

Aircastle LTD
Form 10-Q
August 04, 2011

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

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2011**

or

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

For the transition period from _____ to _____
Commission File number 001-32959
AIRCASTLE LIMITED
(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of incorporation or
organization)

98-0444035
(IRS Employer Identification No.)

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

06902
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

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

As of July 29, 2011, there were 74,915,769 outstanding shares of the registrant's common shares, par value \$0.01 per share.

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

	December 31, 2010	June 30, 2011 (Unaudited)
ASSETS		
Cash and cash equivalents	\$ 239,957	\$ 184,017
Accounts receivable	1,815	2,665
Restricted cash and cash equivalents	191,052	185,245
Restricted liquidity facility collateral	75,000	112,000
Flight equipment held for lease, net of accumulated depreciation of \$785,490 and \$891,810	4,065,780	4,099,641
Aircraft purchase deposits and progress payments	219,898	188,599
Other assets	65,557	74,529
Total assets	\$ 4,859,059	\$ 4,846,696
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Borrowings from secured and unsecured financings (including borrowings of ACS Ireland VIEs of \$314,877 and \$306,040, respectively)	\$ 2,707,958	\$ 2,685,632
Accounts payable, accrued expenses and other liabilities	76,470	80,899
Dividends payable	7,964	9,364
Lease rentals received in advance	43,790	39,066
Liquidity facility	75,000	112,000
Security deposits	83,241	78,959
Maintenance payments	342,333	320,696
Fair value of derivative liabilities	179,585	154,655
Total liabilities	3,516,341	3,481,271
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common shares, \$.01 par value, 250,000,000 shares authorized, 79,640,285 shares issued and outstanding at December 31, 2010; and 74,915,769 shares issued and outstanding at June 30, 2011	796	749
Additional paid-in capital	1,485,841	1,427,558
Retained earnings	104,301	153,066
Accumulated other comprehensive loss	(248,220)	(215,948)

Total shareholders' equity	1,342,718	1,365,425
Total liabilities and shareholders' equity	\$ 4,859,059	\$ 4,846,696

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

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Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
Revenues:				
Lease rental revenue	\$ 128,133	\$ 143,355	\$ 258,255	\$ 284,471
Amortization of net lease discounts and lease incentives	(4,909)	(3,030)	(9,754)	(6,132)
Maintenance revenue	6,836	8,162	12,090	25,006
 Total lease rentals	 130,060	 148,487	 260,591	 303,345
Other revenue	124	351	154	3,407
 Total revenues	 130,184	 148,838	 260,745	 306,752
 Expenses:				
Depreciation	54,424	58,576	108,569	118,167
Interest, net	40,166	55,893	81,125	101,512
Selling, general and administrative (including non-cash share based payment expense of \$1,929 and \$1,178 for the three months ended, and \$3,711 and \$3,073 for the six months ended, June 30, 2010 and 2011, respectively)	11,036	11,578	22,709	24,109
Impairment of aircraft		5,200		5,200
Maintenance and other costs	3,437	3,369	5,637	6,899
 Total expenses	 109,063	 134,616	 218,040	 255,887
 Other income (expense):				
Gain (loss) on sale of flight equipment	(1,291)	10,299	(1,291)	19,961
Other	(176)	323	(546)	(36)
 Total other income (expense)	 (1,467)	 10,622	 (1,837)	 19,925
 Income from continuing operations before income taxes	 19,654	 24,844	 40,868	 70,790
Income tax provision	1,515	1,535	3,850	4,804
 Net income	 \$ 18,139	 \$ 23,309	 \$ 37,018	 \$ 65,986

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Earnings per common share	Basic	\$ 0.23	\$ 0.30	\$ 0.46	\$ 0.84
Earnings per common share	Diluted	\$ 0.23	\$ 0.30	\$ 0.46	\$ 0.84
Dividends declared per share		\$ 0.10	\$ 0.125	\$ 0.20	\$ 0.225

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

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

	Six Months Ended	
	June 30,	
	2010	2011
Cash flows from operating activities:		
Net income	\$ 37,018	\$ 65,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	108,569	118,167
Amortization of deferred financing costs	5,760	9,417
Amortization of net lease discounts and lease incentives	9,754	6,132
Deferred income taxes	2,537	2,712
Non-cash share based payment expense	3,711	3,073
Cash flow hedges reclassified into earnings	4,074	8,226
Ineffective portion of cash flow hedges	1,769	(598)
Security deposits and maintenance payments included in earnings	(9,978)	(25,282)
(Gain) loss on sale of flight equipment	1,291	(19,961)
Impairment of aircraft		5,200
Other	546	566
Changes in certain assets and liabilities:		
Accounts receivable	(662)	(1,366)
Restricted cash and cash equivalents	12,436	5,807
Other assets	655	(1,276)
Accounts payable, accrued expenses and other liabilities	(5,445)	(11,861)
Lease rentals received in advance	(1,343)	(5,231)
Net cash provided by operating activities	170,692	159,711
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(55,353)	(196,132)
Proceeds from sale of flight equipment	17,707	151,577
Restricted cash and cash equivalents related to sale of flight equipment	(17,707)	
Aircraft purchase deposits and progress payments, net of aircraft sale deposits	(74,666)	(76,897)
Other	(16)	(10)
Net cash used in investing activities	(130,035)	(121,462)
Cash flows from financing activities:		
Repurchase of shares	(1,663)	(61,403)
Proceeds from term debt financings	57,089	230,333
Securitization and term debt financing repayments	(88,341)	(252,912)
Deferred financing costs	(2,023)	(11,253)
Restricted secured liquidity facility collateral	2,000	(37,000)

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Secured liquidity facility collateral	(2,000)	37,000
Security deposits received	3,917	10,317
Security deposits returned	(8,760)	(7,764)
Maintenance payments received	57,762	57,571
Maintenance payments returned	(35,702)	(43,257)
Dividends paid	(15,906)	(15,821)
Net cash used in financing activities	(33,627)	(94,189)
Net increase (decrease) in cash and cash equivalents	7,030	(55,940)
Cash and cash equivalents at beginning of period	142,666	239,957
Cash and cash equivalents at end of period	\$ 149,696	\$ 184,017
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$ 70,216	\$ 83,754
Cash paid for income taxes	\$ 2,595	\$ 1,525
Supplemental disclosures of non-cash investing activities:		
Security deposits, maintenance liabilities and other liabilities settled in sale of flight equipment	\$	\$ 9,566
Supplemental disclosures of non-cash financing activities:		
Advance lease rentals converted to maintenance reserves	\$ 1,750	\$
Security deposits converted to advance lease rentals	\$	\$ 546

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

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

June 30, 2011

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited (Aircastle, the Company, we, us or our) is a Bermuda exempted company that was incorporated on October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates (together, the Fortress Shareholders or Fortress) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business is investing in aviation assets, including leasing, managing and selling commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments.

Basis of Presentation

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (US GAAP). We operate in a single segment.

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with US GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of June 30, 2011 through the date on which the consolidated financial statements included in this Form 10-Q were issued.

Principles of Consolidation

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

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding (a) whether an entity is subject to consolidation as a VIE, (b) who the variable interest holders are, (c) the potential expected losses and residual returns of the variable interest holders, and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider (1) the entity's purpose and design, (2) which variable interest holder has the power to direct the activities that most significantly impact the entity's economic performance, and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (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. Under the Lease ED, a lessor would be required to adopt a right-of-use model where the lessor would apply one of two approaches to each lease based on whether the lessor

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retains exposure to significant risks or benefits associated with the underlying asset. In July 2011, the FASB tentatively decided on a new model for lessor accounting that would require a single approach for all leases, with a few exceptions. Under the new model, 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. Even though the FASB has not completed all of its deliberations, the decisions made to date were sufficiently different from those published in the Lease ED to warrant re-exposure of the revised proposal. The FASB intends to complete its deliberations during the third quarter of 2011 with a view to publishing a revised proposed leases standard shortly thereafter. A final standard may have an effective date no earlier than 2015. 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.

In May 2011, the FASB issued ASU 2011-04 (ASU 2011-04), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments in this update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements which include (1) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, and (2) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 will not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update (ASU) 2011-05 (ASU 2011-05), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which gives the option to present the total of comprehensive income either in a single continuous statement of comprehensive net income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. If a two statement approach is used, the statement of other comprehensive income should immediately follow the statement of net income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. It also requires the presentation on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU 2011-05 will not have a material impact on the Company's consolidated financial statements.

Note 2. Fair Value Measurements

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

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

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

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

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

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

The following tables set forth our financial assets and liabilities as of December 31, 2010 and June 30, 2011 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 239,957	\$ 239,957	\$	\$	Market
Restricted cash and cash equivalents	191,052	191,052			Market
Derivative assets	374		374		Income
Total	\$ 431,383	\$ 431,009	\$ 374	\$	
Liabilities:					
Derivative liabilities	\$ 179,585	\$	\$ 124,404	\$ 55,181	Income

	Fair Value as of June 30, 2011	Fair Value Measurements at June 30, 2011 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 184,017	\$ 184,017	\$	\$	Market
Restricted cash and cash equivalents	185,245	185,245			Market
Total	\$ 369,262	\$ 369,262	\$	\$	
Liabilities:					
Derivative liabilities	\$ 154,655	\$	\$ 100,129	\$ 54,526	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value

hierarchy. Our interest rate derivatives included in Level 2 consist of United States dollar denominated interest rate derivatives, and their fair values are determined by applying standard modeling techniques under the income approach to relevant market interest rates (cash rates, futures rates, swap rates) in effect at the period close to determine appropriate reset and discount rates and incorporates an assessment of the risk of non-performance by the interest rate

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derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities.

Our interest rate derivatives included in Level 3 consist of United States dollar denominated interest rate swaps on Term Financing No. 1 with a guaranteed notional balance. The guaranteed notional balance has an upper notional band that matches the hedged debt and a lower notional band. The notional balance is guaranteed to match the hedged debt balance if the debt balance decreases within the upper and lower notional band. During the year ended December 31, 2010, the notional balance was adjusted to match the debt balance of Term Financing No. 1 as a result of various changes to Term Financing No. 1 including supplemental principal payments and debt payoff related to an aircraft sale. The fair value of the interest rate derivative is determined based on the adjusted upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close. It incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities. The range of the guaranteed notional between the upper and lower band represents an option that may not be exercised independently of the debt notional and is therefore valued based on unobservable market inputs.

The following tables reflect the activity for the classes of our assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010 and 2011:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	Derivative Liabilities	
Balance at beginning of period	\$ (45,040)	\$ (38,907)
Total gains/(losses), net:		
Included in other income (expense)	(136)	(275)
Included in interest expense	(71)	(122)
Included in other comprehensive income	(14,169)	(20,112)
Balance at end of period	\$ (59,416)	\$ (59,416)

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	Derivative Liabilities	
Balance at beginning of period	\$ (48,764)	\$ (55,181)
Total gains/(losses), net:		
Included in other income (expense)	(119)	(242)
Included in interest expense	(45)	(39)
Included in other comprehensive income	(5,598)	936

Balance at end of period	\$ (54,526)	\$ (54,526)
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For the three and six months ended June 30, 2010 and 2011, we had no transfers into or out of Level 3 and we had no purchases, issuances, sales or settlements of Level 3 items.

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

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June 30, 2011

income approach that uses Level 3 inputs, which include our assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

In the three and six months ended June 30, 2011, we recognized an impairment of \$5,200 related to a Boeing Model 737-400 aircraft triggered by the early termination of the lease and the change to estimated future cash flows. In the three and six months ended June 30, 2011, we recorded \$2,267 related to maintenance revenue and \$878 reversal of lease incentives related to the former lessee of this aircraft.

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short term nature.

The fair values of our securitizations which contain third-party credit enhancements are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates of borrowing arrangements that do not contain third-party credit enhancements. The fair values of our term debt financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at December 31, 2010 and June 30, 2011 are as follows:

	December 31, 2010		June 30, 2011	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Securitizations and term debt financings	\$(2,056,012)	\$(1,829,277)	\$(1,956,378)	\$(1,772,625)
ECA term financings	(267,311)	(273,203)	(412,872)	(408,463)
A330 PDP Facility	(88,487)	(88,487)	(19,981)	(19,981)
2010-1 Notes	(296,148)	(328,500)	(296,401)	(331,875)

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

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at June 30, 2011 were as follows:

Year Ending December 31,	Amount
Remainder of 2011	\$ 278,490
2012	503,146
2013	401,683
2014	315,740
2015	263,791
2016	233,962
Thereafter	409,988
Total	\$ 2,406,800

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June 30, 2011

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

Region	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Europe	45%	45%	45%	46%
Asia	19%	23%	20%	23%
North America	16%	13%	16%	13%
Latin America	10%	9%	9%	9%
Middle East and Africa	10%	10%	10%	9%
Total	100%	100%	100%	100%

The classification of regions in the tables above and the table and discussion below is determined based on the principal location of the lessee of each aircraft.

