greatly influenced by the overall demand for air travel; in a weak demand environment, airline yields may come under pressure, which may negatively impact airline financial performance in a significant way. To the extent that airline operating costs increase, because of changes in fuel, labor costs, 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, to comply with debt service coverage or interest coverage ratios, and to pay dividends on our common shares. While we may experience some level of delinquency under our leases, default levels may increase over time, particularly as our aircraft portfolio ages and if economic conditions continue to deteriorate.

A lessee may experience periodic difficulties that are not financial in nature, which could impair its performance of maintenance obligations under the leases. These difficulties may include the failure to perform under the required aircraft maintenance program in a sufficient manner and labor-management disagreements or disputes.

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

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

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

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

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

Although we have the right to repossess the aircraft and to exercise other remedies upon a lessee default, repossession of an aircraft after a lessee default would result in us incurring costs in excess of those incurred with respect to an aircraft

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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 or our ability to pay dividends to our shareholders. In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens ("Aircraft Liens"), are likely, depending on the jurisdiction in question, to attach to the aircraft. The Aircraft Liens may secure substantial sums that may, in certain jurisdictions or for limited types of Aircraft Liens (particularly fleet liens), exceed the value of the particular aircraft to which the Aircraft Liens have attached. Although the financial obligations relating to these Aircraft Liens are the responsibilities of our lessees, if they fail to fulfill their obligations, Aircraft Liens may attach to our aircraft and ultimately become our responsibility. In some jurisdictions, Aircraft Liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft. Until they are discharged, Aircraft Liens could impair our ability to repossess, re-lease or sell 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 could adversely affect our cash position and our business generally, and our ability to pay dividends to our shareholders. Failure to register aircraft in certain jurisdictions could result in adverse effects and penalties which could materially adversely affect our business or our ability to pay dividends to our shareholders.

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

effects, including the inability to operate the aircraft and loss of insurance coverage, which in turn could have a material adverse effect on our business or our ability to pay dividends to our shareholders.

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If our lessees fail to comply with government regulations regarding aircraft maintenance, we could be subject to costs that could adversely affect our cash position and our business or our ability to pay dividends to our shareholders. Our aircraft are subject to aviation authority regulations and requirements regarding maintenance of aircraft in the jurisdictions in which the aircraft are registered and operate, including requirements imposed by airworthiness directives (“Airworthiness Directives”) issued by aviation authorities. Airworthiness Directives typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

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

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

Our business is sensitive to local economic and political conditions that can influence the performance of lessees located in a particular region. Such adverse economic and political conditions include additional regulation or, in extreme cases, requisition. In 2012, increasing fuel prices, the inability of many companies to access the capital markets and a fragile economic recovery impacted the global aviation market, causing severe financial strain and a number of bankruptcies. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions. For the year ended December 31, 2012, lease rental revenues from lessees by region, were 39% in Europe, 11% in North America, 32% in Asia (including 12% in China), 7% in Latin America, and 11% in the Middle East and Africa.

European Concentration

Forty-one lessees based in Europe accounted for 39% of our lease rental revenues for the year ended December 31, 2012 and accounted for 68 aircraft totaling 35% of the net book value of our aircraft at December 31, 2012. Six aircraft, representing 3% of the net book value of our aircraft at December 31, 2012, were leased to a customer in Spain and one aircraft, representing less than 1% of the net book value of our aircraft at December 31, 2012, was leased to a customer based in Italy. We have no lessees based in Greece, Portugal or Ireland.

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

Russia accounted for 10% of our lease rental revenues for the year ended December 31, 2012 and accounted for 12 aircraft totaling 9% of the net book value of our aircraft at December 31, 2012. Russia has a market-based economy that is in large part dependent on natural resources, particularly oil, natural gas, and metals. The economy has grown steadily in recent years (except during the recent financial crisis) but remains exposed to volatility in commodity values. The incumbent government is facing increased civilian pressures to enact political reforms and continued political instability and resulting economic uncertainty could potentially have an effect on economic growth, and demand for air transportation.

Asian Concentration

Nineteen lessees based in Asia accounted for 32% of our lease rental revenues for the year ended December 31, 2012 and accounted for 50 aircraft totaling 34% of the net book value of our aircraft at December 31, 2012. Growth in most of Asia has been strong, driven in large part by emerging economies including China and India, but also markets such as the Philippines and Indonesia. However, certain markets are plagued by oversupply and crowded competitive

landscapes. Demand weakness resulting from slowing economic growth in the region, a recurrence of SARS or avian influenza or the outbreak of another epidemic disease would likely adversely affect the Asian airline industry.

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Four lessees based in China accounted for 12% of our lease rental revenues for the year ended December 31, 2012 and accounted for 20 aircraft totaling 11% of the net book value of our aircraft at December 31, 2012. Chinese airline industry performance during 2012 was relatively strong, but airline performance could suffer if economic growth moderates.

North American Concentration

Seven lessees based in North America accounted for 11% of our lease rental revenues for the year ended December 31, 2012 and accounted for 17 aircraft totaling 10% of the net book value of our aircraft at December 31, 2012. Consolidation among major airlines in the U.S. has helped drive capacity discipline and pricing power, but despite recent improvements in the financial results of many carriers, airlines remain highly susceptible to macroeconomic and geopolitical factors outside their control. Concerns about terrorist attacks have resulted in tightened security measures and reduced demand for air travel, which, together with high and volatile fuel costs, have imposed additional financial burdens on most U.S. airlines.

Latin American Concentration

Six lessees based in Latin America accounted for 7% of our lease rental revenues for the year ended December 31, 2012 and accounted for 14 aircraft totaling 8% of the net book value of our aircraft at December 31, 2012. Air travel demand in Latin America remains robust, fueled by economic growth in the region. The proliferation of low cost carriers has also played a meaningful role in stimulating travel demand. Among the more established regional players, we have witnessed an increase in consolidation activity including the combinations of Gol and Webjet, Avianca and Taca and LAN and TAM. Airlines in certain countries are implementing large capacity additions, and any restrictions imposed on airport or other infrastructure usage or further degradation of the region's aviation safety record, high and volatile fuel prices, or other economic reversal or slow downs, could have a material adverse effect on carriers' financial performance and thus our ability to collect lease payments.

Middle East and African Concentration

Four lessees based in the Middle East and Africa accounted for 11% of our lease rental revenues for the year ended December 31, 2012 and accounted for eight aircraft totaling 12% of the net book value of our aircraft at December 31, 2012. Middle Eastern, and particularly Gulf-based carriers, have a large number of aircraft on order and continue to capitalize on the region's favorable geographic position as an East-West transfer hub. However, ongoing geopolitical tension and any aviation related act of terrorism in the region could adversely affect financial performance. In 2011 and 2012, a number of countries in the Middle East and North Africa experienced significant political instability in the form of widespread demonstrations, calls for political reform, and, in certain cases, revolution, negatively impacting tourism and air travel. Other countries in the region have seen similar activity, and continued unrest and instability would again negatively impact the financial performance of airlines operating to, from, and within this region.

South African Airways accounted for 6% of our lease rental revenues for the year ended December 31, 2012 and accounted for four aircraft totaling 7% of the net book value of our aircraft at December 31, 2012. South Africa's economy is heavily dependent on natural resources, particularly precious metals, and it is exposed to economic and social risks arising from volatility in commodity prices. South African Airways relies upon government support for its significant capital requirements.

Risks Related to the Aviation Industry

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

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

Due to the competitive nature of the airline industry, airlines have been, and may continue to be, unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully compensates for the costs incurred. Higher and more volatile fuel prices may also have an impact on consumer confidence and spending, and thus may

adversely impact demand for air transportation. In addition, airlines may not be able to successfully manage their exposure to fuel price fluctuations. If fuel prices increase due to future terrorist attacks, acts of war, armed hostilities, natural disasters or for

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any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Fuel cost volatility may contribute to the reluctance of airlines to make future commitments to lease aircraft and, accordingly, reduce the demand for lease aircraft.

Consequently, these conditions may (i) affect our lessees' ability to make rental and other lease payments, (ii) result in lease restructurings and/or aircraft repossessions, (iii) increase our costs of servicing and marketing our aircraft, (iv) impair our ability to re-lease our aircraft or re-lease or otherwise dispose of our aircraft on a timely basis at favorable rates or terms, or at all, and (v) reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.

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

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent actual and attempted terrorist attacks, notably in the Middle East, South 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, North Africa, South Asia 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 remains unsettled; tension over Iran's nuclear program continues; the war in Afghanistan continues for the near term, and more recently the events in Libya, Tunisia, Egypt and Syria have resulted or are expected to result in changes to long-standing regimes, and other regimes in the Middle East and North Africa, have been destabilized and/or have used extreme measures to retain power. Any or all of these may lead to further instability in the Middle East. Future terrorist attacks, war or armed hostilities, large protests or government instability, 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 or our ability to pay dividends to our shareholders.

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

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

If the current industry conditions should continue or become exacerbated due to future terrorist attacks, acts of war or armed hostilities, they are likely to cause our lessees to incur higher costs and to generate lower revenues, resulting in an adverse effect on their financial condition and liquidity. Consequently, these conditions may affect their ability to

make rental and other lease payments to us or obtain the types and amounts of insurance required by the applicable leases (which may in turn lead to aircraft groundings), may result in additional lease restructurings and aircraft repossessions, may increase our cost of re-leasing or selling the aircraft and may impair our ability to re-lease or otherwise dispose of the aircraft on a timely basis, at favorable rates or on favorable terms, or at all, and may reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects or our ability to pay dividends to our shareholders.

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

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

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

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

Risks Related to Our Organization and Structure

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

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends to our shareholders. Although there are currently no material legal restrictions on our operating subsidiaries ability to distribute assets to us, legal restrictions, including governmental regulations and contractual obligations, could restrict or impair our operating subsidiaries ability to pay dividends or make loan or other distributions to us. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

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

We are a Bermuda exempted company and, as such, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. A substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on

those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the

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securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

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

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

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

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

- provisions providing for a classified board of directors with staggered three-year terms;
 - provisions regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
 - provisions in our bye-laws dealing with the removal of directors and corporate opportunity to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 80% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
 - provisions providing for the removal of directors by a resolution, including the affirmative votes of at least 80% of all votes attaching to all shares in issue entitling the holder to vote on such resolution;
 - provisions providing for our board of directors to determine the powers, preferences and rights of our preference shares and to issue such preference shares without shareholder approval;
 - provisions providing for advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and
- 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 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 a U.S. citizen or a qualified resident of the U.S. or the other contracting state of any applicable tax treaty with the U.S. (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty).