For the three months ended June 30, 2010, one customer accounted for 11% of lease rental revenue and three additional customers accounted for a combined 22% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the three months ended June 30, 2011, one customer accounted for 10% of lease rental revenue and three additional customers accounted for a combined 18% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

For the six months ended June 30, 2010, one customer accounted for 11% of lease rental revenue and three additional customers accounted for a combined 21% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the six months ended June 30, 2011, one customer accounted for 10% of lease rental revenue and three additional customers accounted for a combined 18% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue.

The following tables set forth revenue attributable to individual countries representing at least 10% of total revenue based on each lessee's principal place of business:

Country	Revenue	Three Months Ended June 30,				
		2010		2011		
		Percent of Total Revenue	Number of Lessees	Revenue	Percent of Total Revenue	
United States	\$ 16,754	13%	4	\$ 16,683	11%	4
China	14,037	11%	5	16,128	11%	4
Netherlands ⁽¹⁾	14,015	11%	3		%	

(1) Total revenue attributable to the Netherlands was less than 10% for the three months ended June 30, 2011.

Six Months Ended June 30,			
2010		2011	

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Country	Revenue	Percent of	Number	Revenue	Percent of	Number
		Total Revenue	of Lessees		Total Revenue	of Lessees
United States	\$ 33,399	13%	4	\$ 33,418	11%	4
China	27,843	11%	5	32,401	11%	5
Netherlands ⁽¹⁾	28,027	11%	3		%	

(1) Total revenue attributable to the Netherlands was less than 10% for the six months ended June 30, 2011.

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

Region	December 31, 2010		June 30, 2011	
	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Europe	66	46%	64	44%
Asia	35	26%	32	24%
North America	14	10%	14	10%
Latin America	11	8%	10	6%
Middle East and Africa	10	10%	8	14%
Off-lease		%	8 ⁽¹⁾	2%
Total	136	100%	136	100%

(1) Includes one Boeing Model 747-400 aircraft being converted from passenger to freighter configuration and for which we have a letter of intent for lease upon completion of the conversion with a customer in North America; four Airbus Model A320-200 aircraft, three of which we have leased or are subject to lease commitments with customers in Asia and Europe and one of which is being marketed for lease or sale; and three Boeing Model 737 classic aircraft, one of which we have leased to a customer in Asia, one of which was sold in August 2011 and one of which is being marketed for lease or sale.

The following table sets forth net book value of flight equipment attributable to individual countries representing at least 10% of total assets based on each lessee's principal place of business as of:

Country	December 31, 2010			June 30, 2011		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
China	\$518,545	13%	5	\$457,017	11%	4
Netherlands	410,086	10%	3	397,307	10%	3

At December 31, 2010 and June 30, 2011, the amounts of lease incentive liabilities recorded in maintenance payments on the consolidated balance sheets were \$26,536 and \$27,828, respectively.

At December 31, 2010 and June 30, 2011, the amounts of prepaid lease incentives and lease premiums, net of amortization, recorded in other assets on the consolidated balance sheets were \$9,115 and \$11,087 respectively.

Note 4. Variable Interest Entities

Aircastle consolidates seven VIEs of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the nineteen aircraft discussed below.

Securitizations and Term Financing

In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc (ACS Ireland) and ACS Aircraft Finance Bermuda Limited (ACS Bermuda) issued Class A-1 notes and each has fully and unconditionally guaranteed the other's obligations under the notes. In connection with Securitization No. 2, two of our

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subsidiaries, ACS Aircraft Finance Ireland 2 Limited (ACS Ireland 2) and ACS 2007-1 Limited (ACS Bermuda 2) issued Class A-1 notes and each has fully and unconditionally guaranteed the other's obligations under the notes. In connection with Term Financing No. 1, two of our subsidiaries, ACS Ireland 3 Limited (ACS Ireland 3) and ACS 2008-1 Limited (ACS Bermuda 3) entered into a seven year term debt facility and each has fully and unconditionally guaranteed the other's obligations under the term debt facility. ACS Bermuda, ACS Bermuda 2 and ACS Bermuda 3

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are collectively referred to as the ACS Bermuda Group . At June 30, 2011, the assets of the three VIEs include fifteen aircraft transferred into the VIEs at historical cost basis in connection with Securitization No. 1, Securitization No. 2 and Term Financing No. 1.

Aircastle is the primary beneficiary of ACS Ireland, ACS Ireland 2 and ACS Ireland 3 (collectively, the ACS Ireland VIEs) as we have both the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through Class E-1 Securities. Although Aircastle has not guaranteed the ACS Ireland VIEs debt, Aircastle wholly owns the ACS Bermuda Group which has fully and unconditionally guaranteed the ACS Ireland VIEs obligations. The activity that most significantly impacts the economic performance is the leasing of aircraft. Aircastle Advisor (Ireland) Limited (Aircastle s wholly owned subsidiary) is the Remarketing Servicer and is responsible for the leasing of the aircraft. An Irish charitable trust owns 95% of the common shares of the ACS Ireland VIEs. The Irish charitable trust s risk is limited to its annual dividend of \$2 per VIE.

The combined assets of the ACS Ireland VIEs as of June 30, 2011 are \$469,632. The combined liabilities of the ACS Ireland VIEs, net of \$96,016 Class E-1 Securities held by the Company which is eliminated in consolidation, as of June 30, 2011 are \$421,394.

ECA Term Financings

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the Air Knight VIEs), entered into seven different twelve-year term loans, which are supported by guarantees from Compagnie Francaise d Assurance pour le Commerce Extérieur, (COFACE), the French government sponsored export credit agency (ECA). These loans provided for the financing for seven new Airbus Model A330 aircraft. In June 2011, we repaid one of these loans from the proceeds of the sale of the related aircraft. At June 30, 2011, Aircastle had six outstanding term loans with guarantees from COFACE. We refer to these COFACE-supported financings as ECA Term Financings .

Aircastle is the primary beneficiary of the Air Knight VIEs as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through a finance lease. The activity that most significantly impacts the economic performance is the leasing of aircraft of which our wholly owned subsidiary is the Servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements, and deferred financing costs. The related aircraft, with a net book value as of June 30, 2011 were \$501,160, are included in our flight equipment held for lease. The consolidated debt outstanding of the Air Knight VIEs as of June 30, 2011 is \$412,872.

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Note 5. Securitizations and Term Debt Financings

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

	At December 31, 2010		At June 30, 2011	
	Outstanding Borrowings	Outstanding Borrowings	Interest Rate ⁽¹⁾	Final Stated Maturity ⁽²⁾
Debt Obligation				
Secured Debt Financings:				
Securitization No. 1	\$ 415,103	\$ 404,231	0.46%	6/20/31
Securitization No. 2	997,713	933,196	0.45%	6/14/37
Term Financing No. 1	643,196	618,951	1.94%	05/02/15
			2.65% to	12/03/21 to
ECA Term Financings	267,311	412,872	3.96%	5/03/23
A330 PDP Facility	88,487	19,981	2.69%	12/01/11 ⁽³⁾
Total secured debt financings	2,411,810	2,389,231		
Unsecured Debt Financings:				
2010-1 Notes	296,148	296,401	9.75%	08/01/18
2010 Revolving Credit Facility			N/A	09/28/13
Total unsecured debt financings	296,148	296,401		
Total secured and unsecured debt financings	\$2,707,958	\$2,685,632		

- (1) Reflects floating rate in effect at the applicable reset date except for the ECA Term Financings and the 2010-1 Notes, which are fixed rate.
- (2) Effective June 2011 for Securitization No. 1, all cash flows available after expenses and interest will be applied to debt amortization. For Securitization No. 2 and Term Financing No. 1, all cash flows available after expenses and interest will be applied to debt amortization, if the debt is not refinanced by June 2012, and May 2013, respectively.
- (3) Reflects the last scheduled delivery month for the six relevant new Airbus A330-200 delivery positions. The final maturity date is the earlier of the aircraft delivery date or nine months after the scheduled delivery month for the last scheduled delivery position.

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, 2010	June 30, 2011		
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 ⁽²⁾	74,828	69,990	0.50%	+ 0.75%
Term Financing No. 1	Crédit Agricole Corporate and Investment Bank ⁽³⁾	12,864	12,379	0.60%	1M Libor + 1.20%

- (1) Following a ratings downgrade with respect to the liquidity facility provider in June 2011, 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.
- (2) Following a ratings downgrade with respect to the liquidity facility provider in May 2009, the liquidity facility was drawn and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. 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.
- (3) The ratings threshold for the liquidity facility provider under Term Financing No. 1 is lower than the ratings threshold under Securitization No. 1 and, accordingly, the ratings change referred to in footnote (1) above did not trigger a liquidity facility drawing in relation to Term Financing No. 1.

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Secured Debt Financings:*Term Financing No. 1*

In March 2011, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we are in compliance with the loan to value ratio on the July 2011 payment date.

ECA Term Financings

During 2011, we entered into three twelve-year term loans which are supported by guarantees from COFACE, for the financing of new Airbus Model A330-200 aircraft totaling \$218,914, and we repaid in full the outstanding principal balance of one of our ECA term financings in the amount of \$61,571.

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 \$500,000 minimum net worth covenant for Aircastle Limited, as well as a material adverse change default and cross default to any other recourse obligation of Aircastle Limited, and other terms and conditions customary for ECA-supported financings being completed at this time. In addition, Aircastle Limited has guaranteed the repayment of the ECA Term Financings.

Note 6. Dividends

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

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
December 14, 2009	\$ 0.10	\$ 7,955	December 31, 2009	January 15, 2010
March 12, 2010	\$ 0.10	7,951	March 31, 2010	April 15, 2010
May 25, 2010	\$ 0.10	7,947	June 30, 2010	July 15, 2010
September 21, 2010	\$ 0.10	7,947	September 30, 2010	October 15, 2010
December 6, 2010	\$ 0.10	7,964	December 31, 2010	January 14, 2011
March 8, 2011	\$ 0.10	7,857	March 31, 2011	April 15, 2011
June 27, 2011	\$ 0.125	9,364	July 7, 2011	July 15, 2011

Note 7. Shareholders' Equity and Share Based Payment

In March 2011, the Company's Board of Directors authorized the repurchase of up to \$60,000 of the Company's common shares. In June 2011, the Company's Board of Directors authorized an increase in the Company's share repurchase program by up to an additional \$30,000 of its common shares, for a total of up to \$90,000 of its common shares in the aggregate. Under the program, the Company may purchase its common shares from time to time in the open market or in privately negotiated transactions. The amount and timing of the purchases will depend on a number of factors, including the price and availability of the Company's common shares, trading volume and general market conditions. The Company may also from time to time establish a trading plan under Rule 10b5-1 of the Securities

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Exchange Act of 1934 (the Exchange Act) to facilitate purchases of its common shares under this authorization. Through June 30, 2011, we repurchased 4,914,650 shares at a total cost of \$60,000 including commissions.

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Note 8. Earnings Per Share

We include all common shares granted under our incentive compensation plan which remain unvested (restricted common shares) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (participating securities), in the number of shares outstanding in our basic and diluted earnings per share calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Weighted-average shares:				
Common shares outstanding	78,465,361	75,701,045	78,436,452	77,234,869
Restricted common shares	1,153,468	1,017,879	1,182,165	956,232
Total weighted-average shares	79,618,829	76,718,924	79,618,617	78,191,101
 Percentage of weighted-average shares:				
Common shares outstanding	98.55%	98.67%	98.52%	98.78%
Restricted common shares	1.45%	1.33%	1.48%	1.22%
Total	100.0%	100.0%	100.0%	100.0%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Earnings per share Basic:				
Net income	\$ 18,139	\$ 23,309	\$ 37,018	\$ 65,986
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	(263)	(309)	(550)	(807)
Earnings available to common shareholders Basic	\$ 17,876	\$ 23,000	\$ 36,468	\$ 65,179
	78,465,361	75,701,045	78,436,452	77,234,869

Weighted-average common shares
outstanding Basic

Earnings per common share Basic	\$	0.23	\$	0.30	\$	0.46	\$	0.84
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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
Earnings per share Diluted:				
Net income	\$ 18,139	\$ 23,309	\$ 37,018	\$ 65,986
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	(263)	(309)	(550)	(807)
Earnings available to common shareholders Diluted	\$ 17,876	\$ 23,000	\$ 36,468	\$ 65,179
Weighted-average common shares outstanding Basic	78,465,361	75,701,045	78,436,452	77,234,869
Effect of dilutive shares	(b)	(b)	(b)	(b)
Weighted-average common shares outstanding Diluted	78,465,361	75,701,045	78,436,452	77,234,869
Earnings per common share Diluted	\$ 0.23	\$ 0.30	\$ 0.46	\$ 0.84

(a) For the three months ended June 30, 2010 and 2011, distributed and undistributed earnings allocated to restricted shares is 1.45% and 1.33%, respectively, of net income. For the six months ended June 30, 2010 and 2011, distributed and undistributed earnings to restricted shares is 1.48% and 1.22%, respectively, of net income. The amount of restricted share forfeitures for all periods present is immaterial to the allocation of distributed and undistributed earnings.

(b) For the three and six months ended June 30, 2010 and 2011, we have no dilutive shares.

Note 9. Income Taxes

Income taxes have been provided for based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. 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.

The sources of income from continuing operations before income taxes for the three and six months ended June 30, 2010 and 2011 were as follows:

Three Months Ended	Six Months Ended
June 30,	June 30,

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	2010	2011	2010	2011
U.S. operations	\$ 487	\$ 389	\$ 1,022	\$ 823
Non-U.S. operations	19,167	24,455	39,846	69,967
Total	\$ 19,654	\$ 24,844	\$ 40,868	\$ 70,790

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.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
Notional U.S. federal income tax expense at the statutory rate	\$ 6,879	\$ 8,696	\$ 14,304	\$ 24,777
U.S. state and local income tax, net	30	24	61	48
Non-U.S. operations:				
Bermuda	(3,788)	(4,239)	(8,170)	(16,235)
Ireland	(1,621)	(1,850)	(3,204)	(2,921)
Other tax jurisdictions	(14)	(1,121)	(19)	(1,643)
Non-deductible expenses in the U.S.	36	31	890	788
Other	(7)	(6)	(12)	(10)
Provision for income taxes	\$ 1,515	\$ 1,535	\$ 3,850	\$ 4,804

Note 10. Interest, Net

The following table shows the components of interest, net:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities ⁽¹⁾	\$ 35,348	\$ 46,413	\$ 70,946	\$ 87,691
Hedge ineffectiveness (gains) losses	902	(123)	1,769	(598)
Amortization of interest rate derivatives related to deferred losses ⁽²⁾	1,770	5,391	4,074	8,226
Amortization of deferred financing fees ⁽³⁾	2,956	5,889	5,760	9,417
Interest Expense	40,976	57,570	82,549	104,736
Less interest income	(30)	(99)	(40)	(260)
Less capitalized interest	(780)	(1,578)	(1,384)	(2,964)
Interest, net	\$ 40,166	\$ 55,893	\$ 81,125	\$ 101,512

(1) For the three and six months ended June 30, 2011, includes the loan termination fee of \$3,196 related to an aircraft sold in June 2011.

(2) For the three and six months ended June 30, 2011, includes accelerated amortization of deferred hedge losses in the amount of \$1,839 related to an aircraft sold in June 2011.

- (3) For the three and six months ended June 30, 2011, includes the write-off of deferred financing fees of \$2,456 related to an aircraft sold in June 2011.

Note 11. Commitments and Contingencies

On June 20, 2007, we entered into an acquisition agreement (the Airbus A330 Agreement), under which we agreed to acquire new A330 aircraft (the New A330 Aircraft), from Airbus S.A.S. At June 30, 2011, we had five New A330 Aircraft remaining to be delivered, two of which were delivered in July 2011, two of which are scheduled for delivery in the second half of 2011 and one of which is scheduled for delivery in 2012. In addition, at June 30, 2011, we committed to acquire approximately \$43,300 of aircraft which we expect to take delivery of in the second half of 2011.

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Committed amounts to acquire, convert, and modify aircraft including, where applicable, our estimate of adjustments for configuration changes, engine acquisition costs, contractual price escalations and other adjustments, net of amounts already paid, are approximately \$291,006 in 2011 and \$72,268 in 2012.

Note 12. Derivatives

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

We held the following interest rate derivatives as of June 30, 2011:

Hedged Item	Derivative Assets							Fair Value
	Current			Future Maximum			Balance Sheet	
	Notional Amount	Effective Date	Maturity Date	Notional Amount	Floating Rate	Fixed Rate		
Interest rate derivatives not designated as cash flow hedges:							Location	
ECA Term Financing for New A330 Aircraft ⁽¹⁾	\$	Jul-11	Jul-23	\$ 67,000	3M LIBOR	4.0%	Other assets	\$

(1) This swaption expired on July 13, 2011

Hedged Item	Derivative Liabilities							Fair Value
	Current			Future Maximum			Balance Sheet	
	Notional Amount	Effective Date	Maturity Date	Notional Amount	Floating Rate	Fixed Rate		
Interest rate derivatives designated as cash flow hedges:							Location	
Securitization No. 1	\$ 413,317	Jun-06	Jun-16	\$ 413,317	1M LIBOR	5.78%	Fair value of	\$ 55,516

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					+ 0.27%		derivative liabilities	
Securitization No. 2	972,340	Jun-07	Jun-12	972,340	1M LIBOR	5.25% to 5.36%	Fair value of derivative liabilities	44,613
Term Financing No. 1 ⁽¹⁾	560,755	Jun-08	May-13	560,755	1M LIBOR	4.04%	Fair value of derivative liabilities	32,978
Term Financing No. 1 ⁽¹⁾		May-13	May-15	477,838	1M LIBOR	5.31%	Fair value of derivative liabilities	21,548
Total interest rate derivatives	\$ 1,946,412			\$ 2,424,250				\$154,655

(1) The interest payments related to Term Financing No. 1 are being hedged by two consecutive interest rate derivatives. When the first matures in May 2013, the next becomes effective.

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The weighted average interest pay rate of these derivatives at December 31, 2010 and June 30, 2011 was 5.01% and 5.04%, respectively.

For the six months ended June 30, 2011, 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 \$45,705. 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 \$84,155.

Our interest rate derivatives involve counterparty credit risk. As of June 30, 2011, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA and HSH Nordbank AG. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of A3 or above) by Moody's Investors Service. All are also considered investment grade (long-term foreign issuer ratings of A or above) by Standard and Poor's except HSH Nordbank AG which is not rated. 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 June 30, 2011, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$5,413 related to interest rate derivatives designated as cash flow hedges.

Historically, the Company acquired its aircraft using short term credit facilities and equity. The short term credit facilities were refinanced by securitizations or term debt facilities secured by groups of aircraft. The Company completed two securitizations and two term financings during the period 2006 through 2008. The Company entered into interest rate derivatives to hedge interest payments on variable rate debt for acquired aircraft as well as aircraft that it expected to acquire within certain future periods. In conjunction with its financing strategy, the Company used interest rate derivatives for periods ranging from 5 to 10 years to fix the interest rates on the variable rate debt that it incurred to acquire aircraft in anticipation of the expected securitization or term debt re-financings.

At the time of each re-financing, the initial interest rate derivatives were terminated and new interest rate derivatives were executed as required by each specific debt financing. At the time of each interest rate derivative termination, certain interest rate derivatives were in a gain position and others were in a loss position. Since the hedged interest payments for the variable rate debt associated with each terminated interest rate derivative were probable of occurring, the gain or loss was deferred in accumulated other comprehensive income (loss) and is being amortized into interest expense over the relevant period for each interest rate derivative.

Generally, our interest rate derivatives are hedging current interest payments on debt and future interest payments on long-term debt. In the past, we have entered into forward-starting interest rate derivatives to hedge the anticipated interest payment on long-term financings. These interest rate derivatives were terminated and new, specifically tailored interest rate derivatives were entered into upon closing of the relevant long-term financing.

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Following is the effect of interest rate derivatives on the statement of financial performance for the six months ended June 30, 2011:

Derivatives in	Effective Portion		Ineffective Portion		
	Amount of Gain or (Loss) Recognized in	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
ASC 815	OCI on Derivative	OCI into Income	(a)	(b)	(c)
Cash Flow		Interest expense			
Hedging Relationships		Interest expense			
Interest rate derivatives	\$ (20,857)	Interest expense	\$ (51,283)	Interest expense	\$ (469)

- (a) This represents the change in fair market value of our interest rate derivatives since year end, net of taxes, offset by the amount of actual cash paid related to the net settlements of the interest rate derivatives for each of the six months ended June 30, 2011.
- (b) This represents the amount of actual cash paid, net of taxes, related to the net settlements of the interest rate derivatives for each of the six months ended June 30, 2011 plus any effective amortization of net deferred interest rate derivative losses.
- (c) This represents both realized and unrealized ineffectiveness incurred during the six months ended June 30, 2011.

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income On Derivative Other income	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate derivatives	(expense)	\$ (616)

The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the six months ended June 30, 2010 and 2011:

Hedged Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Rate %	Termination Date	Deferred (Gain) or Loss Upon Termination	Unamortized Deferred (Gain) or Loss at June 30, 2011	Amount of Deferred (Gain) or Loss		Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months
								Amortized (including Accelerated Amortization) into Interest Expense for the Six Months Ended June 30,		
							2010	2011		
Securitization No. 1	\$ 400,000	Dec-05	Aug-10	4.61	Jun-06	\$ (12,968)	\$	\$ (1,480)	\$	\$
Securitization No. 1	200,000	Dec-05	Dec-10	5.03	Jun-06	(2,541)		(106)		
Securitization No. 2	500,000	Mar-06	Mar-11	5.07	Jun-07	(2,687)		(345)	(122)	
Securitization No. 2	200,000	Jan-07	Aug-12	5.06	Jun-07	(1,850)	(355)	(178)	(168)	(324)
Securitization No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)	(1,489)	(185)	(174)	(353)
Term Financing No. 1	150,000	Jul-07	Dec-17	5.14	Mar-08	15,281	8,578	976	907	1,710
Term Financing No. 1	440,000	Jun-07	Feb-13	4.88	Jun-08	26,281	7,697	2,844	2,643	4,984
Term Financing No. 1	248,000	Aug-07	May-13	5.33	Jun-08	9,888	2,853	1,472	837	1,570
2010-1 Notes	360,000	Jan-08	Feb-19	5.16	Oct-08	23,077	9,423	1,076	747	988
ECA Term Financing for New A330 Aircraft	238,000	Jan-10	Apr-16	5.23	Dec-08	19,430	15,907		2,525 ⁽¹⁾	3,895
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Dec-08	15,310	10,701		1,031	3,152

ECA Term Financing for New A330 Aircraft	238,000	Jul-1	Sep-16	5.27	Dec-08	17,254	15,969		1,838	
Total						\$ 103,356	\$ 69,284	\$ 4,074	\$ 8,226	\$ 17,460

(1) Includes accelerated amortization of deferred losses in the amount of \$1,839 related to an aircraft sold during the period.

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Aircastle Limited and Subsidiaries
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June 30, 2011

For the six months ended June 30, 2011, the amount of deferred net loss (including \$1,847 of accelerated amortization) reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$8,226. 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 \$17,460. Over the next twelve months, we expect the amortization of deferred net losses to increase as the gains on Securitizations No. 1 and No. 2 are either fully amortized or will be in the near future and the losses on the forward starting A330 swaps begin to amortize as we take delivery of these aircraft.

The following table summarizes amounts charged directly to the consolidated statement of income for the three and six months ended June 30, 2010 and 2011, respectively, related to our interest rate derivatives:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
Interest Expense:				
Hedge ineffectiveness (gains) losses	\$ 902	\$ (123)	\$1,769	\$ (598)
Amortization:				
Accelerated amortization of deferred losses ⁽¹⁾	6	1,847	453	1,847
Amortization of deferred losses	1,764	3,544	3,621	6,379
Total Amortization	1,770	5,391	4,074	8,226
Total charged to interest expense	\$2,672	\$5,268	\$5,843	\$7,628
Other Income (Expense):				
Mark to market gains (losses) on undesignated interest rate derivatives	\$ (176)	\$ (257)	\$ (546)	\$ (616)
Total charged to other income (expense)	\$ (176)	\$ (257)	\$ (546)	\$ (616)

(1) Includes accelerated amortization of deferred losses in the amount of \$1,839 related to an aircraft sold during the three and six months ended June 30, 2011.