We will have the option, but not the obligation, to purchase all or a part of the shares held by such shareholder (to the extent the board of directors, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure adverse

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consequences), provided that the board of directors will use its reasonable efforts to exercise this option equitably among similarly situated shareholders (to the extent feasible under the circumstances).

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

Risks Related to Our Common Shares

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

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

- variations in our quarterly or annual operating results;
 - failure to meet any earnings estimates;
 - actual or perceived reduction in our growth or expected future growth;
 - actual or anticipated accounting issues;
 - publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares or the decision to suspend or terminate coverage in the future;
 - additions or departures of key management personnel;
 - increased volatility in the capital markets and more limited or no access to debt financing, which may result in an increased cost of, or less favorable terms for, debt financing or may result in sales to satisfy collateral calls or other pressure on holders to sell our shares;
 - redemptions, or similar events affecting funds or other investors holding our shares, which may result in large block trades that could significantly impact the price of our common shares;
 - adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;
 - changes in or elimination of our dividend;
 - actions by shareholders;
 - changes in market valuations of similar companies;
 - announcements by us, our competitors or our suppliers of significant contracts, acquisitions, disposals, strategic partnerships, joint ventures or capital commitments;
 - speculation in the press or investment community;
 - changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and
 - general market, political and economic conditions and local conditions in the markets in which our lessees are located.
- In addition, the equity markets in general have frequently experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. Changes in economic conditions in the U.S., Europe or globally could also impact our ability to grow profitably. These broad market and industry factors may materially affect the market price of our common shares, regardless of our business or operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

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

As of February 14, 2013, we had an aggregate of 168,152,746 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, and the exercise of outstanding share options or otherwise would dilute the percentage ownership held by existing shareholders.

Risks Related to Taxation

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

If, contrary to expectations, Aircastle were treated as engaged in a trade or business in the United States, the portion of its net income, if any, that was “effectively connected” with such trade or business would be subject to U.S. federal income taxation at a maximum rate of 35%. In addition, Aircastle would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect Aircastle'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 (i) 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; (ii) 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 (iii) 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

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income earned by aircraft used in international traffic. If we were not eligible for the exemption under Section 883 of the Code, we expect that the U.S. source rental income of Aircastle Bermuda generally would be subject to U.S. federal taxation, on a gross income basis, at a rate of not in excess of 4% as provided in Section 887 of the Code. If, contrary to expectations, Aircastle Bermuda did not comply with certain administrative guidelines of the Internal Revenue Service, such that 90% or more of Aircastle Bermuda's U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda's U.S. source rental income would be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda's U.S. source rental income would be subject to U.S. federal income taxation on its net income at a maximum rate of 35% as well as state and local taxation. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders. One or more of our Irish subsidiaries could fail to qualify for treaty benefits, which would subject certain of their income to U.S. federal income taxation, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

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

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

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

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

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

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

We expect to continue to be treated as a PFIC and may be a CFC for U.S. federal income tax purposes. If you are a U.S. person and do not make a qualified electing fund ("QEF") election with respect to us and each of our PFIC subsidiaries, unless we are a CFC and you own 10% of our voting shares, you would be subject to special deferred tax and interest charges with respect to certain distributions on our common shares, any gain realized on a disposition of our common shares and certain other events. The effect of these deferred tax and interest charges could be materially

adverse to you. Alternatively, if you are such a shareholder and make a QEF election for us and each of our PFIC subsidiaries, or if we are a CFC and you own 10% or more of our voting shares, you will not be subject to those charges, but could recognize taxable income in a

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taxable year with respect to our common shares in excess of any distributions that we make to you in that year, thus giving rise to so-called “phantom income” and to a potential out-of-pocket tax liability.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 19,200 square feet of office space in Stamford, Connecticut for our corporate operations. On January 30, 2012, we signed a ten-year extension lease for the office space in Stamford, Connecticut. We lease approximately 3,380 square feet of office space in Dublin, Ireland for our acquisition, aircraft leasing and asset management operations in Europe. The lease for the Irish facility expires in June 2016. On July 17, 2012, we signed a four-year lease for the office space in Singapore. We lease approximately 2,600 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 July 2016.

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. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

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

Set forth below is information pertaining to our executive officers who held office as of February 14, 2013:

Ron Wainshal, 48, became our Chief Executive Officer in May 2005 and a member of our Board in May 2010. Prior to joining Aircastle, Mr. Wainshal was in charge of the Asset Management group of General Electric Commercial Aviation Services (“GECAS”) from 2003 to 2005. After joining GECAS in 1998, Ron led many of GECAS’ U.S. airline restructuring efforts and its bond market activities, and played a major marketing and structured finance role in the Americas. Before joining GECAS, he was a principal and co-owner of a financial advisory company specializing in transportation infrastructure from 1994 to 1998 and prior to that held positions at Capstar Partners and The Transportation Group in New York and Ryder System in Miami. He received a BS in Economics from the Wharton School of the University of Pennsylvania and an MBA from the University of Chicago’s Booth Graduate School of Business.

Michael Inglese, 51, 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.

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David Walton, 51, became our General Counsel in March 2005 and our Chief Operating Officer in January 2006 and our Secretary in August 2006. Prior to joining Aircastle, Mr. Walton was Chief Legal Officer of Boullioun Aviation Services, Inc. from 1996 to 2005. Prior to that, Mr. Walton was a partner at the law firm of Perkins Coie in Seattle and Hong Kong. Mr. Walton has over 20 years of experience in aircraft leasing and finance. He received a BA in Political Science from Stanford University and a JD from Boalt Hall School of Law, University of California, Berkeley.

Joseph Schreiner, 55, became our Executive Vice President, Technical in October 2004. Prior to joining Aircastle, Mr. Schreiner oversaw the technical department at AAR Corp, a provider of products and services to the aviation and defense industries from 1998 to 2004 where he managed aircraft and engine evaluations and inspections, aircraft lease transitions, reconfiguration and heavy maintenance. Prior to AAR, Mr. Schreiner spent 19 years at Boeing (McDonnell-Douglas) in various technical management positions. Mr. Schreiner received a BS from the University of Illinois and an MBA from Pepperdine University.

Aaron Dahlke, 44, became our Chief Accounting Officer in June 2005. Prior to that, Mr. Dahlke was Vice President and Controller of Boullioun Aviation Services Inc. from January 2003 to May 2005. Prior to Boullioun, Mr. Dahlke was at ImageX.com, Inc. and Ernst & Young LLP. He received a B.S. in Accounting from California State University, San Bernardino. He is a Certified Public Accountant.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTER 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 14, 2013, there were approximately 16,752 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, 2011:			
First Quarter	\$13.00	\$10.25	\$0.100
Second Quarter	\$13.81	\$11.43	\$0.125
Third Quarter	\$12.93	\$9.63	\$0.125
Fourth Quarter	\$12.95	\$8.56	\$0.150
Year Ending December 31, 2012:			
First Quarter	\$14.55	\$12.13	\$0.150
Second Quarter	\$12.66	\$10.77	\$0.150
Third Quarter	\$13.04	\$11.26	\$0.150
Fourth Quarter	\$12.69	\$10.91	\$0.165

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

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Issuer Purchases of Equity Securities

During the fourth quarter of 2012, we purchased our common shares as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ^(a)
	(Dollars in thousands, except per share amounts)			
October	—	\$—	—	\$ 21,500
November	—	—	—	50,000
December	936,500	(a) 12.20	936,500	38,579
Total	936,500	\$12.20	936,500	\$ 38,579

On May 24, 2012, the Company's Board of Directors authorized the repurchase of up to \$50,000 of the Company's common shares. In August 2012, we repurchased 2,500,002 common shares from affiliates of Fortress Investment Group LLC at a total cost of \$28,500 under the repurchase program and we paid no commissions on this transaction. On November 5, 2012, the Company's Board of Directors authorized an increase in the Company's share repurchase program by up to an additional \$28,500 of its common shares, bringing the total back up to (a) \$50,000 of its common shares in the aggregate. During the fourth quarter of 2012, we repurchased an additional 936,500 common shares at a total cost of \$11,421 including commissions. In addition, as of February 14, 2013, we repurchased an additional 679,292 common shares during 2013. Accordingly, as of February 14, 2013, we have repurchased under this program a total of 1,615,792 common shares at a total cost of \$20,000 including commissions, at an average price per share of \$12.38, and the remaining dollar value of common shares that may be purchased under the program is \$30,000.