Note 13. Other Assets

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

	December	June 30,
	31,	2011
	2010	2011
Deferred debt issuance costs, net of amortization of \$43,826 and \$49,533, respectively	\$ 30,045	\$32,134
Deferred federal income tax asset	11,905	11,941
Lease incentives and lease premiums, net of amortization of \$26,749 and \$15,318, respectively	9,115	11,087

Other assets	14,492	19,367
Total other assets	\$ 65,557	\$74,529

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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June 30, 2011

Note 14. Accounts Payable, Accrued Expenses and Other Liabilities

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded on our consolidated balance sheet as of:

	December 31, 2010	June 30, 2011
Accounts payable and accrued expenses	\$ 32,145	\$33,165
Deferred federal income tax liability	24,114	27,390
Accrued interest payable	20,211	20,344
Total accounts payable, accrued expenses and other liabilities	\$ 76,470	\$80,899

Note 15. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the changes in the fair value of derivatives, reclassification into earnings of amounts previously deferred relating to our derivative financial instruments and the change in unrealized appreciation of debt securities. Total accumulated other comprehensive income (loss) for the three and six months ended June 30, 2010 and 2011 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Net income	\$ 18,139	\$23,309	\$ 37,018	\$65,986
Net change in fair value of derivatives, net of tax expense of \$197 and \$128 for the three months ended, and \$280 and \$528 for the six months ended, June 30, 2010 and 2011, respectively	(21,227)	578	(29,825)	24,046
Derivative loss reclassified into earnings	1,770	5,391	4,074	8,226
Total comprehensive income (loss)	\$ (1,318)	\$29,278	\$ 11,267	\$98,258

The following table sets forth the components of accumulated other comprehensive income (loss), net of tax where applicable, at December 31, 2010 and June 30, 2011:

	Accumulated Other Comprehensive Income (Loss)
December 31, 2010, net of tax benefit of \$2,789	\$ (248,220)
Net change in fair value of derivatives, net of tax expense of \$528	24,046
Derivative loss reclassified into earnings	8,226
June 30, 2011	\$ (215,948)

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under "Risk Factors" and included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the "SEC"). Please see "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" for a discussion of the uncertainties, risks and assumptions associated with these statements. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or US GAAP, and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with US GAAP. Unless otherwise indicated, all references to dollars and \$ in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

Certain items in this Quarterly Report on Form 10-Q (this "report"), and other information we provide from time to time, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted Net Income and Adjusted Net Income plus Depreciation and Amortization and the global aviation industry and aircraft leasing sector. Words such as anticipates, expects, intends, plans, projects, believes, may, will, would, could, should, variations on these words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle Limited can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any forward-looking statements contained in this report. Factors that could have a material adverse effect on our operations and future prospects or that could cause actual results to differ materially from Aircastle Limited's expectations include, but are not limited to, significant capital markets disruption and volatility, which may adversely affect our continued ability to obtain additional capital to finance our working capital needs; volatility in the value of our aircraft or in appraisals thereof, which may, among other things, result in increased principal payments under our term financings and reduce our cash flow available for investment or dividends; general economic conditions and business conditions affecting demand for aircraft and lease rates; our continued ability to obtain favorable tax treatment in Bermuda, Ireland and other jurisdictions; our ability to pay dividends; high or volatile fuel prices, lack of access to capital, reduced load factors and/or reduced yields, operational disruptions or unavailability of capital 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 Limited's filings with the Securities and Exchange Commission, or the SEC, including "Risk Factors" as previously disclosed in Aircastle's 2010 Annual Report on Form 10-K, and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle Limited expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

WEBSITE AND ACCESS TO COMPANY'S REPORTS

The Company's Internet website can be found at www.aircastle.com. Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, or 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.

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

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

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

OVERVIEW

We 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 June 30, 2011, our aircraft portfolio consisted of 136 aircraft that were leased to 59 lessees located in 32 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. Our revenues and income from continuing operations for the three and six months ended June 30, 2011 were \$148.8 million and \$23.3 million and \$306.8 million and \$66.0 million, respectively.

The availability of equity and debt capital remains limited for the type of aircraft investments we are currently pursuing. However, we plan to grow our business and profits over the long term by continuing to employ our fundamental business strategy by:

Selectively investing in additional commercial jet aircraft and other aviation assets when attractively priced opportunities and cost effective financing are available. We believe the large and growing aircraft market will continue to provide significant acquisition opportunities over the long term and that the recent improvements in economic conditions, coupled with the continued lack of traditional aviation bank debt lending for mid-age, current technology aircraft, will offer attractive near term investment 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 an efficient capital structure by using various long-term financing structures to obtain cost effective financing and leveraging the efficient operating platform and strong operating track record we have established. We have financed our aircraft acquisitions using various long-term debt structures obtained through several different markets to obtain cost effective financing. We expect capital to continue to be available in the short-term and going forward, thus allowing us to acquire additional aircraft and other aviation assets to optimize the return on our investments and to grow our business and profits. We will also seek opportunities to increase our profits by leveraging the efficient operating platform we have established.

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 a finite useful life and through a strategy of reinvesting a portion of our cash flows from operations and asset sales in our business, we will generally seek to maintain and grow our asset and earnings base.

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.

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.

Thus far in 2011, air traffic data have continued to demonstrate improvement in both the passenger and cargo markets, with passenger and cargo traffic demand increasing by 8.0% and 1.7%, respectively, for the first six months of 2011 as compared to the same period in 2010, according to the International Air Transport Association, although they observed there was a slight softening of demand in June. In particular, the effects of the Tsunami in Japan on the electronics and automotive industries' supply chains and a slowing of growth in some leading economies have been key factors in a slowdown in the cargo markets. The longer term trends are, nevertheless, encouraging and we believe that passenger and cargo traffic will likely increase further as the global economic recovery continues and, as a result, we expect that demand for high-utility aircraft will continue to strengthen gradually. There are, however, significant regional variations and airlines operating primarily in areas with slower economic growth, such as Europe, or with political instability, such as North Africa and the Middle East, may see more modest growth. Nonetheless, for the long-term basis, we believe the market will be driven, to a large extent, by expansion of emerging market economies and rising levels of per capita air travel in those markets.

We intend to pay regular quarterly dividends to our shareholders. On March 8, 2011, our board of directors declared a regular quarterly dividend of \$0.10 per common share, or an aggregate of \$7.9 million, for the three months ended March 31, 2011, which was paid on April 15, 2011 to holders of record on March 31, 2011. On June 27, 2011, our board of directors declared a regular quarterly dividend of \$0.125 per common share, or an aggregate of \$9.4 million, for the three months ended June 30, 2011, which was paid on July 15, 2011 to holders of record on July 7, 2011. These dividends may not be indicative of the amount of any future dividends.

Revenues

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

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

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determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated amount of the maintenance event cost 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.

2011 Lease Expirations and Lease Placements

Lease expirations and terminations placements. In early 2011 we had 11 aircraft with scheduled lease expirations during the year. During the course of 2011 we have had an additional eight aircraft to place, due to early lease terminations or acquisitions of off-lease aircraft. Of these 19 aircraft, we have new leases, lease extensions or sale commitments executed for 17 aircraft, and currently have two that we are marketing for lease or sale in 2011. These two aircraft represent less than one percent of our net book value of flight equipment held for lease at June 30, 2011.

Aircraft acquisitions placements. At January 1, 2011, we were scheduled to take delivery of seven of the New A330 Aircraft in 2011, with one of these aircraft committed for lease to an affiliate of the HNA Group, and the remaining six of these aircraft committed for lease to South African Airways (PTY) LTD, or SAA. The first three aircraft committed for lease to SAA were delivered in the first half of 2011. In July 2011, we delivered an additional New A330 Aircraft to SAA and one freighter-configured New A330 Aircraft to an affiliate of the HNA Group. In addition:

In April 2011, we acquired an off-lease Boeing Model 747-400 passenger aircraft and we inducted the aircraft into a freighter conversion modification program, a process we expect to complete in late 2011 or early 2012. We have a letter of intent for lease of this aircraft upon completion of the conversion.

We have a commitment to acquire an off-lease Boeing Model 747-400 passenger aircraft and have executed an agreement for the conversion of this aircraft into freighter configuration, which we expect to complete in early 2012. We have a commitment to lease this aircraft upon completion of the freighter conversion process.

2012 Lease Expirations and Lease Placements

Scheduled Lease expirations placements. In early 2011, we had 24 aircraft with scheduled lease expirations in 2012. During the course of 2011, we have executed lease extensions for seven aircraft and currently have 17 aircraft that we are marketing for sale or lease in 2012. The seven aircraft for which we have lease extensions represent 43% of the net book value of the 24 aircraft that had scheduled lease expirations in 2012. Those 24 aircraft represented 16% of our total net book value at June 30, 2011.

Aircraft acquisitions placements. We are scheduled to take delivery of the final New A330 Aircraft in 2012 and we have executed a lease agreement for this aircraft with Virgin Blue Airlines Pty Ltd. In July 2011, we

acquired a Boeing Model 747-400 aircraft that is on lease in passenger configuration until the end of the first
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quarter of 2012. We expect to convert this aircraft into freighter configuration and we are currently marketing the aircraft for lease upon completion of this process, which we expect to occur in the second half of 2012.

2013-2015 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 2013-2015 representing the percentage of our net book value of flight equipment held for lease at June 30, 2011 specified below:

2013: 26 aircraft, representing 11%;

2014: 27 aircraft, representing 15%; and

2015: 12 aircraft, representing 5%.

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 31, 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.

Acquisitions and Dispositions

Thus far in 2011, we have acquired eight aircraft:

Five new Airbus Model A330 family aircraft under our acquisition agreement, which we refer to as the Airbus A330 Agreement. Three of these aircraft delivered in the first half of 2011, and two delivered in July 2011.

Two Boeing Model 747-400 aircraft in passenger configuration, one off-lease aircraft which we have inducted in a freighter conversion modification program and for which we have a letter of intent for lease upon completion of the conversion in late 2011 or early 2012, and one on-lease aircraft which we expect to be returned to us and to be inducted into freighter conversion in the second quarter of 2012. We are marketing this aircraft for lease for the period after the completion of the freighter conversion process.

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One Airbus Model A320-200 aircraft on lease to a Chinese airline.

Our investments in these aircraft acquisitions in 2011 have totaled approximately \$485.3 million excluding freighter conversion payments.

We also have commitments to acquire four aircraft, including:

Three New A330 Aircraft, two of which are expected to deliver later in the second half of 2011 and one is expected to deliver in the first half of 2012.

One off-lease Boeing Model 747-400 aircraft in passenger configuration, which we plan to induct into a freighter conversion modification program late in 2011 and for which we have a commitment to lease upon completion of the conversion, expected in the first quarter of 2012.

These commitments total approximately \$286.6 million.

We sold six aircraft in 2011, four Boeing Model 737-400SF aircraft, one Boeing Model 737-500 aircraft and one Airbus Model A330-200 aircraft, for an aggregate sales price of approximately \$165.2 million.

The following table sets forth certain information with respect to the aircraft owned by us as of June 30, 2011:

AIRCASTLE AIRCRAFT INFORMATION (Dollars in millions)

	Owned Aircraft as of June 30, 2011⁽¹⁾
Flight Equipment Held for Lease	\$ 4,100
Number of Aircraft	136
Latest Generation Aircraft (Percentage of Total Aircraft)	92%
Number of Lessees	59
Number of Countries	32
Weighted Average Age Passenger (years) ⁽³⁾	11.5
Weighted Average Age Freighter (years) ⁽³⁾	9.7
Weighted Average Age Combined (years) ⁽³⁾	10.9
Weighted Average Remaining Passenger Lease Term (years) ⁽³⁾	3.9
Weighted Average Remaining Cargo Lease Term (years) ⁽³⁾	6.9
Weighted Average Remaining Combined Lease Term (years) ⁽³⁾	4.8
Weighted Average Fleet Utilization for the three months ended June 30, 2011 ⁽⁴⁾	98%
Weighted Average Fleet Utilization for the six months ended June 30, 2011 ⁽⁴⁾	98%

(1) Calculated using net book value as of June 30, 2011.

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

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

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

Table of Contents**PORTFOLIO DIVERSIFICATION**

	Owned Aircraft as of June 30, 2011	
	Number of Aircraft	% of Net Book Value
Aircraft Type		
Passenger:		
Narrowbody	84	39%
Midbody	29	28%
Widebody	1	2%
Total Passenger	114	69%
Freighter	22	31%
Total	136	100%
Manufacturer		
Boeing	85	57%
Airbus	51	43%
Total	136	100%
Regional Diversification		
Europe	64	44%
Asia	32	24%
North America	14	10%
Latin America	10	6%
Middle East and Africa	8	14%
Off-lease ⁽¹⁾	8	2%
Total	136	100%

(1) Includes one Boeing Model 747-400 aircraft being converted from passenger to freighter configuration and for which we have a letter of intent for lease upon completion of the conversion with a customer in North America; four Airbus Model A320-200 aircraft, three of which we have leased or are subject to lease commitments with customers in Asia and Europe and one of which is being marketed for lease or sale; and three Boeing Model 737 classic aircraft, one of which we have leased to a customer in Asia, one of which was sold in August 2011 and one of which is being marketed for lease or sale.

Our owned aircraft portfolio as of June 30, 2011 is listed in Exhibit 99.1 to this report. We consider approximately 92% of the total aircraft and 94% of the freighters we owned as of June 30, 2011 to be the most current technology for the relevant airframe and engine type and airframe size, as listed under the headings Latest Generation Narrowbody Aircraft, Latest Generation Midbody Aircraft, Latest Generation Widebody Aircraft and Latest Generation Widebody Freighter Aircraft in Exhibit 99.1 to this report.

Of our owned aircraft portfolio as of June 30, 2011, \$3.5 billion, representing 116 aircraft and 85% of the net book value of our aircraft, was encumbered by secured debt financings, and \$0.6 billion, representing 20 aircraft and 15%

of the net book value of our aircraft, was unencumbered by secured debt financings.

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Our largest customer represents less than 7% of the net book value of flight equipment held for lease at June 30, 2011. Our top 15 customers for aircraft we owned at June 30, 2011, representing 69 aircraft and 64% of the net book value of flight equipment held for lease, are as follows:

Percent of Net Book Value	Customer	Country	Number of Aircraft
Greater than 6% per customer	South African Airways ⁽¹⁾	South Africa	3
	Emirates	United Arab Emirates	2
3% to 6% per customer	Martinair ⁽²⁾	Netherlands	5
	HNA Group ⁽³⁾	China	8
	China Eastern Airlines ⁽⁴⁾	China	10
	US Airways	USA	8
	SriLankan Airlines	Sri Lanka	5
	Airbridge Cargo ⁽⁵⁾	Russia	2
	Iberia Airlines	Spain	6
	GOL ⁽⁶⁾	Brazil	6
KLM ⁽²⁾	Netherlands	1	
Less than 3% per customer	World Airways	USA	2
	Icelandair ⁽⁷⁾	Iceland	5
	Korean Air	South Korea	2
	Cimber	Denmark	4

- (1) In July 2011, we delivered one additional Airbus A330-200 passenger aircraft on lease to South African Airways.
- (2) Martinair is a wholly owned subsidiary of KLM. Although KLM does not guarantee Martinair's obligations under the relevant lease, if combined, the two, together with two other affiliated customers, represent 11% of flight equipment held for lease.
- (3) Eight aircraft on lease to affiliates of the HNA Group, although the HNA Group does not guarantee the leases.
- (4) Includes the aircraft leased to Shanghai Airlines, which was recently acquired by China Eastern Airlines and to China Cargo Airlines. China Eastern Airlines does not guarantee the obligations of the aircraft we lease to Shanghai Airlines or China Cargo Airlines.
- (5) Guaranteed by Volga-Dnepr.
- (6) GOL has guaranteed the obligations of an affiliate, VRG Linhas Aereas, and accordingly, the two are shown combined in the above table.
- (7) Icelandair Group hf, the parent company of Icelandair, has guaranteed the obligations of an affiliate, SmartLynx, and accordingly, the two are shown combined in the above table.

Finance

Historically, our debt financing arrangements typically have been secured by aircraft and related operating leases, and in the case of our securitizations and pooled aircraft term financings, the financing parties have limited recourse to Aircastle Limited. While such financings have historically been available on reasonable terms given the loan to value profile we have pursued, current market conditions continue to limit the availability of both debt and equity capital. Though financing market conditions have recovered recently and we expect them to continue to improve in time,

current market conditions remain difficult with respect to financing mid-age, current technology aircraft. During 2010, we accessed the unsecured debt market for the first time by issuing \$300.0 million aggregate principal amount of unsecured 9.75% Senior Notes due 2018 and used the proceeds to repay a secured term loan and to provide funding for incremental aircraft acquisitions. We also secured a \$50.0 million unsecured revolving credit facility, which remains undrawn. 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 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 operations. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

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

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2010 to the three months ended June 30, 2011:

	Three Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 128,133	\$ 143,355
Amortization of net lease discounts and lease incentives	(4,909)	(3,030)
Maintenance revenue	6,836	8,162
 Total lease rentals	 130,060	 148,487
Other revenue	124	351
 Total revenues	 130,184	 148,838
 Expenses:		
Depreciation	54,424	58,576
Interest, net	40,166	55,893
Selling, general and administrative	11,036	11,578
Impairment of aircraft		5,200
Maintenance and other costs	3,437	3,369
 Total operating expenses	 109,063	 134,616
 Other income (expense):		
Gain (loss) on sale of flight equipment	(1,291)	10,299
Other income (expense)	(176)	323
 Total other income (expense)	 (1,467)	 10,622
 Income from continuing operations before income taxes	 19,654	 24,844
Income tax provision	1,515	1,535
 Net income	 \$ 18,139	 \$ 23,309

Revenues:

Total revenues increased by 14.3% or \$18.7 million for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of \$15.2 million for the three months ended June 30, 2011 as compared to the same period in 2010 was primarily the result of:

\$22.3 million of revenue from four aircraft purchased in 2011, and the full quarter revenue of eight aircraft purchased in 2010.

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

\$3.8 million due to aircraft sales and disposals; and

\$3.5 million from the effect of lease terminations.

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Amortization of net lease discounts and lease incentives.

	Three Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Amortization of lease discounts	\$ 596	\$ 598
Amortization of lease premiums	(77)	(77)
Amortization of lease incentives	(5,428)	(3,551)
Amortization of net lease discounts and lease incentives	\$ (4,909)	\$ (3,030)

As more fully described above under Revenues, lease incentives represent our estimated portion of the lessee's cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and conversely if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The decrease in amortization of lease incentives of \$1.9 million for the three months ended June 30, 2011 as compared to the same period in 2010 primarily resulted from unscheduled lease terminations associated with one aircraft.

Maintenance revenue.

	Three Months Ended June 30,			
	2010		2011	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$		\$ 2,225	1
Scheduled lease terminations	6,836	2	5,937	5
Maintenance revenue	\$ 6,836	2	\$ 8,162	6

Unscheduled lease terminations. For the three months ended June 30, 2010, we did not record any maintenance revenue from unscheduled lease terminations. Comparatively, for the same period in 2011, we recorded maintenance revenue totaling \$2.2 million from unscheduled lease terminations associated with one aircraft returned in 2011. See Summary of Impairments below for a detailed discussion of the related impairment charges for certain aircraft.

Scheduled lease terminations. For the three months ended June 30, 2010, we recorded maintenance revenue from scheduled lease terminations totaling \$6.8 million associated with two aircraft. Comparatively, for the same period in 2011, we recorded \$5.9 million, primarily associated with maintenance revenue from five scheduled lease terminations.

Operating Expenses:

Total operating expenses increased by 23.4% or \$25.6 million for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010 primarily as a result of the following:

Depreciation expense increased by \$4.2 million for the three months ended June 30, 2011 over the same period in 2010. The net increase is primarily the result of:

\$6.2 million increase in depreciation for aircraft acquired.

This increase was offset partially by:

a \$0.9 million decrease in depreciation for aircraft sold.

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Interest, net consisted of the following:

	Three Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$ 35,348	\$ 46,413
Hedge ineffectiveness (gains) losses	902	(123)
Amortization of interest rate derivatives related to deferred losses	1,770	5,391
Amortization of deferred financing fees and notes discount	2,956	5,889
Interest Expense	40,976	57,570
Less interest income	(30)	(99)
Less capitalized interest	(780)	(1,578)
Interest, net	\$ 40,166	\$ 55,893

Interest, net increased by \$15.7 million, or 39.2%, over the three months ended June 30, 2010. The net increase is primarily a result of:

a \$7.9 million increase in interest on our borrowings due to higher weighted average debt and higher interest cost (\$2.76 billion and 6.3% for the three months ended June 30, 2011 as compared to \$2.40 billion and 5.9% for the three months ended in June 30, 2010);

a \$3.2 million loan break fee in connection with the repayment of one of our ECA loans;

a \$3.6 million increase in the amortization of deferred losses including \$1.8 million of accelerated amortization resulting from the repayment of one of our ECA term loans; and

a \$2.9 million increase in amortization of deferred financing fees primarily due to the repayment of one of our ECA term loans.

These increases were offset partially by:

a \$1.0 million decrease resulting from changes in measured hedge ineffectiveness due to changes in our debt forecast; and

a \$0.8 million increase in capitalized interest.

Selling, general and administrative expenses for the three months ended June 30, 2011 increased slightly over the same period in 2010. Non-cash share based expense was \$1.9 million and \$1.2 million for the three months ended June 30, 2010 and 2011, respectively.

Impairment of aircraft was \$5.2 million during the three months ended June 30, 2011 which related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement. See *Summary of Impairments* below for a detailed discussion of the related impairment charge for this aircraft. We did not record any impairment of aircraft during the three months ended June 30, 2010.

Maintenance and other costs of \$3.4 million for the three months ended June 30, 2011 remained flat over the same period in 2010.

Other income (expense):

Total other income for the three months ended June 30, 2011 was \$10.6 million as compared to \$1.5 million of expense for the same period in 2010. The increase is primarily a result of an \$11.6 million increase in the gain on sale of aircraft.

Table of Contents**Income Tax Provision:**

Our provision for income taxes for the three months ended June 30, 2010 and 2011 was \$1.5 million and \$1.5 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The income tax provision remained flat as compared to the same period in 2010 as a result of income from jurisdictions that impose income taxes, primarily the United States and Ireland, remained relatively constant in both periods.

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

	Three Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Net income	\$ 18,139	\$ 23,309
Net change in fair value of derivatives, net of tax benefit of \$197 and tax expense of \$128, respectively	(21,227)	578
Derivative loss reclassified into earnings	1,770	5,391
Total comprehensive income (loss)	\$ (1,318)	\$ 29,278

Other comprehensive income was \$29.3 million for the three months ended June 30, 2011, an increase of \$30.6 million from the \$1.3 million of other comprehensive loss for the three months ended June 30, 2010. Other comprehensive income for the three months ended June 30, 2011 primarily consisted of:

\$23.3 million of net income;

\$0.6 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the three months ended June 30, 2011 partially offset by a downward shift in the 1 Month LIBOR forward curve; and

\$5.4 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive loss for the three months ended June 30, 2010 primarily consisted of:

\$18.1 million of net income;

\$21.2 million loss from a change in fair value of interest rate derivatives, net of taxes due primarily to a downward shift in the 1 Month LIBOR forward curve offset by net settlements for the three months ended June 30, 2010; and

\$1.8 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Table of Contents*Comparison of the six months ended June 30, 2010 to the six months ended June 30, 2011:*

	Six Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 258,255	\$ 284,471
Amortization of net lease discounts and lease incentives	(9,754)	(6,132)
Maintenance revenue	12,090	25,006
 Total lease rentals	 260,591	 303,345
Other revenue	154	3,407
 Total revenues	 260,745	 306,752
Expenses:		
Depreciation	108,569	118,167
Interest, net	81,125	101,512
Selling, general and administrative	22,709	24,109
Impairment of aircraft		5,200
Maintenance and other costs	5,637	6,899
 Total operating expenses	 218,040	 255,887
Other income (expense):		
Gain (loss) on sale of flight equipment	(1,291)	19,961
Other income (expense)	(546)	(36)
 Total other income (expense)	 (1,837)	 19,925
 Income from continuing operations before income taxes	 40,868	 70,790
Income tax provision	3,850	4,804
 Net income	 \$ 37,018	 \$ 65,986

Revenues:

Total revenues increased by 17.6% or \$46.0 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of \$26.2 million for the six months ended June 30, 2011 as compared to the same period in 2010 was primarily the result of:

\$40.3 million of revenue from three new aircraft and one mid-aged aircraft purchased in 2011, and the full six months of revenue of two new aircraft and eight mid-aged aircraft purchased in 2010.

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

\$6.9 million due to aircraft sales and disposals;

\$5.5 million from the effect of lease terminations and other changes; and

\$1.7 million due to lease extensions and transitions at lower rentals.

Amortization of net lease discounts and lease incentives.