Performance Graph

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

The following graph compares the cumulative five year total return to holders of our common shares relative to the cumulative total returns of the S&P 500 Index and a customized peer group over the five year period ended December 31, 2012. The peer group consists of three companies: AerCap Holdings NV (NYSE: AER), Air Lease Corporation (NYSE: AL) and FLY Leasing Limited (NYSE: FLY). An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common shares, the S&P 500 Index and in the peer group on December 31, 2007, and the relative performance of each is tracked through December 31, 2012. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

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* \$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Aircastle Limited	\$100.00	\$20.04	\$43.65	\$48.33	\$61.52	\$63.84
S&P 500	100.00	63.00	79.67	91.67	93.61	108.59
Peer Group	100.00	22.18	50.97	80.42	66.47	68.62

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ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial, operating and other data as of December 31, 2011 and 2012 and for each of the three years in the period ended December 31, 2012 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, 2008 and 2009 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,				
	2008	2009	2010	2011	2012
	(Dollars in thousands, except share data)				
Selected Financial Data:					
Consolidated Statements of Operation:					
Total revenues	\$582,587	\$570,585	\$527,710	\$605,197	\$686,572
Selling, general and administrative expenses	46,806	46,016	45,774	45,953	48,370
Depreciation	201,759	209,481	220,476	242,103	269,920
Interest, net	203,529	169,810	178,262	204,150	222,808
Net income	115,291	102,492	65,816	124,270	32,868
Earnings per common share — Basic:					
Net income	\$1.47	\$1.29	\$0.83	\$1.64	\$0.46
Earnings per common share — Diluted:					
Net income	\$1.47	\$1.29	\$0.83	\$1.64	\$0.46
Cash dividends declared per share	\$0.85	\$0.40	\$0.40	\$0.50	\$0.615
Other Operating Data:					
EBITDA	\$526,305	\$501,672	\$491,231	\$594,800	\$546,285
Adjusted EBITDA	544,280	529,792	506,942	607,870	647,622
Adjusted net income	162,855	117,788	82,461	144,963	57,009
Consolidated Statements of Cash Flows:					
Cash flows provided by operations	\$333,626	\$327,641	\$356,530	\$359,377	\$427,277
Cash flows provided by (used in) investing activities	37,640	(269,434)	(541,115)	(445,420)	(741,909)
Cash flows (used in) provided by financing activities	(303,865)	3,512	281,876	141,608	637,327
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$80,947	\$142,666	\$239,957	\$295,522	\$618,217
Flight equipment held for lease, net of accumulated depreciation	3,837,543	3,812,970	4,065,780	4,387,986	4,662,661
Net investment in finance leases	—	—	—	—	119,951
Total assets	4,251,572	4,454,512	4,859,059	5,224,459	5,812,160
Borrowings under securitizations and term debt financings	2,476,296	2,464,560	2,707,958	2,986,516	3,598,676
Shareholders' equity	1,112,166	1,291,237	1,342,718	1,404,608	1,415,626
Other Data:					

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Number of Aircraft (at the end of period)	130	129	136	144	159	
Total debt to total capitalization	69.0	% 65.6	% 66.9	% 68.0	% 71.8	%

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We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-US GAAP measure is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed. EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the consolidated financial performance of our business.

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

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the years ended December 31, 2008, 2009, 2010, 2011 and 2012.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(Dollars in thousands)				
Net income	\$115,291	\$102,492	\$65,816	\$124,270	\$32,868
Depreciation	201,759	209,481	220,476	242,103	269,920
Amortization of net lease premiums (discounts) and lease incentives	(1,815)	11,229	20,081	16,445	12,844
Interest, net	203,529	169,810	178,262	204,150	222,808
Income tax provision	7,541	8,660	6,596	7,832	7,845
EBITDA	\$526,305	\$501,672	\$491,231	\$594,800	\$546,285
Adjustments:					
Impairment of aircraft	—	18,211	7,342	6,436	96,454
Non-cash share based payment expense	6,529	6,868	7,509	5,786	4,232
Loss (gain) on mark to market of interest rate derivative contracts	11,446	(959)	860	848	(597)
Contract termination expense	—	4,000	—	—	1,248
Adjusted EBITDA	\$544,280	\$529,792	\$506,942	\$607,870	\$647,622

Beginning with our quarterly report for the quarter ended March 31, 2012, management, to be more consistent with reporting practices of peer aircraft leasing companies, has revised the calculation of ANI to no longer exclude gains (losses) on sales of assets, and to exclude non-cash share based payment expense in the calculation of ANI. Beginning with our quarterly report for the quarter ended June 30, 2012, we also excluded Term Financing No. 1 hedge loss amortization charges which will be reported in Interest, net on our consolidated statement of income from the calculation of ANI. The calculation of ANI for the years ended December 31, 2008, 2009, 2010 and 2011 has been revised to be comparable with the current period presentation.

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

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The table below shows the reconciliation of net income to ANI for the years ended December 31, 2008, 2009, 2010, 2011 and 2012.

	Year Ended December 31,				
	2008	2009	2010	2011	2012
	(Dollars in thousands)				
Net income	\$115,291	\$102,492	\$65,816	\$124,270	\$32,868
Ineffective portion and termination of cash flow hedges ⁽¹⁾	29,589	5,387	5,805	8,407	2,893
Mark to market of interest rate derivative contracts ⁽²⁾	11,446	(959)	860	848	(597)
Loan termination payment ⁽¹⁾	—	—	—	3,196	—
Write-off of deferred financing fees ⁽¹⁾	—	—	2,471	2,456	3,034
Stock compensation expense ⁽³⁾	6,529	6,868	7,509	5,786	4,232
Term Financing No. 1 hedge loss amortization charges ⁽¹⁾	—	—	—	—	13,331
Contract termination expense	—	4,000	—	—	1,248
Adjusted net income	\$162,855	\$117,788	\$82,461	\$144,963	\$57,009

(1) Included in Interest, net.

(2) Included in Other income (expense)

(3) Included in Selling, general and administrative expenses

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

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

OVERVIEW

We are a global company that acquires, leases, and sells high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of December 31, 2012, our aircraft portfolio consisted of 159 aircraft that were leased to 69 lessees located in 36 countries, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases we are obligated to pay a portion of specified maintenance or modification costs. From time to time, we also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. Our revenues and net income for the year ended December 31, 2012 were \$686.6 million and \$32.9 million respectively, and for the fourth quarter 2012 were \$176.6 million and \$29.8 million, respectively.

Revenues

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

Typically, our aircraft are subject to net operating leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases we are obligated to pay a portion of specified maintenance or modification costs. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the credit-worthiness of our lessees and the occurrence of delinquencies, restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues. Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in

recognition of our obligation in the lease to refund such payments, and therefore we do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently

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volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

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

Operating Expenses

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

Income Tax Provision

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

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

History

Aircastle Limited, formerly Aircastle Investment Limited, is a Bermuda exempted company that was incorporated on October 29, 2004.

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Acquisitions and Disposals

In 2012, we invested \$798.8 million in 23 aircraft acquisitions as follows:

• High quality midbody aircraft for \$291.2 million with a weighted average age by net book value of 1.4 years;

• E-Jet aircraft for \$131.8 million with a weighted average age by net book value of less than one year;

• Mid-aged aircraft for \$318.6 million with a weighted average age by net book value of 13.6 years; and

• Freighter aircraft for \$57.2 million with a weighted average age by net book value of 13.3 years.

During 2012, we sold eight aircraft with a weighted average age by net book value of 17.4 years for an aggregate sales price of \$65.3 million.

The following table sets forth certain information with respect to the aircraft owned by us as of December 31, 2010, 2011 and 2012:

AIRCATTLE AIRCRAFT INFORMATION (dollars in millions)

	Owned Aircraft as of December 31, 2010	Owned Aircraft as of December 31, 2011	Owned Aircraft as of December 31, 2012 ⁽¹⁾
Flight Equipment Held for Lease	\$ 4,066	\$ 4,388	\$ 4,783
Unencumbered Flight Equipment included in Flight Equipment Held for Lease	\$ 595	\$ 677	\$ 2,092
Number of Aircraft	136	144	159
Number of Unencumbered Aircraft	18	27	72
Number of Lessees	64	65	69
Number of Countries	36	36	36
Weighted Average Age — Passenger (years) ⁽²⁾	11.9	11.2	10.5
Weighted Average Age — Freighter (years) ⁽²⁾	9.4	10.0	11.1
Weighted Average Age — Combined (years) ⁽²⁾	11.0	10.9	10.7
Weighted Average Remaining Passenger Lease Term (years) ⁽³⁾	3.4	4.1	4.8
Weighted Average Remaining Cargo Lease Term (years) ⁽³⁾	7.4	6.4	5.3
Weighted Average Remaining Combined Lease Term (years) ⁽³⁾	4.7	4.9	5.0
Weighted Average Fleet Utilization during the Fourth Quarter ⁽⁴⁾	99	% 99	% 99
Weighted Average Fleet Utilization for the year ended ⁽⁴⁾	99	% 99	% 99
Portfolio Yield for the Fourth Quarter ⁽⁵⁾	14	% 14	% 14
Portfolio Yield for the year ended ⁽⁵⁾	14	% 14	% 14

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

(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.

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

Our owned aircraft portfolio as of December 31, 2012 is listed in Exhibit 99.1 to this report.

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PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of December 31, 2012		
	Number of Aircraft	% of Net Book Value	
Aircraft Type			
Passenger:			
Narrowbody	94	37	%
Midbody	37	30	%
Widebody	2	4	%
Total Passenger	133	71	%
Freighter	26	29	%
Total	159	100	%
Manufacturer			
Boeing	101	55	%
Airbus	54	43	%
Embraer	4	2	%
Total	159	100	%
Regional Diversification			
Europe	68	35	%
Asia and Pacific	50	34	%
North America	17	10	%
Latin America	14	8	%
Middle East and Africa	8	12	%
Off-lease ⁽¹⁾	2	1	%
Total	159	100	%

(1) Includes one Boeing Model 767-300ER aircraft and one Boeing Model 747-400BDSF aircraft that we are marketing for lease or sale.

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Our largest customer represents less than 8% of the net book value of flight equipment held for lease (includes net book value of flight equipment held for lease and net investment in finance leases) at December 31, 2012. Our top 15 customers for aircraft we owned at December 31, 2012, representing 69 aircraft and 57% 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	South African Airways	South Africa	4
	Hainan Airlines Company	China	9
3% to 6% per customer	Emirates	United Arab Emirates	2
	US Airways	USA	11
	SriLankan Airlines	Sri Lanka	5
	Airbridge Cargo ⁽¹⁾	Russia	2
	Martinair ⁽²⁾	Netherlands	4
	Jet Airways	India	6
	GOL ⁽³⁾	Brazil	7
Less than 3% per customer	Garuda	Indonesia	3
	Asiana Airlines	South Korea	2
	Iberia	Spain	6
	Cathay Pacific	Hong Kong	1
	KLM ⁽²⁾	Netherlands	1
	China Eastern Airlines ⁽⁴⁾	China	6

(1) Guaranteed by Volga-Dnepr.

(2) Martinair is a wholly owned subsidiary of KLM. If combined with KLM and two other affiliated customers, the four customers represent 7% of flight equipment held for lease.

(3) GOL has guaranteed the obligations of an affiliate, VRG Linhas Aereas.

(4) Does not include the aircraft leased by Shanghai Airlines and China Cargo Airlines which are wholly owned subsidiaries of China Eastern Airlines. Although China Eastern Airlines does not guarantee the obligations of these subsidiaries under their relevant leases, if combined, the three customers represent 5% of flight equipment held for lease.