	Six Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Amortization of lease discounts	\$ 1,255	\$ 1,194
Amortization of lease premiums	(214)	(153)
Amortization of lease incentives	(10,795)	(7,173)
Amortization of net lease discounts and lease incentives	\$ (9,754)	\$ (6,132)

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As more fully described above under Revenues, lease incentives represent our estimated portion of the lessee's cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and conversely if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The decrease in amortization of lease incentives of \$3.6 million for the six months ended June 30, 2011 as compared to the same period in 2010 primarily resulted from unscheduled lease terminations associated with five aircraft.

Maintenance revenue.

	Six Months Ended June 30,			
	2010		2011	
	Dollars (in thousands)	Number of Leases	Dollars (in thousands)	Number of Leases
Unscheduled lease terminations	\$ 582	1	\$ 15,257	6
Scheduled lease terminations	11,508	3	9,749	5
Maintenance revenue	\$ 12,090	4	\$ 25,006	11

Unscheduled lease terminations. For the six months ended June 30, 2010, we recorded maintenance revenue in the amount of \$0.6 million from unscheduled lease terminations associated with one aircraft. Comparatively, for the same period in 2011, we recorded maintenance revenue totaling \$15.3 million from unscheduled lease terminations primarily associated with six aircraft returned in 2011. See Summary of Impairments below for a detailed discussion of the related impairment charges for certain aircraft.

Scheduled lease terminations. For the six months ended June 30, 2010, we recorded maintenance revenue from scheduled lease terminations totaling \$11.5 million associated with three aircraft. Comparatively, for the same period in 2011, we recorded \$9.7 million, primarily associated with maintenance revenue from five scheduled lease terminations.

Other revenue was \$3.4 million during the six months ended June 30, 2011, which was primarily due to additional fees paid by lessees in connection with early termination of four leases. We did not receive any similar fees from early lease terminations in the six months ended June 30, 2010.

Operating Expenses:

Total operating expenses increased by 17.4% or \$37.8 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010 primarily as a result of the following:

Depreciation expense increased by \$9.6 million for the six months ended June 30, 2011 over the same period in 2010. The net increase is primarily the result of:

\$11.1 million increase in depreciation for aircraft acquired.

This increase was offset partially by:

a \$1.4 million decrease in depreciation for aircraft sold.

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Interest, net consisted of the following:

	Six Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	\$ 70,946	\$ 87,691
Hedge ineffectiveness (gains) losses	1,769	(598)
Amortization of interest rate derivatives related to deferred losses	4,074	8,226
Amortization of deferred financing fees and notes discount	5,760	9,417
Interest Expense	82,549	104,736
Less interest income	(40)	(260)
Less capitalized interest	(1,384)	(2,964)
Interest, net	\$ 81,125	\$ 101,512

Interest, net increased by \$20.4 million, or 25.1%, over the six months ended June 30, 2010. The net increase is primarily a result of:

a \$13.5 million increase in interest on our borrowings due to higher weighted average debt and higher interest cost (\$2.74 billion and 6.2% for the six months ended June 30, 2011 as compared to \$2.43 billion and 5.9% for the six months ended in June 30, 2010);

a \$3.2 million loan break fee in connection with the repayment of one of our ECA loans;

a \$4.2 million increase in the amortization of deferred losses including \$1.8 million of accelerated amortization resulting from the repayment of one of our ECA term loans and;

a \$3.7 million increase in amortization of deferred financing fees primarily due to the repayment of one of our ECA term loans.

These increases were offset partially by:

a \$2.4 million decrease resulting from changes in measured hedge ineffectiveness due to changes in our debt forecast; and

a \$1.6 million increase in capitalized interest.

Selling, general and administrative expenses for the six months ended June 30, 2011 increased slightly over the same period in 2010. Non-cash share based expense was \$3.7 million and \$3.1 million for the six months ended June 30, 2010 and 2011, respectively.

Impairment of aircraft was \$5.2 million during the six months ended June 30, 2011 which related to a Boeing Model 737-400 aircraft which we repossessed following termination of the lease agreement. See *Summary of Impairments* below for a detailed discussion of the related impairment charge for this aircraft. We did not record any impairment of aircraft during the six months ended June 30, 2010.

Maintenance and other costs were \$6.9 million for the six months ended June 30, 2011, an increase of \$1.3 million over the same period in 2010. The net increase is primarily 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.

Other income (expense):

Total other income for the six months ended June 30, 2011 was \$19.9 million as compared to \$1.8 million of expense for the same period in 2010. The increase is primarily a result of a \$21.3 million increase in the gain on sale of aircraft.

Table of Contents**Income Tax Provision:**

Our provision for income taxes for the six months ended June 30, 2010 and 2011 was \$3.9 million and \$4.8 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 \$1.0 million for the six months ended June 30, 2011 as compared to the same period in 2010 was attributable to an increase in operating income subject to tax in the U.S. and Ireland.

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

	Six Months Ended June 30,	
	2010	2011
	(Dollars in thousands)	
Net income	\$ 37,018	\$ 65,986
Net change in fair value of derivatives, net of tax benefit of \$280 and tax expense of \$528, respectively	(29,825)	24,046
Derivative loss reclassified into earnings	4,074	8,226
Total comprehensive income	\$ 11,267	\$ 98,258

Other comprehensive income was \$98.3 million for the six months ended June 30, 2011, an increase of \$87.0 million from the \$11.3 million of other comprehensive income for the six months ended June 30, 2010. Other comprehensive income for the six months ended June 30, 2011 primarily consisted of:

\$66.0 million of net income;

\$24.0 million gain from a change in fair value of interest rate derivatives, net of taxes which is due primarily to net settlements for the six months ended June 30, 2011 partially offset by a downward shift in the 1 Month LIBOR forward curve; and

\$8.2 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

Other comprehensive income for the six months ended June 30, 2010 primarily consisted of:

\$37.0 million of net income;

\$29.8 million loss from a change in fair value of interest rate derivatives, net of taxes due primarily to a downward shift in the 1 Month LIBOR forward curve offset by net settlements for the six months ended June 30, 2010; and

\$4.1 million of amortization of deferred net losses reclassified into earnings related to terminated interest rate derivatives.

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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 \$84.2 million and the amortization of deferred net losses from terminated interest rate derivatives in the amount of \$17.5 million. See *Liquidity and Capital Resources* *Hedging* below for more information on deferred net losses as related to terminated interest rate derivatives.

Summary of impairments

In the three and six months ended June 30, 2011, we recognized an impairment of \$5.2 million related to a Boeing Model 737-400 aircraft. The Company recorded \$2.3 million of maintenance revenue and reversed \$0.9 million of lease incentive accruals related to the terminated lease of this aircraft. We did not record any impairment of aircraft during the three and six months ended June 30, 2010.

In monitoring the aircraft in our fleet for recoverability, we identify those aircraft that are most susceptible to failing the recoverability assessment and monitor those aircraft more closely, which may result in more frequent recoverability assessments. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates and residual values or scrap values for each aircraft. These are typically older aircraft for which lessee demand is declining. As of June 30, 2011, we had identified nine aircraft as being susceptible to failing the recoverability test. These aircraft had a combined net book value of \$168.8 million at June 30, 2011. Management believes that the net book value of each of these aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by each aircraft, and as such, these aircraft are not impaired at June 30, 2011.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2010, the Financial Accounting Standards Board (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*. Under the Lease ED, a lessor would be required to adopt a right-of-use model where the lessor would apply one of two approaches to each lease based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. In July 2011, the FASB tentatively decided on a new model for lessor accounting that would require a single approach for all leases, with a few exceptions. Under the new model, 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. Even though the FASB has not completed all of its deliberations, the decisions made to date were sufficiently different from those published in the Lease ED to warrant re-exposure of the revised proposal. The FASB intends to complete its deliberations during the third quarter of 2011 with a view to publishing a revised proposed leases standard shortly thereafter. A final standard may have an effective date no earlier than 2015. 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.

In May 2011, the FASB issued ASU 2011-04 (ASU 2011-04), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments in this update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements which include (1) those that clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, and (2) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurement. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 will not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update (ASU) 2011-05 (ASU 2011-05), *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which gives the option to present the total of comprehensive income either in a single continuous statement of comprehensive net income or in two separate but

consecutive statements. In either option, an entity is required to present each component of net income along with total

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net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. If a two statement approach is used, the statement of other comprehensive income should immediately follow the statement of net income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. It also requires the presentation on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU 2011-05 will not have a material impact on the Company's consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity currently are cash on hand, cash generated by our aircraft leasing operations and 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, 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 and, more recently, secured borrowings supported by export credit agencies for new aircraft acquisitions;

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.

We have multiple sources of financing available to us including:

\$698.0 million in financing commitments for our New A330 Aircraft, which we expect to benefit from an ECA guarantee provided by Compagnie Francaise d'Assurance pour le Commerce Exterieur, or COFACE, of which we borrowed \$412.9 million as of June 30, 2011, and

a \$50.0 million senior unsecured revolving credit facility with Citigroup Global Markets Inc., which has a three-year term scheduled to expire in September 2013; we have not yet drawn down on this facility.

Under the terms of Securitization No. 1 effective June 15, 2011, all cash flows available after expenses and interest will be applied to debt amortization. We expect that debt amortization payments over the next twelve months will be approximately \$34.7 million dollars.

In addition, as of June 30, 2011, we expect capital expenditures and lessee maintenance payment draws on our aircraft portfolio during 2011 to be approximately \$130.0 million to \$140.0 million, excluding purchase obligation payments, and we expect maintenance collections from lessees on our owned aircraft portfolio to be approximately equal to the expected expenditures and draws over the next twelve months. There can be no assurance that the capital expenditures, our contributions to maintenance events and lessee maintenance payment draws described above will not

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be greater than expected or that our expected maintenance payment collections or disbursements will equal our current estimates.

In March 2011, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we are in compliance with the loan to value ratio on the July 2011 payment date.

In March 2011, the Company's Board of Directors authorized the repurchase of up to \$60 million of the Company's common shares. In June 2011, the Company's Board of Directors authorized an increase in the Company's share repurchase program by up to an additional \$30 million in its common shares, for a total of up to \$90 million of its common shares in the aggregate. Under the program, the Company may purchase its common shares from time to time in the open market or in privately negotiated transactions. The amount and timing of the purchases will depend on a number of factors including the price and availability of the Company's common shares, trading volume and general market conditions. The Company may also from time to time establish a trading plan under Rule 10b5-1 of the Exchange Act to facilitate purchases of its common shares under this authorization. At June 30, 2011, we repurchased approximately 4.9 million shares at a total cost of approximately \$60.0 million including commissions.

While the financing structures for our securitizations and certain of our term financings include liquidity facilities, these liquidity facilities are primarily designed to provide short-term liquidity to enable the financing vehicles to remain current on principal and 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.

We believe that cash on hand, funds generated from operations, maintenance payments received from lessees, proceeds from contracted aircraft sales and funds we expect to borrow upon delivery of the New A330 Aircraft we acquire in future periods, including borrowings under export credit agency-supported loan facilities, will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include pre-delivery payments under the Airbus A330 Agreement, payments for buyer furnished equipment, payments due at delivery of the New A330 Aircraft, payments due under our other aircraft purchase commitments, required principal and interest payments under our long-term debt facilities, as well as repayments under our A330 PDP Facility, expected capital expenditures, lessee maintenance payment draws and lease incentive payments over the next twelve months.

Cash Flows

	Six Months Ended	
	June 30,	
	2010	2011
	(Dollars in thousands)	
Net cash flow provided by operating activities	\$ 170,692	\$ 159,711
Net cash flow used in investing activities	(130,035)	(121,462)
Net cash flow used in financing activities	(33,627)	(94,189)

Operating Activities:

Cash flow from operations was \$170.7 million and \$159.7 million for the six months ended June 30, 2010 and June 30, 2011, respectively. The decrease in cash flow from operations of approximately \$11.0 million for the six months ended June 30, 2011 versus the same period in 2010 was primarily a result of:

a \$22.3 million increase in cash from lease rentals.

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This increase was offset by:

a \$15.7 million decrease in cash from other working capital;

a \$13.5 million increase in cash paid for interest; and

a \$4.4 million decrease in cash from maintenance revenues.

Investing Activities:

Cash used in investing activities was \$130.0 million and \$121.5 million for the six months ended June 30, 2010 and June 30, 2011, respectively. The decrease in cash flow used in investing activities of \$8.6 million for the six months ended June 30, 2011 versus the same period in 2010, was primarily a result of:

a \$140.8 million increase in the acquisition and improvement of flight equipment; and

a \$2.2 million increase in purchase deposits under our Airbus A330 agreement.

These increases were offset partially by:

a \$133.9 million increase in proceeds from the sale of flight equipment; and

\$17.7 million of higher restricted cash and cash equivalents related to the sale of flight equipment.

Financing Activities:

Cash used in financing activities was \$33.6 million for the six months ended June 30, 2010 as compared to \$94.2 million for the six months ended June 30, 2011. The net increase in cash flow used in financing activities of \$60.6 million for the six months ended June 30, 2011 versus the same period in 2010 was a result of:

\$164.6 million of higher financing repayments on our securitizations and term debt financings;

\$59.7 million of increased repurchases of our common shares;

\$7.7 million of lower maintenance payments received net of maintenance payments returned; and

\$9.2 million in additional deferred financing costs.

The outflows were offset partially by:

\$173.2 million of higher proceeds from term debt financings; and

\$7.4 million of higher security deposits received net of security deposits returned.

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The following table provides a summary of our secured and unsecured debt financings at June 30, 2011:

Debt Obligation	Collateral	Outstanding Borrowing (Dollars in thousands)	Number of Aircraft	Interest Rate⁽¹⁾	Final Stated Maturity⁽²⁾
Secured Debt Financings:					
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	\$ 404,231	33	0.46%	06/20/31
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	933,196	50	0.45%	06/14/37
Term Financing No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	618,951	27	1.94%	05/02/15
ECA Term Financings	Interests in aircraft leases, beneficial interests in aircraft leasing entities and related interests	412,872	6	2.65% to 4.48%	05/27/21 to 05/03/23
A330 PDP Facility	Interests in Airbus A330 Agreement and aircraft leases	19,981		2.77%	12/01/11 ⁽³⁾
Total secured debt financings		2,389,231			
Unsecured Debt Financings:					
Senior Notes due 2018	None	296,401		9.75%	08/01/18
2010 Revolving Credit Facility	None				09/28/13
Total unsecured debt financings		296,401			

Total secured and
unsecured debt financings \$ 2,685,632

- (1) Reflects floating rate in effect at the most recent applicable reset date, except for the ECA Term Financings and the 2010-1 Notes, which are fixed rate.
- (2) Effective June 2011 for Securitization No. 1, all cash flows available after expenses and interest will be applied to debt amortization. For Securitization No. 2 and Term Financing No. 1, all cash flows available after expenses and interest will be applied to debt amortization, if the debt is not refinanced by June 2012, and May 2013, respectively.
- (3) Reflects the last scheduled delivery month for the five relevant new Airbus A330-200 delivery positions. The final maturity date is the earlier of the aircraft delivery date or nine months after the scheduled delivery month for the last scheduled delivery position.

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, 2010	June 30, 2011		
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 ⁽²⁾	74,828	69,990	0.50%	1M Libor + 0.75%
Term Financing No. 1	Crédit Agricole Corporate and Investment Bank ⁽³⁾	12,864	12,379	0.60%	1M Libor + 1.20%

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- (1) Following a ratings downgrade with respect to the liquidity facility provider in June 2011, 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.
- (2) Following a ratings downgrade with respect to the liquidity facility provider in May 2009, the liquidity facility was drawn and the proceeds, or permitted investments thereof, remain available to provide liquidity if required. 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.
- (3) The ratings threshold for the liquidity facility provider under Term Financing No. 1 is lower than the ratings threshold under Securitization No. 1 and, accordingly, the ratings change referred to in footnote (1) above did not trigger a liquidity facility drawing in relation to Term Financing No. 1.

Secured Debt Financings:

Term Financing No. 1

In March 2011, we completed the annual maintenance-adjusted appraisal for the Term Financing No. 1 Portfolio and determined that we are in compliance with the loan to value ratio on the July 2011 payment date.

ECA Term Financings

During 2011, we entered into three twelve-year term loans which are supported by guarantees from COFACE for the financing of three new Airbus Model A330-200 aircraft totaling \$218.9 million and we repaid in full the outstanding principal balance on one of our ECA term financings in the amount of \$61.6 million.

In July 2011, we entered into two twelve year term loans, one with The Bank of Tokyo Mitsubishi UFJ, LTD and one with Citibank N.A., both of which are supported by guarantees from COFACE, for the financing of one new Airbus Model A330-200 aircraft and one freighter-configured new Airbus Model A330-200 aircraft in the amounts of \$73.5 million and \$67.0 million, respectively. The borrowings under these financings bear a fixed rate of interest equal to 3.02% and 3.10%, respectively.

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 \$500,000 minimum net worth covenant for Aircastle Limited, as well as a material adverse change default and cross default to any other recourse obligation of Aircastle Limited, and other terms and conditions customary for ECA-supported financings being completed at this time. In addition, Aircastle Limited has guaranteed the repayment of the ECA Term Financings.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on variable rate liabilities, interest payments on interest rate derivatives, purchase obligations under the Airbus A330 Agreement, other aircraft acquisition agreements and rent payments pursuant to our office leases. Total contractual obligations decreased from \$3.82 billion at December 31, 2010 to approximately \$3.72 billion at June 30, 2011 due primarily to:

principal and interest payments made under our securitizations, term financings and our A330 PDP Facility;
and

lower variable interest rates and payments made under our purchase obligations.

These decreases were partially offset by:

an increase in borrowings under our ECA Term Financings.

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The following table presents our actual contractual obligations and their payment due dates as of June 30, 2011.

Contractual Obligations	Total	Payments Due By Period as of June 30, 2011			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
		(Dollars in thousands)			
Principal payments:					
2010-1 Notes ⁽¹⁾	\$ 300,000	\$	\$	\$	\$ 300,000
Securitization No. 1 ⁽²⁾	404,231	34,739	120,444	133,156	115,892
Securitization No. 2 ⁽³⁾	933,196	57,272	283,384	291,401	301,139
Term Financing No. 1 ⁽⁴⁾	618,951	47,750	140,085	431,116	
ECA Term Financings ⁽⁵⁾	486,341	33,733	73,671	78,835	300,102
A330 PDP Facility ⁽⁶⁾	19,981	19,981			
Total principal payments	2,762,700	193,475	617,584	934,508	1,017,133
Interest payments:					
Interest payments on debt obligations ⁽⁷⁾	386,696	63,167	117,364	94,754	111,411
Interest payments on interest rate derivatives ⁽⁸⁾	202,676	90,443	70,369	41,864	
Total interest payments	589,372	153,610	187,733	136,618	111,411
Office leases ⁽⁹⁾	1,978	1,061	691	226	
Purchase obligations ⁽¹⁰⁾	363,274	363,274			
Total	\$ 3,717,324	\$ 711,420	\$ 806,008	\$ 1,071,352	\$ 1,128,544

(1) Includes scheduled balloon payment on August 1, 2018.

(2) Effective June 2011, 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 disposition after the payment of forecasted operating expenses and interest payments, including interest payments on existing swap agreements and policy provider fees.

(3) For this non-recourse financing, includes principal payments based on amortization schedules so that the loan to assumed aircraft values are held constant through the June 2012 payment date; thereafter, estimated principal payments for this financing are based on excess cash flows available from forecasted lease rentals, net maintenance funding and proceeds from asset disposition after the payment of forecasted operating expenses and interest payments, including interest payments on existing swap agreements and policy provider fees. Payments due in less than one year include repayments of \$13.6 million related to contracted sales of two aircraft.

(4) Includes scheduled principal payments through May 2013, after which all excess cash flow is required to reduce the principal balances of the indebtedness until maturity in May 2015.

(5)

Includes scheduled principal payments based upon fixed rate, 12 year, fully amortizing loans including one aircraft we acquired on July 1, 2011.

- (6) Includes principal payments based upon the scheduled delivery of aircraft. The final maturity date is the earlier of the delivery date or nine months after the scheduled delivery date.
- (7) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at June 30, 2011.
- (8) 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 June 30, 2011.
- (9) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.
- (10) At June 30, 2011, we had aircraft purchase agreements and freighter conversion agreements, including the acquisition of five New A330 Aircraft from Airbus.

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 six months ended June 30, 2010 and 2011, we incurred a total of \$31.1 million and \$13.6 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of June 30, 2011, the weighted average age (by net book value) of our aircraft was approximately 10.9 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

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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 June 30, 2011, we had \$320.7 million of maintenance reserves as a liability on our balance sheet. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2011.

Foreign Currency Risk and Foreign Operations

At June 30, 2011, 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. As of June 30, 2011, 12 of our 77 employees were based in Ireland, three employees were based in Singapore and one employee was based in the United Kingdom. For the six months ended June 30, 2011, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$4.7 million in U.S. dollar equivalents and represented approximately 19.7% 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 six months ended June 30, 2010 and 2011, 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 June 30, 2011:

Hedged Item	Derivative Assets						Balance Sheet Location	Fair Value
	Current		Future Maximum					
	Notional Amount	Effective Date	Maturity Date	Notional Amount	Floating Rate	Fixed Rate		
Interest rate derivatives not designated as cash flow hedges:								
ECA Term Financing for New A330 Aircraft ⁽¹⁾	\$	Jul-11	Jul-23	\$ 67,000	3M LIBOR	4.0%	Other assets	\$

(1) This swaption expired on July 13, 2011

Hedged Item	Derivative Liabilities						Balance Sheet Location	Fair Value
	Current		Future Maximum					
	Notional Amount	Effective Date	Maturity Date	Notional Amount	Floating Rate	Fixed Rate		
Interest rate derivatives designated as cash flow hedges:								
Securitization No. 1	\$ 413,317	Jun-06	Jun-16	\$ 413,317	1M LIBOR + 0.27%	5.78%	Fair value of derivative liabilities	\$ 55,516
Securitization No. 2	972,340	Jun-07	Jun-12	972,340	1M LIBOR	5.25% to 5.36%	Fair value of derivative liabilities	44,613
Term Financing No. 1 ⁽¹⁾	560,755	Jun-08	May-13	560,755	1M LIBOR	4.04%	Fair value of derivative liabilities	32,978
Term Financing No. 1 ⁽¹⁾		May-13	May-15	477,838	1M LIBOR	5.31%	Fair value of derivative	21,548

Total interest rate derivatives	\$ 1,946,412	\$ 2,424,250	\$ 154,655
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(1) The interest payments related to Term Financing No. 1 are being hedged by two consecutive interest rate derivatives. When the first matures in May 2013, the next becomes effective.

The weighted average interest pay rate of these derivatives at December 31, 2010 and June 30, 2011 was 5.01% and 5.04%, respectively.

For the six months ended June 30, 2011, the amount of loss reclassified from accumulated other comprehensive income (OCI) into interest expense related to net interest settlements on active interest rate derivatives as \$45.7 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 \$84.2 million.

Our interest rate derivatives involve counterparty credit risk. As of June 30, 2011, our interest rate derivatives are held with the following counterparties: JP Morgan Chase Bank NA, Citibank Canada NA and HSH Nordbank AG. All of our counterparties or guarantors of these counterparties are considered investment grade (senior unsecured ratings of A3 or above) by Moody's Investors Service. All are also considered investment grade (long-term foreign issuer ratings of A or above) by Standard and Poor's except HSH Nordbank AG which is not rated. 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 June 30, 2011, accrued interest payable included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheet was \$5.4 million related to interest rate derivatives designated as cash flow hedges.

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Historically, the Company acquired its aircraft using short term credit facilities and equity. The short term credit facilities were refinanced by securitizations or term debt facilities secured by groups of aircraft. The Company completed two securitizations and two term financings during the period 2006 through 2008. The Company entered into interest rate derivatives to hedge interest payments on variable rate debt for acquired aircraft as well as aircraft that it expected to acquire within certain future periods. In conjunction with its financing strategy, the Company used interest rate derivatives for periods ranging from 5 to 10 years to fix the interest rates on the variable rate debt that it incurred to acquire aircraft in anticipation of the expected securitization or term debt re-financings.

At the time of each re-financing, the initial interest rate derivatives were terminated and new interest rate derivatives were executed as required by each specific debt financing. At the time of each interest rate derivative termination, certain interest rate derivatives were in a gain position and others were in a loss position. Since the hedged interest payments for the variable rate debt associated with each terminated interest rate derivative were probable of occurring, the gain or loss was deferred in accumulated other comprehensive income (loss) and is being amortized into interest expense over the relevant period for each interest rate derivative.