Finance

Historically, our debt financing arrangements typically have been secured by aircraft and related operating leases, and in the case of our securitizations, the financing parties have limited recourse to Aircastle Limited. While we have continued to access the bank market for debt secured by aircraft, since mid-2010 the bulk of our debt financing has been raised in the unsecured bond market. U.S. capital markets conditions have generally been strong during that period of time, though market volatility could in the future affect the cost or availability of debt we may seek to raise in the U.S. capital markets. In April 2012, we closed an offering of \$500.0 million aggregate principal amount of 6.75% Senior Notes due 2017 (the "Senior Notes due 2017") and \$300.0 million aggregate principal amount of 7.625% Senior Notes due 2020 (the "Senior Notes due 2020"). We used the net proceeds of the private placement to repay outstanding indebtedness under our Term Financing No. 1, to terminate the associated interest rate derivatives, and to fund general corporate purposes, including the purchase of aviation assets. In November 2012, we closed an offering of \$500.0 million aggregate principal amount of 6.25% Senior Notes due 2019 (the "Senior Notes due 2019"). We used the net proceeds of the private placement for general corporate purposes, including the purchase of aviation

assets. During the near-term, we intend to focus our efforts on investment opportunities that are attractive on an unleveraged basis, that tap commercial financial capacity where it is accessible on reasonable terms or for which debt financing that benefits from government guarantees either from the ECAs or from EXIM is available. We intend to fund new investments through cash on hand, cash flows from operations and potentially through medium- to longer-term financings on a secured or unsecured basis. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from

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operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Liquidity and Capital Resources — Secured Debt Financings” and “Liquidity and Capital Resources — Unsecured Debt Financings” below.

Comparison of the year ended December 31, 2011 to the year ended December 31, 2012:

	Year Ended December 31, 2011 2012 (Dollars in thousands)	
Revenues:		
Lease rental revenue	\$580,209	\$623,503
Amortization of net lease discounts and lease incentives	(16,445)	(12,844)
Maintenance revenue	36,954	53,320
Total lease rentals	600,718	663,979
Other revenue	4,479	22,593
Total revenues	605,197	686,572
Expenses:		
Depreciation	242,103	269,920
Interest, net	204,150	222,808
Selling, general and administrative	45,953	48,370
Impairment of aircraft	6,436	96,454
Maintenance and other costs	13,277	14,656
Total operating expenses	511,919	652,208
Other income:		
Gain on sale of flight equipment	39,092	5,747
Other	(268)	602
Total other income	38,824	6,349
Income from continuing operations before income taxes	132,102	40,713
Income tax provision	7,832	7,845
Net income	\$124,270	\$32,868

Revenues:

Total revenues increased by 13.5%, or \$81.4 million, for the year ended December 31, 2012 as compared to the year ended December 31, 2011, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of \$43.3 million for the year ended December 31, 2012 as compared to the same period in 2011 was primarily the result of:

\$106.1 million of revenue from 17 aircraft purchased in 2012, and the full year revenue of 17 aircraft purchased in 2011.

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

\$28.6 million due to aircraft sales and disposals;

- \$18.8 million due to lease extensions and transitions at lower rentals;
- and

\$15.4 million due to lease terminations and other changes.

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Amortization of net lease discounts and lease incentives.

	Year Ended December 31,	
	2011	2012
	(Dollars in thousands)	
Amortization of lease discounts	\$2,401	\$1,684
Amortization of lease premiums	(1,844)	(5,141)
Amortization of lease incentives	(17,002)	(9,387)
Amortization of net lease discounts and lease incentives	\$(16,445)	\$(12,844)

As more fully described above under “Overview — Revenues,” lease incentives represent our estimated portion of the lessee’s cost for heavy maintenance, overhaul or replacement of certain high-value components, which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases, and conversely, if a related lease terminates, the related unused lease incentive liability is reversed and will reduce the amortization of lease incentives. The decrease in amortization of lease incentives of \$7.6 million for the year ended December 31, 2012 as compared to the same period in 2011 primarily resulted from eight unscheduled lease terminations, three scheduled lease terminations, two unscheduled changes in lease terms and one change in lease incentive estimate. The increase in amortization of lease premiums of \$3.3 million is primarily due to 11 aircraft acquired in 2012 with lease rentals at premiums.

Maintenance revenue.

	Year Ended December 31,			
	2011		2012	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$15,257	6	\$34,894	10
Scheduled lease terminations	21,697	8	18,426	5
Maintenance revenue	\$36,954	14	\$53,320	15

Unscheduled lease terminations. For the year ended December 31, 2011, we recorded maintenance revenue of \$15.3 million from unscheduled lease terminations primarily associated with six aircraft returned in 2011. Comparatively, for the same period in 2012, we recorded maintenance revenue totaling \$34.9 million from unscheduled lease terminations associated with ten aircraft returned in 2012.

Scheduled lease terminations. For the year ended December 31, 2011, we recorded maintenance revenue from scheduled lease terminations totaling \$21.7 million associated with eight aircraft. Comparatively, for the same period in 2012, we recorded \$18.4 million, associated with maintenance revenue from five scheduled lease terminations.

Other revenue was \$4.5 million during the year ended December 31, 2011, which was primarily due to additional fees paid by lessees in connection with early termination or the agreement to early terminate five leases. For the year ended December 31, 2012, other revenue was \$22.6 which was primarily due to \$3.8 million of interest income on our debt investments, \$8.4 million of interest income recognized from finance leases and approximately \$10.4 million recognized in additional fees paid by lessees in connection with the early termination of 11 leases.

Operating Expenses:

Total operating expenses increased by 27.4%, or \$140.3 million, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily as a result of the following:

Depreciation expense increased by \$27.8 million for the year ended December 31, 2012 over the same period in 2011. The net increase is primarily the result of:

- \$33.5 million increase in depreciation for aircraft acquired; and
- \$3.2 million increase in depreciation for capitalized aircraft improvements.

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This increase was offset partially by:

▪ \$10.9 million decrease in depreciation for aircraft sold.

Interest, net consisted of the following:

	Year Ended December 31,	
	2011	2012
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities ⁽¹⁾	\$172,798	\$178,601
Hedge ineffectiveness losses (gains)	(101)	2,893
Amortization of interest rate derivatives related to deferred losses ⁽²⁾	23,078	30,777
Amortization of deferred financing fees and notes discount ⁽³⁾	15,271	12,449
Interest Expense	211,046	224,720
Less interest income	(390)	(597)
Less capitalized interest	(6,506)	(1,315)
Interest, net	\$204,150	\$222,808

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

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

(3) For the year ended December 31, 2011, includes the write-off of deferred financing fees of \$2,456 related to an aircraft sold in June 2011. For the year ended December 31, 2012, includes the write-off of deferred financing fees of \$2,914 related to the pay-off of Term Financing No. 1 and \$120 related to the replacement of the 2010 Revolving Credit Facility.

Interest, net increased by \$18.7 million, or 9.1%, over the year ended December 31, 2011. The net increase is primarily a result of:

• a \$5.8 million increase in interest on our borrowings driven by the impact of higher weighted average debt outstanding (\$3.12 billion for the year ended December 31, 2012 as compared to \$2.78 billion for the year ended December 31, 2011) of \$19.6 million, offset by the effect of lower rates in 2012 of \$10.6 million and \$3.2 million of loan termination fees incurred during the second quarter of 2011;

• a \$7.7 million increase in the amortization of deferred losses which includes \$13.3 million of additional amortization as a result of the repayment of Term Financing in April 2012;

• a \$3.0 million increase resulting from changes in measured hedge ineffectiveness due to changes in our debt forecast; and

• a \$5.2 million decrease in capitalized interest reflecting the final aircraft delivery from our A330 program in April 2012.

These increases were offset partially by:

• a \$2.8 million decrease in amortization of deferred financing fees due to lower amortization from Securitization No. 1 and Securitization No. 2, offset by a write-off of deferred financing fees of \$2.9 million as a result of the repayment of Term Financing No. 1 and \$0.1 million related to the replacement of the 2010 Revolving Credit Facility.

Selling, general and administrative expenses for the year ended December 31, 2012 increased by \$2.4 million or 5.3% over the same period in 2011 primarily due to an increase in professional service fees. Non-cash share based expense was \$5.8 million and \$4.2 million for the years ended December 31, 2011 and 2012, respectively.

Impairment of aircraft was \$6.4 million during the year ended December 31, 2011, which related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement in the second quarter of 2011.

Impairment of aircraft was \$96.5 million during the year ended December 31, 2012, related to eight Boeing Model 737-300 / -400 aircraft, one Boeing Model 757-200 aircraft and five Boeing Model 767-300ER aircraft, one Airbus

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A310-300F aircraft and three Airbus Model A320-200 aircraft, all of which did not pass their recoverability assessments. See “Summary of Recoverability Assessment” below for a detailed discussion of the related impairment charge for these aircraft.

Maintenance and other costs were \$14.7 million for the year ended December 31, 2012, an increase of \$1.4 million over the same period in 2011. The net increase is primarily related to higher maintenance costs of \$3.6 million in 2012 over the same period in 2011, partially offset by lower aircraft maintenance and other transitions costs relating to unscheduled lease terminations returned to us in 2012 as compared to aircraft returned to us in 2011 of \$1.8 million.

Other Income:

Total other income for the year ended December 31, 2012 was \$6.3 million as compared to \$38.8 million for the same period in 2011. The decrease is primarily a result of \$33.3 million of lower gains on sale of aircraft sold in 2012 as compared to aircraft sold in 2011.

Income Tax Provision:

Our provision for income taxes for the years ended December 31, 2011 and 2012 was \$7.8 million and \$7.8 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The tax provision remained relatively constant for the year ended December 31, 2012 as compared to the same period in 2011, because of minor increases in operating income subject to tax in the U.S., Ireland, and other jurisdictions. The aircraft impairment charges of \$96.5 million were related to Bermuda operations and thus provided no tax benefit.