Prior to the securitizations and term debt financings, our interest rate derivatives typically required us to post cash collateral to the counterparty when the value of the interest rate derivative exceeded a defined threshold. When the interest rate derivatives were terminated and became part of a larger aircraft portfolio financing, there were no cash collateral posting requirements associated with the new interest rate derivative. As of June 30, 2011, we did not have any cash collateral pledged under our interest rate derivatives, nor do we have any existing agreements that require cash collateral postings.

Generally, our interest rate derivatives are hedging current interest payments on debt and future interest payments on long-term debt. In the past, we have entered into forward-starting interest rate derivatives to hedge the anticipated interest payment on long-term financings. These interest rate derivatives were terminated and new, specifically tailored interest rate derivatives were entered into upon closing of the relevant long-term financing.

The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the six months ended June 30, 2010 and 2011:

Hedged Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Fixed Rate %	Termination Date	Deferred (Gain) or Loss Upon Termination	Deferred (Gain) or Loss at June 30, 2011	Amount of Deferred (Gain) or Loss		Amount of Deferred (Gain) or Loss Expected to be Amortized over the Next Twelve Months
								Unamortized	Amortized (including Accelerated Amortization) into Interest Expense for the Six Months Ended June 30, 2010	
Securitization No. 1	\$ 400,000	Dec-05	Aug-10	4.61	Jun-06	\$(12,968)	\$	\$(1,480)	\$	\$
Securitization No. 1	200,000	Dec-05	Dec-10	5.03	Jun-06	(2,541)		(106)		

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Securitization No. 2	500,000	Mar-06	Mar-11	5.07	Jun-07	(2,687)		(345)	(122)		
Securitization No. 2	200,000	Jan-07	Aug-12	5.06	Jun-07	(1,850)	(355)	(178)	(168)	(324)	
Securitization No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)	(1,489)	(185)	(174)	(353)	
Term Financing No. 1	150,000	Jul-07	Dec-17	5.14	Mar-08	15,281	8,578	976	907	1,710	
Term Financing No. 1	440,000	Jun-07	Feb-13	4.88	Partial Full	Mar-08 Jun-08	26,281	7,697	2,844	2,643	4,984
Term Financing No. 1	248,000	Aug-07	May-13	5.33	Jun-08	9,888	2,853	1,472	837	1,570	
2010-1 Notes	360,000	Jan-08	Feb-19	5.16	Partial Full	Jun-08 Oct-08	23,077	9,423	1,076	747	988
ECA Term Financing for New A330 Aircraft	238,000	Jan-11	Apr-16	5.23	Dec-08	19,430	15,907		2,525 ⁽¹⁾	3,895	
ECA Term Financing for New A330 Aircraft	231,000	Apr-10	Oct-15	5.17	Partial Full	Jun-08 Dec-08	15,310	10,701		1,031	3,152
ECA Term Financing for New A330 Aircraft	238,000	Jul-11	Sep-16	5.27	Dec-08	17,254	15,969			1,838	
Total						\$103,356	\$69,284	\$ 4,074	\$ 8,226	\$17,460	

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(1) Includes accelerated amortization of deferred losses in the amount of \$1,839 related to an aircraft sold during the period.

For the six months ended June 30, 2011, the amount of deferred net loss (including \$1.8 million of accelerated amortization) reclassified from OCI into interest expense related to our terminated interest rate derivatives was \$8.2 million. The amount of deferred net loss expected to be reclassified from OCI into interest expense over the next 12 months related to our terminated interest rate derivatives is \$17.5 million. Over the next twelve months, we expect the amortization of deferred net losses to increase as the gains on Securitizations No. 1 and No. 2 are either fully amortized or will be in the near future and the losses on the forward starting A330 swaps begin to amortize as we take delivery of these aircraft.

The following table summarizes amounts charged directly to the consolidated statement of income for the three and six months ended June 30, 2010 and 2011, respectively, related to our interest rate derivatives:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2011	2010	2011
	(Dollars in thousands)			
Interest Expense:				
Hedge ineffectiveness (gains) losses	\$ 902	\$ (123)	\$ 1,769	\$ (598)
Amortization:				
Accelerated amortization of deferred losses ⁽¹⁾	6	1,847	453	1,847
Amortization of deferred losses	1,764	3,544	3,621	6,379
Total Amortization	1,770	5,391	4,074	8,226
Total charged to interest expense	\$2,672	\$5,268	\$5,843	\$ 7,628
Other Income (Expense):				
Mark to market gains (losses) on undesignated interest rate derivatives	\$ (176)	\$ (257)	\$ (546)	\$ (616)
Total charged to other income (expense)	\$ (176)	\$ (257)	\$ (546)	\$ (616)

(1) Includes accelerated amortization of deferred losses in the amount of \$1,839 related to an aircraft sold during the three and six months ended June 30, 2011.

Management's Use of 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.

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The table below shows the reconciliation of net income to EBITDA for the three and six months ended June 30, 2010 and 2011, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(Dollars in thousands)			
Net income	\$ 18,139	\$ 23,309	\$ 37,018	\$ 65,986
Depreciation	54,424	58,576	108,569	118,167
Amortization of net lease discounts and lease incentives	4,909	3,030	9,754	6,132
Interest, net	40,166	55,893	81,125	101,512
Income tax provision	1,515	1,535	3,850	4,804
EBITDA	\$ 119,153	\$ 142,343	\$ 240,316	\$ 296,601

Management's Use of Adjusted Net Income and Adjusted Net Income plus Depreciation and Amortization

Management believes that Adjusted Net Income (ANI) and Adjusted Net Income plus Depreciation and Amortization (ANIDA), 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. Additionally, management believes that ANIDA provides investors with an additional metric to enhance their understanding of the factors and trends affecting our ongoing cash earnings from which capital investments are made, debt is serviced, and dividends are paid.

The table below shows the reconciliation of net income to ANI and ANIDA for the three and six months ended June 30, 2010 and 2011, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(Dollars in thousands)			
Net income	\$ 18,139	\$ 23,309	\$ 37,018	\$ 65,986
Ineffective portion and termination of cash flow hedges ⁽¹⁾	908	1,724	2,222	1,249
Loan termination payment ⁽¹⁾		3,196		3,196
Write-off of deferred financing fees ⁽¹⁾		2,456		2,456
Mark to market of interest rate derivative contracts ⁽²⁾	176	257	546	616
Loss (gain) on sale of flight equipment ⁽²⁾	1,291	(10,299)	1,291	(19,961)
Adjusted net income	20,514	20,643	41,077	53,542
Depreciation	54,424	58,576	108,569	118,167
Amortization of net lease discounts and lease incentives	4,909	3,030	9,754	6,132

Adjusted net income plus depreciation and amortization	\$ 79,847	\$ 82,249	\$ 159,400	\$ 177,841
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- (1) Included in Interest, net.
- (2) Included in Other income (expense).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Weighted-average shares:				
Common shares outstanding	78,465,361	75,701,045	78,436,452	77,234,869
Restricted common shares	1,153,468	1,017,879	1,182,165	956,232
Total weighted-average shares	79,618,829	76,718,924	79,618,617	78,191,101

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Percentage of weighted-average shares:				
Common shares outstanding	98.55%	98.67%	98.52%	98.78%
Restricted common shares	1.45%	1.33%	1.48%	1.22%
Total	100.00%	100.00%	100.00%	100.00%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Weighted-average common shares outstanding Basic and Diluted ^(b)	78,465,361	75,701,045	78,436,452	77,234,869

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(Dollars in thousands, except per share amounts)			
Adjusted net income allocation:				
Adjusted net income	\$ 20,514	\$ 20,643	\$ 41,077	\$ 53,542
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	(297)	(274)	(610)	(655)
Adjusted net income allocable to common shares Basic and Diluted	\$ 20,217	\$ 20,369	\$ 40,467	\$ 52,887
Adjusted net income per common share Basic	\$ 0.26	\$ 0.27	\$ 0.52	\$ 0.68
Adjusted net income per common share Diluted	\$ 0.26	\$ 0.27	\$ 0.52	\$ 0.68

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(Dollars in thousands, except per share amounts)			
Adjusted net income plus depreciation and amortization allocation:				
Adjusted net income plus depreciation and amortization	\$ 79,847	\$ 82,249	\$ 159,400	\$ 177,841
Less: Distributed and undistributed earnings allocated to restricted common shares ^(a)	(1,157)	(1,091)	(2,367)	(2,175)
Adjusted net income plus depreciation and amortization allocable to common shares Basic	\$ 78,690	\$ 81,158	\$ 157,033	\$ 175,666

and Diluted

Adjusted net income plus depreciation and amortization per common share	Basic	\$	1.00	\$	1.07	\$	2.00	\$	2.27
Adjusted net income plus depreciation and amortization per common share	Diluted	\$	1.00	\$	1.07	\$	2.00	\$	2.27

(a) For the three months ended June 30, 2010 and 2011, distributed and undistributed earnings allocated to restricted shares is 1.45% and 1.33%, respectively, of net income. For the six months ended June 30, 2010 and 2011, distributed and undistributed earnings to restricted shares is 1.48% and 1.22%, 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 three and six months ended June 30, 2010 and 2011, we have no dilutive shares.

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Limitations of EBITDA, ANI and ANIDA

An investor or potential investor may find EBITDA, ANI and ANIDA 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, ANI and ANIDA 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, ANI and ANIDA, and using these non-US GAAP measures as compared to US GAAP net income, income from continuing operations and cash flows provided by or used in operations, include:

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;

the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;

elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy; and

gains and losses from asset sales, which may not reflect the overall financial return of the asset, may be an indicator of the current value of our portfolio of assets.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, floating rate debt obligations and interest rate derivatives. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities.

Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

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The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. We changed our interest rate risk disclosure to an alternative that provides a more meaningful analysis of our interest rate risk. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential minimum contracted rental and interest expense impacts on our financial instruments and our five variable rate leases and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

A hypothetical 100-basis point increase/decrease in our variable interest rates would increase/decrease the minimum contracted rentals on our portfolio as of June 30, 2011 by \$0.9 million and \$0.4 million, respectively, over the next twelve months. As of June 30, 2011, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$0.3 million and \$0.1 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months.

Item 4. Controls and Procedures.**Management's Evaluation of Disclosure Controls and Procedures**

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO, and CFO, of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2011. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

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

Item 1A. Risk Factors.

There have been no material changes to the disclosure related to the risk factors described in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Issuer Purchases of Equity Securities**

During the second quarter of 2011, 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)				
April	1,613,003	\$12.34	1,613,003	\$25,124
May	581,113	12.66	581,113	17,768
June	1,458,876	12.18	1,458,876	30,000
Total	3,652,992	\$12.33	3,652,992	\$30,000

- (a) On March 10, 2011 the Company announced the repurchase of up to \$60 million of the Company's common shares. On June 27, 2011, the Company's Board of Directors authorized an increase in the Company's share repurchase program by up to an additional \$30 million of its common shares, for a total of up to \$90 million of its common shares in the aggregate. The amount and timing of the purchases will depend on a number of factors including the price and availability of the Company's common shares, trading volume and general market conditions. The Company may also from time to time establish a trading plan under Rule 10b5-1 of the Exchange Act to facilitate purchases of its common shares under this authorization.

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Item 6. Exhibits.

Exhibit No.	Description of Exhibit
3.1	Memorandum of Association
3.2	Bye-laws
4.1	Specimen Share Certificate
4.2	Amended and Restated Shareholders Agreement among Aircastle Limited and Fortress Investment Fund III LP, Fortress Investment Fund III (Fund B) LP, Fortress Investment Fund III (Fund C) LP, Fortress Investment Fund III (Fund D) L.P., Fortress Investment Fund III (Fund E) LP, Fortress Investment Fund III (Coinvestment Fund A) LP, Fortress Investment Fund III (Coinvestment Fund B) LP, Fortress Investment Fund III (Coinvestment Fund C) LP, Fortress Investment Fund III (Coinvestment Fund D) L.P., Drawbridge Special Opportunities Fund LP, Drawbridge Special Opportunities Fund Ltd. and Drawbridge Global Macro Master Fund Ltd.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 Δ
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 Δ
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Δ
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Δ
99.1	Owned Aircraft Portfolio at June 30, 2011 Δ
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2010 and June 30, 2011, (ii) Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2011, (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2011, and (iv) Notes to Unaudited Consolidated Financial Statements Δ *

Incorporated by reference to the Company's registration statement on Form S-1, filed with the SEC on June 2, 2006, as amended on July 10, 2006, July 25, 2006 and August 2, 2006.

Δ Filed herewith.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

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SIGNATURE

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

Dated: August 4, 2011

AIRCASTLE LIMITED

(Registrant)

By: /s/ Aaron Dahlke
Aaron Dahlke
Chief Accounting Officer and
Authorized Officer

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