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

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

Other Comprehensive Income:

	Year Ended December 31,	
	2011	2012
	(Dollars in thousands)	
Net income	\$124,270	\$32,868
Net change in fair value of derivatives, net of tax expense of \$857 and \$586, respectively	37,461	30,614
Derivative loss reclassified into earnings	23,078	30,777
Total comprehensive income (loss)	\$184,809	\$94,259

Other comprehensive income was \$94.3 million for the year ended December 31, 2012, a decrease of \$90.6 million from the \$184.8 million of other comprehensive income for the year ended December 31, 2011. Other comprehensive income for the year ended December 31, 2012 primarily consisted of:

\$32.9 million of net income;

\$30.6 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the year ended December 31, 2012 partially offset by a slight downward shift in the 1 Month LIBOR forward curve; and

\$30.8 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

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Other comprehensive income for the year ended December 31, 2011 primarily consisted of:

\$124.3 million of net income;

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

\$23.1 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

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 \$17.5 million and the amortization of deferred net losses from terminated interest rate derivatives in the amount of \$29.2 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, 2010 to the year ended December 31, 2011:

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

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Revenues:

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

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

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

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

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

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

• \$10.2 million due to lease terminations.

Amortization of net lease discounts and lease incentives.

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

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

Maintenance revenue.

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

Unscheduled lease terminations. For the year ended December 31, 2010, we recorded maintenance revenue of \$4.1 million from unscheduled lease terminations primarily associated with three aircraft returned in 2010. Comparatively, for the same period in 2011, we recorded maintenance revenue totaling \$15.3 million from unscheduled lease terminations associated with six aircraft returned in 2011.

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

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Other revenue was \$4.5 million during the year ended December 31, 2011, which was primarily due to additional fees paid by lessees in connection with early termination or the agreement to early terminate five leases. We did not receive any similar fees from early lease terminations in the year ended December 31, 2010.

Operating Expenses:

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

Depreciation expense increased by \$21.6 million for the year ended December 31, 2011 over the same period in 2010.

The net increase is primarily the result of:

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

This increase was offset partially by:

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

Interest, net consisted of the following:

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

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

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

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

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

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

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

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

These increases were offset partially by:

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

• a \$2.4 million increase in capitalized interest.

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

Impairment of aircraft was \$7.3 million during the year ended December 31, 2010, which related to one Boeing Model 737-300 aircraft and one Boeing Model 737-500 aircraft.

Impairment of aircraft was \$6.4 million during the year ended December 31, 2011, which related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement in the second quarter of 2011.

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

Other Income:

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

Income Tax Provision:

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

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

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

Other Comprehensive Income:

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

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

\$124.3 million of net income;

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

\$23.1 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive income for the year ended December 31, 2010 primarily consisted of:

\$65.8 million of net income;

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

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

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

Summary of Recoverability Assessment

	Number of Aircraft	Impairment Charge (Dollars in Millions)
Transactional Impairments:		
A320-200 "Classic"	2	\$12.3
A320-200	1	6.7
767-300ER	1	8.0
757-200	1	2.1
Total transactional impairments	5	29.1
Annual Portfolio Review:		
A310-300F	1	4.8
737-300	2	3.2
737-400	6	23.6
767-300ER	4	35.8
Total annual portfolio review impairments	13	67.4
Total impairments	18	\$96.5

Transactional Impairments

We perform a recoverability assessment whenever events or changes in circumstances, or indicators, indicate that the carrying amount or net book value of an aircraft may not be recoverable. During 2012, we recorded impairments totaling \$29.1 million related to one aircraft that we sold for less than its net book value, one aircraft that failed its recoverability test following its scheduled return and three aircraft for which we elected not to invest in engine performance restoration visits, and, in conjunction with these activities, we also recorded maintenance revenue and lease incentive reversals aggregating \$21.2 million.

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Annual Portfolio Review

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. We performed this recoverability assessment during the third quarter of 2012. Management develops the assumptions used in the recoverability assessment based on its knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors. In particular, many of our assumptions were driven primarily by weak market demand for older technology narrow- and wide-body model aircraft caused by slowing global economic growth rates, declining business confidence levels and higher fuel prices. In the case of Boeing 737 "Classic" aircraft, production rate increases by both Boeing and Airbus for newer generation narrowbody aircraft, coupled with slowing demand growth, is enabling more rapid replacement of earlier generation aircraft. Storage levels for these aircraft types have increased during the last twelve months.

Following completion of the recoverability analysis, we took the following actions:

- We impaired 13 aircraft and recorded aggregate impairment charges of \$67.4 million to write these aircraft down to current market values. For these 13 aircraft, the aggregate net book value as of June 30, 2012 was \$158.4 million.

For seven other aircraft that passed the recoverability assessment, we took the following steps:

Shortened the expected lives of one Airbus A330-300 aircraft, five Boeing Model 767-300ER aircraft and one McDonnell Douglas MD-11SF aircraft, primarily to reflect the specific maintenance schedule that we expect for the airframe and related engines.

In the case of our Boeing Model 767-300ER aircraft, reduced the residual values to reflect our current estimates. Reducing the expected lives or anticipated residual values for aircraft in our fleet will accelerate the future depreciation on these aircraft, which will be partly offset by reduced depreciation on aircraft that we impaired. As described above, these changes in depreciation going forward will affect 23 aircraft. We estimate that there will be no annual increase in depreciation expense for the year ended December 31, 2013, although future depreciation is expected to decrease as these aircraft reach the end of their holding periods.

While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates. Other than the aircraft discussed above, management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no other aircraft were impaired as a consequence of this recoverability assessment. In addition, our lessees may face financial difficulties and return aircraft to us prior to the contractual lease expiry dates. As a result, our cash flow assumptions may change and future impairment charges may be required.

At December 31, 2012, we had a total of 13 aircraft with a total net book value of \$318.6 million (accounting for 6.7% of the total net book value of our flight equipment held for lease) that we consider more susceptible to failing our recoverability assessment. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values. These aircraft fall into the categories as shown in the table below:

Aircraft Type	Number of Aircraft	Percent of Net Book Value
Narrowbody	5	2.0%
Midbody	5	2.0%
Freighters	3	2.7%

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

Lease Revenue Recognition

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

Maintenance Payments and Maintenance Revenue

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

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

timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Lease Incentives and Amortization

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives,

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which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

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

Flight Equipment Held for Lease and Depreciation

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

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

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

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

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

As part of our due diligence review of each aircraft we purchase, we prepare an estimate of the expected maintenance payments and any excess costs which may become payable by us, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

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

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

Impairment of Flight Equipment

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

meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See further discussion under “Fair Value Measurements” below.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry,

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as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and many of the risk factors discussed in Item 1A. “Risk Factors.”

Net Investment in Finance Leases

If a lease meets specific criteria at the inception of a new lease or at any lease modification date, we recognize the lease as a Net investment in finance leases on our Consolidated Balance Sheets. The net investment in finance leases consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value of the leased flight equipment at the lease end date. The unearned income is recognized as Other revenue in our Consolidated Statements of Income over the lease term in a manner that produces a constant rate of return on the Net investment in finance lease.

Collectability of finance leases is evaluated periodically on an individual customer level. The evaluation of the collectability of the finance leases considers the credit of the lessee and the value of the underlying aircraft. An allowance for credit losses is established if there is evidence that we will be unable to collect all amounts due according to the original contractual terms of the Net Investment in Finance Leases. At December 31, 2012, we had no allowance for credit losses for our Net investment in finance leases.

Derivative Financial Instruments

In the normal course of business we utilize derivative instruments to manage our exposure to interest rate risks. All interest rate derivatives are recognized on the balance sheet at their fair value. We determine fair value for our United States dollar-denominated interest rate derivatives by calculating reset rates and discounting cash flows based on cash rates, futures rates and swap rates in effect at the period close. We determine the fair value of our United States dollar-denominated guaranteed notional balance interest rate derivatives based on the upper notional band using cash flows discounted at relevant market interest rates in effect at the period close. The changes in fair values related to the effective portion of the interest rate derivatives are recorded in other comprehensive income on our consolidated balance sheet. The ineffective portion of the interest rate derivative is calculated and recorded in interest expense on our consolidated statement of income at each quarter end. For any interest rate derivatives not designated as a hedge, all mark-to-market adjustments are recognized in other income (expense) on our consolidated statement of income. At inception of the hedge, we choose a method to assess effectiveness and to calculate ineffectiveness, which we must use for the life of the hedge relationship. Historically, we have designated the “change in variable cash flows method” for calculation of hedge ineffectiveness. This methodology, which is only available for interest rate derivatives designated at execution with a fair value of zero, involves a comparison of the present value of the cumulative change in the expected future cash flows on the variable leg of the interest rate derivative against the present value of the cumulative change in the expected future interest cash flows on the floating-rate liability. When the change in the interest rate derivative’s variable leg exceeds the change in the liability, the calculated ineffectiveness is recorded in interest expense on our consolidated statement of income. Effectiveness is tested by dividing the change in the interest rate derivative’s variable leg by the change in the liability.

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

Fair Value Measurements

We measure the fair value of interest rate derivative assets and liabilities on a recurring basis. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our valuation model for interest rate derivatives classified in level 2 maximizes

the use of observable inputs, including contractual terms, interest rate curves, cash rates and futures rates and minimizes the use of unobservable inputs, including an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative

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assets, an evaluation of the Company's credit risk in valuing derivative liabilities and an assessment of market risk in valuing the derivative asset or liability. We use our interest rate derivative counterparty's valuation of our interest rate derivatives to validate our models. Our interest rate derivatives are sensitive to market changes in LIBOR as discussed in Item 7A. "Quantitative and Qualitative Disclosures about Market Risk."

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

We measure the fair value of certain assets and liabilities on a non-recurring basis, when US GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include aircraft. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft impaired are based on an income approach that uses Level 3 inputs, which include our assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

Income Taxes

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

RECENT UNADOPTED ACCOUNTING PRONOUNCEMENTS

In August 2010, the Financial Accounting Standards Board (the "FASB") issued an exposure draft, "Leases" (the "Lease ED"), which would replace the existing guidance in the Accounting Standards Codification ("ASC") 840 ("ASC 840"), Leases. In June 2012, the FASB decided that leases would be classified as either leases of property or leases of assets other than property. Leases of property will continue to use operating lease accounting. Leases of other than property would use the receivable residual approach. Under the receivable residual approach, a lease receivable would be recognized for the lessor's right to receive lease payments, a portion of the carrying amount of the underlying asset would be allocated between the right of use granted to the lessee and the lessor's residual value and profit or loss would only be recognized at commencement if it is reasonably assured. The FASB completed all of its deliberations and decided to re-expose the Lease ED in the first half of 2013. We anticipate that the final standard may have an effective date no earlier than 2016. When and if the proposed guidance becomes effective, it may have a significant impact on the Company's consolidated financial statements. Although we believe the presentation of our financial statements, and those of our lessees could change, we do not believe the accounting pronouncement will change the fundamental economic reasons for which the airlines lease aircraft. Therefore, we do not believe it will have a material impact on our business.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity currently are cash on hand, cash generated by our aircraft leasing operations, loans secured by new aircraft we acquire and unsecured borrowings. Our business is very capital intensive, requiring

significant investments in order to expand our fleet during periods of growth and investments in maintenance and improvements on our existing portfolio. Our business also generates a significant amount of cash from operations, primarily from lease rentals and maintenance collections. These sources have historically provided liquidity for these investments and for other uses,

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including the payment of dividends to our shareholders. In the past, we have also met our liquidity and capital resource needs by utilizing several sources, including:

- lines of credit, our securitizations, term financings, secured borrowings supported by export credit agencies for new aircraft acquisitions and bank financings secured by aircraft purchases;
- unsecured indebtedness, including an unsecured revolving credit facility and unsecured senior notes;
- public offerings of common shares; and
- asset sales.

Going forward, we expect to continue to seek liquidity from these sources subject to pricing and conditions that we consider satisfactory.

In December 2012, we closed a \$150.0 million unsecured revolving credit facility with Citibank, N.A., Goldman Sachs Bank USA, J.P. Morgan Chase Bank N.A. and an affiliate of RBC Capital Markets, which has a three-year term scheduled to expire in December 2015; we have not yet drawn down on this facility.

In April 2012, we closed an offering of \$500.0 million aggregate principal amount of Senior Notes due 2017 and \$300.0 million aggregate principal amount of Senior Notes due 2020. Both the Senior Notes due 2017 and the Senior Notes due 2020 were priced at par. We used the net proceeds of the private placement to repay outstanding indebtedness under our Term Financing No. 1, to terminate the associated interest rate derivatives and to fund general corporate purposes, including the purchase of aviation assets.

In November 2012, we closed an offering of \$500.0 million aggregate principal amount of Senior Notes due 2019 which were priced at par. We used the net proceeds of the private placement for general corporate purposes, including the purchase of aviation assets.

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

As of December 31, 2012, we are in compliance with all applicable covenants in our financings. We have also determined as of December 31, 2012 that our consolidated subsidiaries "restricted net assets" as defined by Rule 4-08(e)(3) of Regulation S-X are less than 25 percent of our consolidated net assets.

In May 2012, the Company's Board of Directors authorized the repurchase of up to \$50.0 million of the Company's common shares. In August 2012, we repurchased 2,500,002 shares from affiliates of Fortress Investment Group LLC at a total cost of \$28.5 million under the repurchase program and we paid no commissions on this transaction. In November 2012, the Company's Board of Directors authorized an increase in the Company's share repurchase program by up to an additional \$28.5 million of its common shares, bringing the total back up to \$50.0 million of its common shares. Through December 31, 2012, we repurchased an additional 936,500 shares at a total cost of \$11.4 million including commissions. In addition, as of February 14, 2013, we repurchased an additional 679,292 common shares at an aggregate cost of \$8.6 million including commissions during 2013. Accordingly, as of February 14, 2013, we have repurchased under this program a total of 1,615,792 common shares at a total cost of \$20.0 million including commissions, at an average price per share of \$12.38, and the remaining dollar value of common shares that may be purchased under the program is \$30.0 million.

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

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Cash Flows

	Year Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2012
	(Dollars in thousands)		
Net cash flow provided by operating activities	\$356,530	\$ 359,377	\$ 427,277
Net cash flow used in investing activities	(541,115)	(445,420)	(741,909)
Net cash flow provided by financing activities	281,876	141,608	637,327

Operating Activities:

Cash flow from operations was \$427.3 million and \$359.4 million for the years ended December 31, 2012 and 2011, respectively. The increase in cash flow from operations of \$67.9 million for the year ended December 31, 2012 versus the same period in 2011 was primarily a result of:

- \$48.1 million increase in cash from lease rentals;
- \$21.0 million increase in cash from other working capital; and
- \$7.2 million increase in cash interest from finance leases.

This increase was offset by:

- \$4.1 million increase in cash paid for interest, net of capitalized interest.

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

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

This increase was offset by:

- \$26.3 million increase in cash paid for interest and
- \$18.3 million decrease in cash from other working capital.

Investing Activities:

Cash used in investing activities was \$741.9 million and \$445.4 million for the years ended December 31, 2012 and 2011, respectively. The increase in cash flow used in investing activities of \$296.5 million for the year ended December 31, 2012 versus the same period in 2011 was primarily a result of:

- \$427.7 million decrease in the proceeds from the sale of flight equipment;
- \$91.5 increase in the net investment of finance leases in 2012; and
- \$37.0 million net increase for the purchase of a debt investment in 2012.

These increases were offset partially by:

- \$101.5 million decrease in aircraft purchase deposits under our Airbus A330 Agreement;
- \$83.5 million decrease in the acquisition and improvement of flight equipment; and
- \$71.5 million increase in restricted cash and cash equivalents related to the sale of flight equipment.

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

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

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This increase was offset by:

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

Financing Activities:

Cash provided from financing activities was \$637.3 million for the year ended December 31, 2012 as compared to \$141.6 million for the year ended December 31, 2011. The net increase in cash flow used by financing activities of \$495.7 million for the year ended December 31, 2012 versus the same period in 2011 was a result of:

\$790.6 million of higher borrowings from the proceeds of the issuance of Senior Notes due 2017, Senior Notes due 2019, Senior Notes due 2020 and an additional borrowing under an ECA supported loan for the financing of an Airbus Model A330-200 aircraft in 2012 as compared to five ECA supported loan borrowings for the financing of five Airbus Model A330-200 aircraft in 2011;

\$124.8 million higher restricted cash and cash equivalents related to security deposits and maintenance payments;

\$51.6 million of higher maintenance deposits received net of maintenance deposits returned;

\$47.4 million lower repurchases of our common shares as a result of the share buy-back program in 2012 versus the same period in 2011; and

\$1.4 million in lower dividends paid.

The inflows were offset partially by:

\$456.5 million of higher financing repayments on our securitizations and term debt financings as the result of the pay-off of Term Financing No. 1 in 2012 as compared to the pay-off of one ECA supported loan in 2011;

\$50.8 million of payments for terminated cash flows hedges in 2012; and

\$11.5 million in higher deferred financing costs; and

\$1.4 million in lower security deposits received net of security deposits returned.

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

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

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

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

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

\$13.3 million of higher dividend payments; and

\$4.8 million in additional deferred financing costs.

The outflows were offset partially by:

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

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

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Debt Obligations

The following table provides a summary of our secured and unsecured debt financings at December 31, 2012:

Debt Obligation	Collateral	Outstanding Borrowing	Number of Aircraft	Interest Rate ⁽¹⁾	Final Stated Maturity ⁽²⁾
(Dollars in thousands)					
Secured Debt Financings:					
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	\$ 309,505	30	0.49%	06/20/31
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	772,863	44	0.54%	06/14/37
ECA Term Financings	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	652,916	10	2.01% to 3.96%	12/03/21 to 11/30/24
Bank Financings	Interests in aircraft, aircraft leases, beneficial interests in aircraft owning/leasing entities and related interests	112,750	3	4.22% to 4.57%	09/15/15 to 10/26/17
Total secured debt financings		1,848,034			
Unsecured Debt Financings:					
Senior Notes due 2017	None	500,000	—	6.75%	04/15/17
Senior Notes due 2018	None	450,642	—	9.75%	08/01/18
Senior Notes due 2019	None	500,000	—	6.25%	12/01/19
Senior Notes due 2020	None	300,000	—	7.63%	04/15/20
2012 Revolving Credit Facility	None	—	—	N/A	12/19/15
Total unsecured debt financings		1,750,642			
Total secured and unsecured debt financings		\$ 3,598,676			

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

(2) For Securitizations No. 1 and No. 2, all cash flow available after expenses and interest is applied to debt amortization.

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

Facility	Liquidity Facility Provider	Available Liquidity		Unused Fee	Interest Rate on any Advances
		December 31, 2011	December 31, 2012		
		(Dollars in thousands)			
Securitization No. 1	Crédit Agricole Corporate and Investment Bank ⁽¹⁾	\$42,000	\$ 42,000	0.45%	1M LIBOR + 1.00
Securitization No. 2	HSH Nordbank AG ⁽¹⁾	66,859	65,000	0.50%	1M LIBOR + 0.75

Following a ratings downgrade by each of the facility providers, the liquidity facility was drawn, and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. Amounts drawn following a ratings downgrade with respect to the liquidity facility provider do not bear interest; however, net investment earnings will be paid to the liquidity facility provider, and the unused fee continues to apply.

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The purpose of these facilities is to provide liquidity for the relevant securitization or term financing in the event that cash flow from lease contracts and other revenue sources is not sufficient to pay operating expenses with respect to the relevant aircraft portfolio, interest payments and interest rate hedging payments for the relevant securitization.

Secured Debt Financings:

ECA Term Financings

During 2012, we entered into two twelve-year term loans which are supported by guarantees from COFACE for the financing of two new Airbus Model A330-200 aircraft totaling \$159.7 million. We refer to these COFACE-supported financings as “ECA Term Financings”. The borrowings under these financings at December 31, 2012 have a weighted average rate of interest equal to 3.221%.

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

Bank Financings

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

In December 2011, two of our subsidiaries each entered into \$18.0 million loan facilities to finance the purchase of two McDonnell Douglas MD11-F aircraft. The loans are to be repaid over 45 and 47 months, respectively, in principal installments beginning January 15, 2012 and ending on September 15, 2015 and November 15, 2015, respectively. We refer to these loan facilities as “Bank Financings”. Our Bank Financings contain, among other customary provisions, a \$500.0 million minimum net worth covenant and, in some cases, a cross-default to other financings with the same lender. In addition, Aircastle Limited has guaranteed the repayment of the Bank Financings. The borrowings under these financings at December 31, 2012 have a weighted average fixed rate of interest equal to 4.306%.

Unsecured Debt Financings:

Senior Notes due 2017 and Senior Notes due 2020

During 2012, Aircastle Limited issued \$500.0 million aggregate principal amount of 6.75% Senior Notes due 2017 (the “Senior Notes due 2017”) and \$300.0 million aggregate principal amount of 7.625% Senior Notes due 2020 (the “Senior Notes due 2020”). The Senior Notes due 2017 mature on April 15, 2017 and bear interest at the rate of 6.75% and the Senior Notes due 2020 mature on April 15, 2020 and bear interest at the rate of 7.625%. Interest on both series of notes is payable on April 15 and October 15 of each year, commencing on October 15, 2012 to holders of record on the immediately preceding April 1 and October 1. The offerings of the Senior Notes due 2017 and the Senior Notes due 2020 were not conditioned on one another.

The Company may redeem the Senior Notes due 2017 and the Senior Notes due 2020 at any time, up to 35% of the aggregate principal amount of each series of notes issued under the indenture at a redemption price equal to 106.75% for the Senior Notes due 2017 and 107.625% for the Senior Notes due 2020, plus accrued and unpaid interest thereon. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2017 and the Senior Notes due 2020 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2017 and the Senior Notes due 2020 are not guaranteed by any of the Company’s subsidiaries.

Senior Notes due 2018

During 2010, Aircastle Limited issued \$300.0 million aggregate principal amount of 9.75% Senior Notes due 2018 (the “2010-1 Notes”). The 2010-1 Notes will mature on August 1, 2018 and bear interest at the rate of 9.75% per annum, payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2011 to holders of record on the immediately preceding January 15 and July 15.

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During 2011, we issued an additional \$150.0 million aggregate principal amount of 9.75% Senior Notes due 2018 (the “2011-1 Notes” and together with the 2010-1 Notes, the “Senior Notes due 2018”). The 2011-1 Notes will mature on August 1, 2018 and bear interest at the rate of 9.75% per annum, payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2012 to holders of record on the immediately preceding January 15 and July 15. The 2010-1 Notes and the 2011-1 Notes are treated as a single class under the indenture.

The Company may redeem all or a portion of the Senior Notes due 2018 at any time on or after August 1, 2014 at a premium decreasing ratably to zero, plus accrued and unpaid interest. In addition, prior to August 1, 2013 the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes due 2018 with the net cash proceeds of certain equity offerings at a redemption price equal to 109.75%, plus accrued and unpaid interest. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2018 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2018 are not guaranteed by any of the Company’s subsidiaries.

Senior Notes due 2019

During 2012, Aircastle Limited issued \$500.0 million aggregate principal amount of 6.25% Senior Notes due 2019 (the “Senior Notes due 2019”). The Senior Notes due 2019 mature on December 1, 2019 and bear interest at the rate of 6.25%. Interest on both series of notes is payable on June 1 and December 1 of each year, commencing on June 1, 2013 to holders of record on the immediately preceding May 15 and November 15.

The Company may redeem the Senior Notes due 2019 at any time, up to 35% of the aggregate principal amount of the notes issued under the indenture at a redemption price equal to 106.25%, plus accrued and unpaid interest thereon. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2019 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2019 are not guaranteed by any of the Company’s subsidiaries.

2012 Revolving Credit Facility

On December 19, 2012, the Company entered into a three-year \$150.0 million senior unsecured revolving credit facility with a group of banks (the “2012 Revolving Credit Facility”) which replaced the 2010 Revolving Credit Facility. The 2012 Revolving Credit Facility provides loans in amounts up to \$150.0 million for working capital and other general corporate purposes. We have not drawn on the 2012 Revolving Credit Facility as of December 31, 2012. During the fourth quarter of 2012, we wrote-off \$0.1 million of deferred financing fees related to the 2010 Revolving Credit Facility, which is reflected in interest expense on the consolidated statement of income.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on variable and fixed rate liabilities, interest payments on interest rate derivatives, other aircraft acquisition and conversion agreements and rent payments pursuant to our office leases. Total contractual obligations increased from \$3.75 billion at December 31, 2011 to approximately \$4.64 billion at December 31, 2012 due primarily to:

- an increase in borrowings and interest payments as the result of the closing of our Senior Notes due 2017, 2019 and 2020 and ECA loans for the purchase of two New A330 aircraft, one in April 2012 and one in November 2012; and
- an increase in the commitment for office leases as a result of a ten-year lease extension for the office space in Stamford, Connecticut signed in January 2012.

These increases were partially offset by:

- principal and interest payments made under our securitizations, ECA term financings and our Bank financings; and
- the payoff of Term Financing No. 1 in April, 2012 from the proceeds of the closing of our Senior Notes due 2017 and 2020.

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The following table presents our actual contractual obligations and their payment due dates as of December 31, 2012.

Contractual Obligations	Payments Due By Period as of December 31, 2012				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars in thousands)				
Principal payments:					
Senior Notes due 2017	\$500,000	\$—	\$—	\$500,000	\$—
Senior Notes due 2018	450,000	—	—	—	450,000
Senior Notes due 2019	500,000	—	—	—	500,000
Senior Notes due 2020	300,000	—	—	—	300,000
Securitization No. 1 ⁽¹⁾	309,505	76,585	105,156	76,161	51,603
Securitization No. 2 ⁽¹⁾	772,863	138,652	274,121	235,729	124,361
ECA Term Financings ⁽²⁾	652,916	52,797	111,055	118,757	370,307
Bank Financings ⁽³⁾	112,750	13,578	35,839	63,333	—
Total principal payments	3,598,034	281,612	526,171	993,980	1,796,271
Interest payments:					
Interest payments on debt obligations ⁽⁴⁾	962,663	163,140	315,930	283,507	200,086
Interest payments on interest rate derivatives ⁽⁵⁾	71,179	22,795	38,440	9,944	—
Total interest payments	1,033,842	185,935	354,370	293,451	200,086
Office leases ⁽⁶⁾	8,954	1,095	2,275	1,687	3,897
Purchase obligations ⁽⁷⁾	—	—	—	—	—
Total	\$4,640,830	\$468,642	\$882,816	\$1,289,118	\$2,000,254

Estimated principal payments for this non-recourse financing are based on excess cash flows available from forecasted lease rentals, net maintenance funding and proceeds from asset dispositions after the payment of

(1) forecasted operating expenses and interest payments, including interest payments on existing interest rate derivative agreements and policy provider fees.

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

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

(4) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at December 31, 2012.

(5) Future interest payments on derivative financial instruments are estimated using the spread between the floating interest rates and the fixed interest rates in effect at December 31, 2012.

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

(7) At December 31, 2012, we had no commitments to acquire aircraft.

Capital Expenditures

We make capital expenditures from time to time in connection with improvements made to our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the years ended December 31, 2010, 2011 and 2012, we incurred a total of \$46.5 million, \$44.0 million and \$41.1 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of December 31, 2012, the weighted average age (by net book value) of our aircraft was approximately 10.7 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Under our leases, the lessee is primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft, or a lessee fails

to meet its maintenance obligations under the lease agreement. At December 31, 2012, we had a \$379.4 million maintenance payment liability on our balance sheet, which is a \$32.3 million increase from December 31, 2011. The increase primarily consisted of net maintenance cash inflows of \$45.1 million and a decrease in lease incentive liabilities of \$12.8 million. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also

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required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

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

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2012.

Foreign Currency Risk and Foreign Operations

At December 31, 2012, all of our leases are payable to us in U.S. dollars. However, we incur Euro- and Singapore dollar-denominated expenses in connection with our subsidiary in Ireland and branch office in Singapore. For the year ended December 31, 2012, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$10.8 million in U.S. dollar equivalents and represented approximately 22.3% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the years ended December 31, 2010, 2011 and 2012, we incurred insignificant net gains and losses on foreign currency transactions.

Hedging

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate derivatives to hedge the current and expected future interest rate payments on our variable rate debt. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment.

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We held the following interest rate derivatives as of December 31, 2012:

Hedged Item	Derivative Liabilities			Future Maximum Notional Amount	Floating Rate	Fixed Rate	Balance Sheet Location	Fair Value
	Current Notional Amount	Effective Date	Maturity Date					
(Dollars in thousands)								
Interest rate derivatives designated as cash flow hedges:								
Securitization No. 1 ⁽¹⁾	\$ 240,004	Jun-06	Jun-16	\$ 240,004	1M LIBOR + 0.27%	5.78%	Fair value of derivative liabilities	\$ 36,074
Securitization No. 2	585,828	Jun-12	Jun-17	585,828	1M LIBOR	to 1.26% 1.28%	Fair value of derivative liabilities	11,702
Total interest rate derivatives designated as cash flow hedges	825,832			825,832				47,776
Interest rate derivatives not designated as cash flow hedges:								
Securitization No. 1 ⁽¹⁾	94,471	Jun-06	Jun-16	94,471	1M LIBOR + 0.27%	5.78%	Fair value of derivative liabilities	14,202
Total interest rate derivatives not designated as cash flow hedges	94,471			94,471				14,202
Total interest rate derivative liabilities	\$ 920,303			\$ 920,303				\$ 61,978

(1) One of the interest rate derivatives hedging Securitization No. 1 was de-designated on December 28, 2012. The effective portion of the loss of \$32.2 million remained in other comprehensive loss on our consolidated balance sheet and will amortize into interest expense using the interest rate method. We re-designated 65% of the hedge notional or \$ 175.4 million with a fair value of \$26.4 million on December 28, 2012. The change in the undesignated 35% of the hedge notional, or \$94.5 million with a fair value of \$14.2 million as of December 28, 2012, will be recorded in other income (loss) on our consolidated statement of income.

The weighted average interest pay rates of these derivatives at December 31, 2010, 2011 and 2012 were 5.01%, 5.03% and 2.91%, respectively.

In connection with the repayment of Term Financing No. 1, two interest rate derivatives hedging the facility were terminated on April 4, 2012 resulting in a net deferred loss of \$50.4 million which is being amortized into interest expense using the interest rate method.

For the year ended December 31, 2012, the amount of loss reclassified from accumulated other comprehensive income ("OCI") into interest expense related to net interest settlements on active interest rate derivatives was \$46.5 million. The

amount of loss expected to be reclassified from OCI into interest expense over the next 12 months related to net interest settlements on active interest rate derivatives is \$17.5 million.

Our interest rate derivatives involve counterparty credit risk. As of December 31, 2012, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA, and Wells Fargo Bank NA. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of Baa2 or above) by Moody's Investors Service. All are also considered investment grade (long-term foreign issuer ratings of A- or above) by Standard and Poor's. We do not anticipate that any of these counterparties will fail to meet their obligations.

In addition to the derivative liability above, another component of the fair value of our interest rate derivatives is accrued interest. As of December 31, 2012, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$1.1 million related to interest rate derivatives designated as cash flow hedges and \$0.1 million related to interest rate derivatives not designated as cash flow hedges.

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On an ongoing basis, terminated interest rate derivative notionals are evaluated against debt forecasts. To the extent that interest payments are deemed remote to occur, deferred gains or losses are accelerated into interest expense as applicable.

The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the years ended December 31, 2010, 2011, and 2012:

Hedged Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Fixed Rate %	Termination Date	Deferred (Gain) or Loss Upon Termination	Unamortized Deferred Loss at December 2012	Amount of Deferred (Gain) or Loss Amortized (including Accelerated Amortization) into Interest Expense for the Year Ended December 31,			Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months
								2010	2011	2012	
(Dollars in thousands)											
Securitization No. 1	\$400,000	Dec-05	Aug-10	4.61	Jun-06	\$(12,968)	\$—	\$(1,418)	\$—	\$—	\$—
Securitization No. 1	200,000	Dec-05	Dec-10	5.03	Jun-06	(2,541)	—	(297)	—	—	—
Securitization No. 2	500,000	Mar-06	Mar-11	5.07	Jun-07	(2,687)	—	(675)	(122)	—	—
Securitization No. 2	200,000	Jan-07	Aug-12	5.06	Jun-07	(1,850)	—	(350)	(333)	(190)	—
Securitization No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)	(968)	(348)	(353)	(341)	(298)
Term Financing No. 1	150,000	Jul-07	Dec-17	5.14	Mar-08	15,281	5,966	1,916	1,779	1,740	1,446
Term Financing No. 1	440,000	Jun-07	Feb-13	4.88	Full – Jun-08	26,281	384	5,588	5,185	4,771	384
Term Financing No. 1	248,000	Aug-07	May-13	5.33	Jun-08	9,888	721	2,677	1,620	1,349	721
Term Financing No. 1 ⁽¹⁾	710,068	Jun-08	May-13	4.04	Terminated - Apr-12	19,026	5,695	—	—	13,331	5,695
Term Financing No. 1 ⁽¹⁾	491,718	May-13	May-15	5.31	Terminated - Apr-12	31,403	31,403	—	—	—	12,148
Senior Notes due 2018	360,000	Jan-08	Feb-19	5.16	Full – Oct-08	23,077	8,197	1,823	1,328	645	1,173
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Full – Dec-08	15,310	5,592	705	2,538	3,602	2,280
	238,000	Jan-11	Apr-16	5.23	Dec-08	19,430	10,169	13	4,508	3,755	3,468

ECA Term Financing for New A330 Aircraft											
ECA Term Financing for New A330 Aircraft	238,000	Jul-11	Sep-16	5.27	Dec-08	17,254	7,027	—	6,928	2,014	2,170
Total						\$153,785	\$74,186	\$9,634	\$23,078	\$30,676	\$29,187

On April 4, 2012, upon the repayment of Term Financing No. 1, both interest rate derivatives were terminated (1)resulting in a net deferred loss of \$50,429 which is being amortized into interest expense using the interest rate method.

For the year ended December 31, 2012, the amount of deferred net loss reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$30.7 million. The amount of deferred net loss expected to be reclassified from OCI into interest expense over the next 12 months related to our terminated interest rate derivatives is \$29.2 million of which \$17.8 million relates to Term Financing No. 1 interest rate derivatives terminated in April 2012, \$2.6 million relates to Term Financing No. 1 interest rate derivatives terminated in 2008, \$7.9 million relates to ECA Term Financings for New A330 Aircraft and \$0.9 million relates to other financings.

For the year ended December 31, 2012, the amount of deferred loss reclassified from OCI into interest expense related to our designated interest rate derivative was \$0.1 million. The amount of deferred loss expected to be reclassified from OCI into interest expense over the next 12 months related to our designated interest rate derivative under our Securitization No. 1 is \$9.6 million.

The following table summarizes amounts charged directly to the consolidated statement of income for the years ended December 31, 2010, 2011, and 2012 related to our interest rate derivative contracts:

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	Year Ended December 31,		
	2010	2011	2012
	(Dollars in thousands)		
Interest Expense:			
Hedge ineffectiveness losses (gains)	\$5,039	\$(101)) \$2,893
Amortization:			
Accelerated amortization of deferred losses ⁽¹⁾	766	8,508	—
Amortization of loss of designated interest rate derivative	—	—	101
Amortization of deferred (gains) losses	8,868	14,570	30,676
Total Amortization	9,634	23,078	30,777
Total charged to interest expense	\$14,673	\$22,977	\$33,670
Other Income (Expense):			
Mark to market gains (losses) on undesignated hedges	\$(860)) \$(848)) \$(597)
Total charged to other income (expense)	\$(860)) \$(848)) \$(597)

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

Inflation

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

Management's Use of EBITDA and Adjusted EBITDA

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

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

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

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

The table below shows the reconciliation of net income to EBITDA for the years ended December 31, 2010, 2011 and 2012, and the three months ended December 31, 2012, respectively.

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	Year Ended December 31,		
	2010	2011	2012
	(Dollars in thousands)		
Net income	\$65,816	\$124,270	\$32,868
Depreciation	220,476	242,103	269,920
Amortization of net lease discounts and lease incentives	20,081	16,445	12,844
Interest, net	178,262	204,150	222,808
Income tax provision	6,596	7,832	7,845
EBITDA	\$491,231	\$594,800	\$546,285
Adjustments:			
Impairment of Aircraft	7,342	6,436	96,454
Non-cash share based payment expense	7,509	5,786	4,232
Loss (gain) on mark to market of interest rate derivative contracts	860	848	(597)
Contract termination expense	—	—	1,248
Adjusted EBITDA	\$506,942	\$607,870	\$647,622

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

Beginning with our quarterly report for the quarter ended March 31, 2012, management, to be more consistent with reporting practices of peer aircraft leasing companies, has revised the calculation of ANI to no longer exclude gains (losses) on sales of assets, and to exclude non-cash share based payment expense in the calculation of ANI. Beginning with our quarterly report for the quarter ended June 30, 2012, we also excluded Term Financing No. 1 hedge loss amortization charges which will be reported in Interest, net on our consolidated statement of income from the calculation of ANI. The calculation of ANI for the years ended December 31, 2010 and 2011 have been revised to be comparable with the current period presentation.

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

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2010, 2011 and 2012, and the three months ended December 31, 2012 respectively.

	Year Ended December 31,		
	2010	2011	2012
	(Dollars in thousands)		
Net income	\$65,816	\$124,270	\$32,868
Ineffective portion and termination of cash flow hedges ⁽¹⁾	5,805	8,407	2,893
Mark to market of interest rate derivative contracts ⁽²⁾	860	848	(597)
Loan termination payment ⁽¹⁾	—	3,196	—
Write-off of deferred financing fees ⁽¹⁾	2,471	2,456	3,034
Stock compensation expense ⁽³⁾	7,509	5,786	4,232
Term Financing No. 1 hedge loss amortization charges ⁽¹⁾	—	—	13,331
Contract termination expense	—	—	1,248
Adjusted net income	\$82,461	\$144,963	\$57,009

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- (1) Included in Interest, net.
(2) Included in Other income (expense).
(3) Included in Selling, general and administrative expenses.

	Year Ended December 31,		
	2010	2011	2012
Weighted-average shares:			
Common shares outstanding	78,488,031	74,686,150	70,716,963
Restricted common shares	1,118,542	956,433	587,813
Total weighted-average shares	79,606,573	75,642,583	71,304,776
	Year Ended December 31,		
	2010	2011	2012
Percentage of weighted-average shares:			
Common shares outstanding	98.59	% 98.74	% 99.18
Restricted common shares ^(a)	1.41	% 1.26	% 0.82
Total	100.00	% 100.00	% 100.00
	Year Ended December 31,		
	2010	2011	2012
Weighted-average common shares outstanding — Basic and Diluted ^(b)	78,488,031	74,686,150	70,716,963
	Year Ended December 31,		
	2010	2011	2012
Adjusted net income allocation:			
Adjusted net income	\$ 82,461	\$ 144,963	\$ 57,009
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	(1,159)	(1,833)	(470)
Adjusted net income allocable to common shares — Basic and Diluted	\$ 81,302	\$ 143,130	\$ 56,539
Adjusted net income per common share — Basic	\$ 1.04	\$ 1.92	\$ 0.80
Adjusted net income per common share — Diluted	\$ 1.04	\$ 1.92	\$ 0.80

For the years ended December 31, 2010, 2011 and 2012, distributed and undistributed earnings to restricted shares (a) is 1.41%, 1.26% and 0.82%, respectively, of net income. The amount of restricted share forfeitures for all periods presented is immaterial to the allocation of distributed and undistributed earnings.

(b) For the years ended December 31, 2010, 2011 and 2012, we have no dilutive shares.

Limitations of EBITDA, Adjusted EBITDA and ANI

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

EBITDA, Adjusted EBITDA and ANI have limitations as analytical tools and should not be viewed in isolation or as substitutes for US GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate EBITDA, Adjusted EBITDA and ANI, and using these non-US GAAP measures as compared to US GAAP net income, income from continuing operations and cash flows provided by or used in operations, include: depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures; the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;

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elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy; hedge loss amortization charges related to Term Financing No. 1; and adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes.

EBITDA, Adjusted EBITDA and ANI are not alternatives to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with US GAAP. You should not rely on these non-US GAAP measures as a substitute for any such US GAAP financial measure. We strongly urge you to review the reconciliations to US GAAP net income, along with our consolidated financial statements included elsewhere in this Annual Report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA and ANI are not measures of financial performance under US GAAP and are susceptible to varying calculations, EBITDA, Adjusted EBITDA and ANI as presented in this Annual Report, may differ from and may not be comparable to, similarly titled measures used by other companies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK