

Aircastle LTD  
Form 10-Q  
November 13, 2007

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2007

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)

other jurisdiction of  
incorporation or organization) (IRS Employer  
Identification No.) 300 First Stamford Place,  
5th Floor, Stamford, CT 06902 (Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (203) 504-1020

Bermuda 98-0444035 (State or

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

accelerated filer Accelerated filer Non-accelerated filer Large  
Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). YES NO

Number of shares outstanding as of November 7, 2007: 78,417,321 common shares, par value \$0.01 per share.

---

Aircastle Limited and Subsidiaries

Form 10-Q

Table of Contents

Page No.	Part I. — Financial Information	Item 1. Financial Statements	Consolidated Balance Sheets as of December 31, 2006 and September 30, 2007	3	Consolidated Statements of Income for the three and nine months ended
	September 30, 2006 and 2007	4	Consolidated Statements of Cash Flows for the nine months ended		September 30, 2006 and 2007
	September 30, 2006 and 2007	5	Notes to Unaudited Consolidated Financial Statements	6	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
	23	Item 3. Quantitative and Qualitative Disclosures about Market Risk	45	Item 4. Controls and Procedures	46
	Part II. — Other Information	Item 1. Legal Proceedings	47	Item 1A. Risk Factors	47
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	47	Item 3. Defaults upon Senior Securities	47	Item 4. Submission of Matters to a Vote of Security Holders
	47	Item 5. Other Information	47	Item 6. Exhibits	48
	Signature	49			

---

## Table of Contents

## Part I. — Financial Information

## Item 1. Financial Statements

## Aircastle Limited and Subsidiaries

## Consolidated Balance Sheets

(Dollars in thousands, except share data)

December 31,

2006 September 30,

2007	(unaudited)	ASSETS	Cash and cash equivalents	\$ 58,118	\$ 26,867	Accounts receivable	7,696	4,365	Debt investments	121,273	114,717	Restricted cash and cash equivalents	106,069														
125,362		Flight equipment held for sale	31,280	—	Flight equipment held for lease, net of accumulated depreciation	of \$64,111 and \$147,937	1,559,365	3,029,686	Aircraft purchase deposits and progress payments	4,650	226,167	Leasehold improvements, furnishings and equipment, net of accumulated depreciation of \$694 and \$1,160	1,506	1,320	Fair value of derivative assets	313	2,007										
		Other assets	28,433	44,615	Total assets	\$ 1,918,703	\$ 3,575,106	LIABILITIES AND SHAREHOLDERS' EQUITY			LIABILITIES	Borrowings under credit facilities	\$ 442,660	\$ 336,165	Borrowings from securitizations	549,400	1,693,232	Accounts payable, accrued expenses and other liabilities	31,384	64,224	Dividends payable	22,584	43,822	Lease rentals received in advance	11,068		
		Repurchase agreements	83,694	67,506	Security deposits	39,767	66,645	Maintenance payments	82,914	153,432	Fair value of derivative liabilities	18,035	55,105	Total liabilities	1,281,506	2,497,867	Commitments and Contingencies – Note 13			SHAREHOLDERS' EQUITY			Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding at December 31, 2006				
		and September 30, 2007	—	—	Common shares, \$.01 par value, 250,000,000 shares authorized, 51,621,279 shares issued and outstanding at December 31, 2006; and 67,417,321 shares issued and outstanding at September 30, 2007	516	674	Additional paid-in capital	630,154	1,129,179	Dividends in excess of earnings	(3,382)	(29,220)	Accumulated other comprehensive income (loss)	9,909	(23,394)	Total shareholders' equity	637,197	1,077,239	Total liabilities and shareholders' equity	\$ 1,918,703	\$ 3,575,106					

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

## Table of Contents

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

		Three Months Ended		September 30, 2006		September 30, 2007		Nine Months Ended		September 30, 2006		September 30, 2007	
		Revenues:		Lease rentals		\$ 48,796	\$ 102,863	\$					
116,557	\$ 252,147	Interest income	2,487	2,367	6,588	7,683	Other revenue	153	34	153			
553	Total revenues	51,436	105,264	123,298	260,383	Expenses:		Depreciation					
15,502	34,980	35,740	84,378	Interest, net – Note 17	14,069	27,074	34,147	63,151	Selling,				
general and administrative (including non-cash share based payment expense of \$1,044 and \$1,230 for the three months ended and \$7,729 and \$5,276 for the nine months ended September 30, 2006 and 2007, respectively)													
8,380	20,976	27,324	Other expense	304	503	1,200	110	Total expenses	34,982	70,937			
92,063	174,963	Income from continuing operations before income taxes		16,454	34,327	31,235							
85,420	Income tax provision	1,742	1,857	4,380	4,935	Income from continuing operations		14,712					
32,470	26,855	80,485	Earnings from discontinued operations, net of										
income taxes	470	—	4,557	11,594	Net income	\$ 15,182	\$ 32,470	\$ 31,412	\$ 92,079	Basic			
earnings per share:		Income from continuing operations		\$ 0.31	\$ 0.49	\$ 0.61	\$ 1.26						
Earnings from discontinued operations, net of													
income taxes	0.01	—	0.11	0.18	Net income per share	\$ 0.32	\$ 0.49	\$ 0.72	\$ 1.44	Diluted			
earnings per share:		Income from continuing operations		\$ 0.31	\$ 0.49	\$ 0.60	\$ 1.25						
Earnings from discontinued operations, net of													
income taxes	0.01	—	0.11	0.18	Net income per share	\$ 0.32	\$ 0.49	\$ 0.71	\$ 1.43	Dividends			
declared per share		\$ 0.506	\$ 0.65	\$ 0.506	\$ 1.75								

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

## Table of Contents

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

## Nine Months Ended

September 30, 2006	2007	Cash flows from operating activities	Net income	\$ 31,412	\$ 92,079
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):					
	Depreciation	38,182	85,139	Amortization of deferred financing costs	
5,827	5,150	Amortization of lease premiums and discounts, and other related lease items	(2,846)	(6,673)	
	Deferred income taxes	2,239	(3,652)	Accretion of purchase discounts on debt investments	(619) (627)
	Non-cash share based payment expense	7,729	5,276	Capitalized interest	— (2,733)
	reclassified into earnings	(1,197)	(3,481)	Realized gain on derivative contract	— (1,154)
	portion of cash flow hedges	(815)	52	Gain on the sale of flight equipment	(2,240) (10,219)
Changes in certain assets and liabilities:					
	Accounts receivable	(2,374)	3,331	Restricted cash and cash equivalents	(53,244) (19,130)
	Other assets	(818)	(6,413)	Accounts payable, accrued expenses and other liabilities	922 6,440
	Lease rentals received in advance	3,992	6,668	Security deposits and maintenance payments	74,101 103,621
	Net cash provided by operating activities	100,251	253,674	Cash flows from investing activities	
	Acquisition and improvement of flight equipment	(746,081)		Disposition of flight equipment held for sale	57,157 34,946
(1,494,683)		Disposition of flight equipment held for sale	57,157	34,946	Aircraft purchase deposits and progress payments
(40,997)	(153,657)	Leasehold improvements, furnishings and equipment	(347)	(280)	Margin deposits
(1,555)	3,688	Purchase of debt investments	(92,726)	(15,251)	Principal repayments on debt investments
3,589	20,262	Net cash used in investing activities	(820,960)	(1,604,975)	Cash flows from financing activities
	Issuance of common shares	258,547	493,056	Issuance, net of repurchases, of common shares to employees	— 851
(36,932)	—	Repurchase of shares from affiliate	(820,960)	Repurchase of shares from affiliate	(36,932) —
	Proceeds from securitizations	560,000	1,170,000	Securitization repayments	(5,267) (26,168)
	Restricted cash and cash equivalents related to unreleased securitization borrowings	(12,818)	(163)	Deferred financing costs	(14,978) (11,174)
	Credit facility borrowings	660,302	1,330,962	Credit facility repayments	(799,664) (1,533,383)
	Proceeds from repurchase agreements	76,007	894	Principal repayments on repurchase agreements	(833) (17,082)
	Proceeds from terminated cash flow hedges	16,142	8,936	Dividends paid	(20,770) (96,679)
	Net cash provided by financing activities	679,736	1,320,050	Net decrease in cash and cash equivalents	(40,973) (31,251)
	Cash and cash equivalents at beginning of period	79,943	58,118	Cash and cash equivalents at end of period	\$ 38,970 \$ 26,867

## Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

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 October 29, 2004 by funds managed by affiliates of Fortress Investment Group LLC and certain of its affiliates (together, the “Fortress Shareholders” or “Fortress,” and such funds the “Fortress Funds”) under the provisions of Section 1 of the Companies Act of 1981 of Bermuda. Aircastle’s business is investing in aviation assets, including acquiring, managing and leasing commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments. Fortress Shareholders owned a majority of our outstanding common shares as of September 30, 2007; however, the Fortress Shareholders and certain officers of Fortress held approximately 39% of our common shares after our follow-on offering of common shares that closed on October 10, 2007 (See Note 18 “Subsequent Events — Follow-On Public Offering of Common Shares”).

### Basis of Presentation

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle owns, directly or indirectly, all of the outstanding common shares or economic ownership interest of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

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 condensed financial statements prepared in accordance with 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, 2006, its Quarterly Report on Form 10-Q filed on August 14, 2007 and its Current Report on Form 8-K filed on September 26, 2007 reporting events under item 8.01.

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

### Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates two Variable Interest Entities (“VIEs”) in accordance with the Financial Accounting Standards Board (“FASB”) Interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46”) of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

### Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 (“SFAS No. 159”). SFAS No 159, which amends SFAS No. 115, allows certain financial assets and liabilities to be recognized, at the company’s election, at fair market value, with

6

---



Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

any gains or losses for the period recorded in the statement of income. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Currently, the Company records the gains or losses for the period in the statement of comprehensive income and in the equity section of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of SFAS No. 159 on its consolidated results of operations and financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (“SFAS No. 157”). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies in conjunction with other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the potential impacts of SFAS No. 157 on its consolidated results of operations and financial position.

Note 2. Fair Value of Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, debt investments, accounts payable, amounts borrowed under credit facilities, borrowings from securitizations, repurchase agreements and cash flow hedges. The fair value of cash and 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. Borrowings under our credit facilities, securitizations and repurchase agreements bear floating rates of interest which reset monthly to a market benchmark rate plus a credit spread. We believe that, for similar financial instruments with comparable credit risks, the effective rate of these agreements approximates market rates at the balance sheet dates. Accordingly, the carrying amounts of these agreements are believed to approximate their fair values. The fair value of our debt investments and cash flow hedges is generally determined by reference to broker quotations.

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 at September 30, 2007 were as follows:

	Year Ending December 31, Amount Remainder of										
2007	\$ 102,993	2008	391,742	2009	338,479	2010	280,379	2011	232,298	2012	169,487
Thereafter	250,953		\$ 1,766,331								

Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

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

Three Months Ended		September 30, 2006		September 30, 2007		September 30, 2006		September 30, 2007			
Region	Value %	Number of Aircraft	Region	Value %	Number of Aircraft	Region	Value %	Number of Aircraft	Region	Value %	Number of Aircraft
Europe	44 %	42	Europe	44 %	44	Asia	16 %	29	Asia	16 %	29
North America	27 %	15	North America	27 %	15	Latin America	8 %	6	Latin America	8 %	8
Middle East and Africa	5 %	8	Middle East and Africa	5 %	5	Middle East and Africa	100 %	100	Middle East and Africa	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 September 30, 2006, one customer accounted for 23% of lease rental revenues and three additional customers combined accounted for 22% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues. For the three months ended September 30, 2007, one customer accounted for 11% of lease rental revenues and three additional customers combined accounted for 17% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

For the nine months ended September 30, 2006, two customers accounted for 26% and 10%, respectively, of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues. For the nine months ended September 30, 2007, one customer accounted for 13% of lease rental revenues and two additional customers combined accounted for 13% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

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

December 31, 2006		September 30, 2007		Region		Number of Aircraft		Net Book Value %		Number of Aircraft		Net Book Value %	
Europe	35	46 %	53	45 %	Asia	14	21 %	30	28 %	North America	11	23 %	12
Latin America	5	6 %	7	5 %	Middle East and Africa	3	4 %	7	11 %		68	100 %	109
		100 %		100 %									

At December 31, 2006 and September 30, 2007, lease acquisition costs included in other assets on the consolidated balance sheets were \$377 and \$417, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were \$656 and \$184 at December 31, 2006 and September 30, 2007, respectively.

Note 4. Discontinued Operations and Flight Equipment Held for Sale

Edgar Filing: Aircastle LTD - Form 10-Q

As of December 31, 2005, one of our aircraft was classified as flight equipment held for sale. During the three months ended March 31, 2006, we completed the sale of this aircraft. In accordance with the terms of the credit facility associated with this aircraft, a portion of the proceeds was used to repay \$36,666 of debt related to the aircraft plus accrued interest.

8

---

## Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

As of March 31, 2007, one of our aircraft was classified as flight equipment held for sale. In May 2007, we completed the sale of this aircraft. Lease rentals, depreciation, other expenses and the gain on disposition related to this aircraft have been recorded as earnings from discontinued operations, net of income tax provision, for the nine months ended September 30, 2007. For the nine month period ended September 30, 2007, we had no outstanding borrowings and incurred no interest expense related to this aircraft.

Earnings from discontinued operations for the three months and the nine months ended September 30, 2006 and 2007 related solely to the two aircraft held for sale, were as follows:

Three Months Ended		September 30, 2006		September 30, 2007		September 30, 2006		September 30, 2007	
Earnings from discontinued operations:									
\$ 1,618	\$ —	\$ 6,991	\$ 2,364	Depreciation	(917)	—	(2,442)	(761)	Lease rentals
2,240	10,219	Interest expense	(107)	—	(1,439)	—	Other expenses	(80)	—
Earnings before income tax provision		514	—	5,078	11,637	Income tax provision	(44)	—	(521)
(43)		Earnings from discontinued operations		\$ 470	\$ —	\$ 4,557	\$ 11,594		

## Note 5. Debt Investments

At September 30, 2007, debt investments with an aggregate fair value of \$100,516 were U.S. corporate obligations and were classified as available-for-sale. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which \$79,511 are senior tranche with an investment grade rating and \$21,005 are subordinate to other debt related to such aircraft. All of our debt investments which are classified as available-for-sale had unrealized gain positions relative to their net book values, which aggregated to \$14,390 and \$12,218 at December 31, 2006 and September 30, 2007, respectively.

At September 30, 2007, debt investments with a fair value of \$41,437 and \$41,128, respectively, have stated maturities in 2010 and 2011, respectively. Debt investments with an aggregate fair value of \$17,951 have remaining terms to stated maturity in excess of 10 years after September 30, 2007. All of our debt investments provide for the periodic payment of both principal and interest and are subject to prepayment and/or acceleration depending on certain events, including the sale of the underlying collateral aircraft and events of default. Therefore, the actual maturity of our debt investments may be less than the stated maturities.

In 2007, we acquired a loan secured by a commercial jet aircraft with a cash purchase of \$15,251 that is classified as held to maturity. The loan matures in December 2007 and at September 30, 2007 had a net book value of \$14,201, which we believe approximates its fair value as of that date.



Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

Note 6. Securitization and Borrowings under Credit Facilities

The outstanding amounts of our securitizations and borrowings under our credit facilities were as follows:

At								
December 31,								
2006	At September 30, 2007	Debt Obligation	Outstanding					
Borrowings	Outstanding							
Borrowings	Interest Rate(1)	Final Stated						
Maturity	Securitizations:	Securitization No. 1	\$ 549,400	\$ 532,999	1 M LIBOR + .27% =			
6.02%	6/20/31	Securitization No. 2	— 1,160,233	1 M LIBOR + .26% = 6.08%	6/14/37	Total Securitizations		
549,400	1,693,232	Credit Facilities:		747 PDP Credit Facility	— 64,127	1 M		
LIBOR + 1.00% = 6.67%	4/15/08	Revolving Credit Facility	— —	1 M LIBOR + 1.50%	— N/A	6/15/08		
Amended Credit Facility No. 2	369,328	272,038	1 M LIBOR + 1.25% = 7.00%	12/15/08	Credit Facility			
No. 3	73,332	—	1 M LIBOR + 1.50%	— N/AN/A	Total Credit Facilities	442,660	336,165	Total
\$ 992,060	\$ 2,029,397							

(1)

London Interbank Offered Rate, or “LIBOR,” in effect at the applicable reset date.

Securitization No. 1

In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc and ACS Aircraft Finance Bermuda Limited issued \$560,000 of Class A-1 notes, of which \$532,999 remains outstanding as of September 30, 2007.

ACS Aircraft Finance Ireland plc, which had total assets of \$143,848 at September 30, 2007, is a VIE which we consolidate. At September 30, 2007, the outstanding principal amount of ACS Aircraft Finance Ireland plc’s notes was \$103,318.

Securitization No. 2

On June 8, 2007, we completed our second securitization, a \$1,170,000 transaction comprising 59 aircraft, which we refer to as “Securitization No. 2.” In connection with Securitization No. 2, two of our subsidiaries, ACS Aircraft Finance Ireland 2 Limited (“ACS Ireland 2”) and ACS 2007-1 Limited (“ACS Bermuda 2”), to which we refer together with their subsidiaries as the “ACS 2 Group” issued \$1,170,000 of Class A notes, or the “ACS 2 Notes,” to a newly formed trust, the ACS 2007-1 Pass Through Trust, or the “ACS 2 Trust.” The ACS 2 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the “ACS 2 Certificates,” representing undivided fractional interests in the ACS 2 Notes. Payments on the ACS 2 Notes will be passed through to the holders of the ACS 2 Certificates. The ACS 2 Notes are secured by ownership in aircraft owning subsidiaries of ACS Bermuda 2 and ACS Ireland 2 and the aircraft

leases, cash, rights under service agreements and any other assets they may hold. Each of ACS Bermuda 2 and ACS Ireland 2 has fully and unconditionally guaranteed the other's obligations under the ACS 2 Notes. However, the ACS 2 Notes are neither obligations of nor guaranteed by Aircastle Limited. The ACS 2 Notes mature on June 14, 2037.

10

---

Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

The terms of Securitization No. 2 require the ACS 2 Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS 2 Group's compliance with these covenants depends substantially upon the timely receipt of lease payments from their lessees. In particular, during the first five years from issuance, Securitization No. 2 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 60.6% of an assumed value of the 59 aircraft securing the ACS 2 Notes. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of Securitization No. 2, and in any month following the fifth anniversary of the closing date, all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

As of September 30, 2007, the ACS 2 Group used the proceeds from the sale of the ACS 2 Notes to acquire all 59 aircraft from us and we paid certain expenses incurred in connection with the ACS 2 Certificates offering of approximately \$12,620. We used a portion of the proceeds from Securitization No. 2 to repay amounts owed under Amended Credit Facility No. 2.

Financial Guaranty Insurance Company issued a financial guaranty insurance policy to support the payment of interest when due on the ACS 2 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 2 Certificates. The ACS 2 Certificates are rated Aaa and AAA by Moody's Investors Service and Standard & Poor's rating services, respectively. We have entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. These contracts, together with the related guarantee premium, the spread referenced above and other costs of trust administration, result in a fixed rate cost of 6.20% per annum, after the amortization of issuance fees and expenses.

ACS Ireland 2, which had total assets of \$243,362 at September 30, 2007, is a VIE which we consolidate. At September 30, 2007, the outstanding principal amount of the ACS2 notes issued by ACS Ireland 2 was \$188,978. The assets of ACS Ireland 2 as of September 30, 2007 include nine aircraft transferred to ACS Ireland 2 in connection with Securitization No. 2.

#### 747 PDP Credit Facility

On July 26, 2007, we made an accelerated payment to the relevant Guggenheim Aviation Investment Fund LP ("GAIF") seller under our acquisition agreement with GAIF (the "GAIF Acquisition Agreement") for 3 Boeing Model 747-400ERF aircraft in the amount of \$106,668 and assumed a pre-delivery payment credit facility related to such 747-400ERF aircraft (the "Accelerated ERF Aircraft"), which we refer to as the 747 PDP Credit Facility. The total outstanding amount of borrowings assumed under the 747 PDP Credit Facility was \$95,926. Borrowings under this facility were used to finance progress payments made to Boeing during the manufacturing of the aircraft and bear interest at one-month LIBOR plus 1.00% per annum and will mature upon delivery of the final aircraft scheduled for April 2008. On July 30, 2007, we took delivery of the first Accelerated ERF Aircraft and paid down \$31,799 under the 747 PDP Credit Facility.



Revolving Credit Facility

On January 22, 2007, our Revolving Credit Facility was amended to increase the maximum committed amount to \$450,000. The maximum committed amount was subsequently reduced to \$250,000 upon the closing of our follow-on offering in February 2007.

On April 5, 2007, we entered into an amendment to the Revolving Credit Facility which increased our minimum net worth covenant from \$550,000 to \$750,000 plus one-half of the net

Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

proceeds of any future equity capital we raise. We are not permitted to pay dividends on our common shares to the extent a default or an event of default exists under our Revolving Credit Facility.

On August 20, 2007, the Company and the other parties to the Revolving Credit Facility entered into a third amendment to the Revolving Credit Facility extending its maturity to June 15, 2008.

At September 30, 2007, there were no outstanding loans and \$13,883 of letters of credit outstanding under the Revolving Credit Facility.

Amended Credit Facility No. 2

We are currently utilizing a senior secured credit facility, which we refer to as Amended Credit Facility No. 2, to finance up to 65% of the purchase price of certain aircraft not included in our two securitizations. The maximum committed amount of this credit facility was \$1,250,000. On June 8, 2007, the maximum committed amount of Amended Credit Facility No. 2 was reduced to \$1,000,000 and \$509,942 was repaid on Amended Credit Facility No. 2 from the proceeds of Securitization No. 2.

On September 14, 2007, the parties to the credit agreement entered into an amendment to the credit agreement permitting us to finance under the credit agreement a portion of the cost of converting from passenger to freighter configuration three Boeing Model 747-400 aircraft which we have acquired or committed to acquire.

Credit Facility No. 3

Credit Facility No. 3, with an outstanding balance of \$73,332 as of June 30, 2007, was repaid in full in July of 2007 out of the proceeds of Securitization No. 2.

Note 7. Repurchase Agreements

The outstanding amounts of our repurchase agreements were as follows:

At	December 31,	2006	At September 30, 2007	Debt Obligation	Outstanding	Outstanding
Borrowings	Outstanding					
Borrowings	Interest Rate(2)	Final	Stated			
Maturity Repurchase Agreement	\$ 75,055	\$ 59,679	1 M LIBOR + .50% = 6.27%	3/1/08 Repurchase Agreement	2,759	2,524
			1 M LIBOR + .50% = 5.63%	6/28/08 Repurchase Agreement(1)	5,880	5,303
			1 M LIBOR + .75% = 6.55%	10/15/07 Total Repurchase Agreements	\$ 83,694	\$ 67,506

(1)

Refinanced in October 2007 with new maturity date of November 15, 2007. We intend to refinance this repurchase agreement on a monthly basis. (2) LIBOR in effect at the applicable reset date.

We enter into repurchase agreements to fund a portion of the purchase price of certain of our senior tranche investment grade debt investments. At December 31, 2006 and September 30, 2007 the repurchase agreements are secured by liens on the debt investments with a fair value of \$105,550 and \$86,089, respectively. The repurchase agreements are substantially all with parties other than those from whom we originally purchased the debt investments. Upon maturity, we plan to refinance the repurchase agreements on similar terms and conditions.

12

---

Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

Note 8. Shareholders' Equity and Share Based Payments

On February 8, 2006, Fortress purchased 3,693,200 common shares at \$10.00 per share for a total amount of \$36,932. On July 21, 2006, the Company returned \$36,932 of cash to Fortress in exchange for the cancellation of 3,693,200 of our common shares at \$10.00 per share.

In August 2006, the Company completed its initial public offering of 10,454,535 common shares at a price of \$23.00 per share, raising \$240,454 before offering costs. The net proceeds of the initial public offering, after our payment of \$16,832 in underwriting discounts and commissions, and \$4,027 in offering expenses were \$219,595. Approximately \$205,470 of the net proceeds was used to repay a portion of Credit Facility No. 2. The remainder of the net proceeds was used for working capital requirements and to fund additional aircraft acquisitions.

On February 13, 2007, the Company completed a follow-on public offering of 15,525,000 common shares at a price of \$33.00 per share, raising \$512,325 before offering costs. Net proceeds of the offering, after our payment of \$17,931 in underwriting discounts and commissions and \$1,338 in offering expenses, were \$493,056. Approximately \$473,074 of the net proceeds was used to repay borrowings under Amended Credit Facility No. 2 and the Revolving Credit Facility. The remainder of the net proceeds was used for working capital requirements and to fund additional aircraft acquisitions.

On April 12, 2007, an officer of the Company was granted 135,000 common shares and purchased an additional 35,000 shares for a total of 170,000 shares.

On April 30, 2007, the Company accelerated the vesting of 50,000 restricted shares of a former officer of the Company resulting in a non-cash share based expense of \$1,670.

On October 10, 2007, the Company completed a follow-on public offering of 11,000,000 primary common shares at a public offering price of \$31.75 per share, including 1,000,000 common shares pursuant to the underwriter's option to cover over-allotments (See Note 18 "Subsequent Events — Follow-On Public Offering of Common Shares").

A summary of the fair value of nonvested shares for the nine months ended September 30, 2007 is as follows:

		Nonvested Shares				
Shares						
(in 000's)	Weighted					
Average	Grant					
Date						
Fair Value Nonvested at January 1, 2007	901.3	\$ 18.05	Granted	261.5	34.16	Cancelled (17.0)
(23.43)	Vested (238.1)	(18.85)	Nonvested at September 30, 2007	907.7	\$ 22.38	

The fair value of the restricted shares granted in 2007 was determined based upon the market price of the shares at the grant date. We anticipate that the current requisite service periods will be obtained for employees with awards. The

total unrecognized compensation cost as of September 30, 2007 in the amount of \$16,163 is expected to be recognized over a weighted average period of three years.

13

---

Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

Note 9. Dividends

The following table sets forth the quarterly dividends declared by our Board of Directors:

Declaration Date	Dividend per Common Share	Aggregate Dividend	Amount	Record Date	Payment Date	July 20, 2006	\$ 0.35	\$ 14,367	July 26, 2006	July 31, 2006
August 2, 2006	\$ 0.156 (1)	6,403	August 1, 2006	August 15, 2006	October 9, 2006	\$ 0.194 (1)	9,992			
October 31, 2006		November 15, 2006	December 13, 2006	\$ 0.4375	22,584	December 29, 2006				
January 15, 2007	March 14, 2007	\$ 0.50	33,634	March 30, 2007	April 13, 2007	June 14, 2007	\$ 0.60			
40,460	June 29, 2007	July 13, 2007	September 13, 2007	\$ 0.65	43,822	September 28, 2007				
October 15, 2007										(1) Total

dividend for quarter of \$0.35

Note 10. Earnings Per Share

The following table shows the components and computation of basic and diluted earnings per share:

Three Months Ended		Nine Months Ended		September 30, 2006		September 30, 2007	
14,712	\$ 32,470	\$ 26,855	\$ 80,485	4,557	11,594	Net income	\$ 15,182
							\$ 32,470
							\$ 31,412
							\$ 92,079
							Denominator
							46,907,390
							66,590,109
							44,058,333
							315,121
							223,781
							317,865
							228,195
							47,222,511
							66,813,890
							44,376,198
							64,259,290
							Basic earnings per share:
							Income from continuing operations
							\$ 0.31
							Earnings from discontinued operations, net of income taxes
							0.01
							—
							0.11
							0.18
							\$ 0.32
							\$ 0.49
							\$ 0.72
							\$ 1.44
							Diluted earnings per share:
							Income from continuing operations
							\$ 0.31
							\$ 0.49
							\$ 0.60
							\$ 1.25
							Earnings from discontinued operations, net of income taxes
							0.01
							—
							0.11
							0.18
							Net income per share
							\$ 0.32
							\$ 0.49
							\$ 0.71
							\$ 1.43



Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

Note 11. Income Taxes

The sources of income from continuing operations before income taxes for the three and nine months ended September 30, 2006 and 2007 were as follows:

Three Months Ended

September 30, Nine Months Ended

September 30, 2006	2007	2006	2007	U.S. operations	\$ 1,216	\$ 391	\$ 1,622	\$ 1,767	Non-U.S. operations	15,238	33,936	29,613	83,653	Total	\$ 16,454	\$ 34,327	\$ 31,235	\$ 85,420
--------------------	------	------	------	-----------------	----------	--------	----------	----------	---------------------	--------	--------	--------	--------	-------	-----------	-----------	-----------	-----------

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

Three Months Ended

September 30, Nine Months Ended

September 30, 2006	2007	2006	2007	Notional U.S. federal income tax expense at the statutory rate:	\$ 5,282						
\$ 12,308	\$ 10,932	\$ 29,897	U.S. state and local income tax, net	109	30	217	136	Non-U.S. operations	(3,566)		
(10,610)	(7,563)	(25,259)	Non-deductible expenses in the U.S.	31	46						
403	119	Other	(114)	83	391	42	Provision for income taxes	\$ 1,742	\$ 1,857	\$ 4,380	\$ 4,935

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 ('FIN 48'), on January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. We did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

We conduct business globally and, as a result, the Company and its subsidiaries or branches are subject to foreign, U.S. federal and various state income taxes as well as withholding taxes. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Ireland and the United States. With few exceptions, the Company and its subsidiaries or branches remain subject to examination for all periods since inception.



Our policy is that we recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the quarter.

15

---

## Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

## Note 12. Comprehensive Income

Comprehensive income includes net income, the changes in the fair value and the reclassification into earnings of amounts previously deferred relating to our derivative financial instruments which qualify for hedge accounting in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, and the change in unrealized appreciation of debt investments classified as available-for-sale.

The following table shows the components of Comprehensive Income (Loss):

## Three Months Ended

September 30, Nine Months Ended

September 30, 2006	2007	2006	2007	Net income	\$ 15,182	\$ 32,470	\$ 31,412	\$ 92,079	Net change
in fair value of derivatives	(31,098 )	(86,233 )	(6,168 )	(27,650 )	Derivative gain reclassified into				
earnings	— (1,371 )	— (3,481 )	Change in unrealized appreciation (depreciation) on debt securities	—					
(1,343 )	3,607	(2,172 )	Comprehensive income (loss)	\$ (15,916 )	\$ (56,477 )	\$ 28,851	\$ 58,776		

## Note 13. Commitments and Contingencies

On June 20, 2007, Aircastle entered into an acquisition agreement (the “Airbus A330F Agreement”) with Airbus SAS (“Airbus”) under which we agreed to acquire 15 new Airbus Model A330-200F freighter aircraft (the “New A330F Aircraft”). Five of the aircraft we will acquire under the Airbus A330F Agreement are scheduled to be delivered in 2010 with the remainder to be delivered in 2011. We agreed to separate arrangements with Rolls Royce PLC (“Rolls”) and Pratt & Whitney (“P&W”) pursuant to which we committed to acquire aircraft engines for the New A330F Aircraft. As of September 30, 2007, we have made \$56,029 in deposits and progress payments to Airbus and capitalized \$1,055 of interest related to these payments during the three and nine months ended September 30, 2007.

On January 22, 2007, Aircastle entered into the GAIF Acquisition Agreement under which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately \$1,595,000, subject to certain agreed adjustments. The aircraft we will acquire under the GAIF Acquisition Agreement are scheduled to be delivered to us through February 2009. For certain of the aircraft, we have agreed to make an accelerated payment to the relevant seller and acquire its right to obligations under the seller’s purchase acquisition or freighter conversion agreement, with final payment and delivery of the aircraft to us being made upon delivery by the manufacturer or seller, or completion of the conversion process. As of September 30, 2007, we have completed the acquisition of 26 of the aircraft for \$950,379 and made an accelerated payment of \$106,668 for the purchase of 3 Boeing Model 747-400ERF aircraft to be delivered under the GAIF Acquisition Agreement. One of the Boeing Model 747-400ERF aircraft was delivered to us during the third quarter.

At September 30, 2007, we had letters of intent or purchase agreements to acquire 42 aircraft for an estimated purchase price of \$2,354,043, including the 15 New A330F Aircraft and the balance of the aircraft to be delivered

under the GAIF Acquisition Agreement. The purchase price of certain of the aircraft under these letters of intent or purchase agreements, other than the Airbus A330F Agreement, is subject to variable price provisions that typically reduce the final purchase price if the actual closing occurs beyond an initially agreed upon date. The purchase price for Aircraft we are committed to acquire under the Airbus A330F Agreement is subject to adjustment for configuration changes, engine selection and contractual price escalation.

16

---

Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

Committed amounts for the purchase of aircraft and related flight equipment and for freighter conversion costs, including the aircraft purchases discussed above, together with estimated amounts for pre-delivery deposits and, based on estimates for engine acquisition cost, contractual price escalation and other adjustments, are approximately \$635,180 in 2007, \$633,207 in 2008, \$237,093 in 2009, \$408,513 in 2010 and \$440,050 in 2011.

Note 14. Related Party Transactions

Fortress provides certain support services to Aircastle. Fortress requires Aircastle to reimburse it for costs incurred on behalf of Aircastle. These costs consist primarily of professional services and office supplies purchased from third parties. These expenses are charged to Aircastle at cost and are included in selling, general and administrative expenses in our consolidated statements of income. Total costs of direct operating services for the three months ended September 30, 2006 and 2007 were \$0 and \$6, respectively, and for the nine months ended September 30, 2006 and 2007 were \$0 and \$32, respectively.

During 2006, Aircastle employees participated in various benefit plans sponsored by Fortress including a voluntary savings plan (the "401(k) plan") and other health and benefit plans. For the three and nine months ended September 30, 2006, Aircastle reimbursed Fortress \$32 and \$413, respectively, for its costs under the 401(k) Plan and the health and benefit plans. Aircastle also reimbursed Fortress for matching contributions up to 3% of eligible earnings. At December 31, 2006, Aircastle accrued \$113 in annual contributions for the 2006 plan year for our employees' participation in the 401(k) Plan sponsored by Fortress, which was paid to Fortress in March 2007. In January 2007, Aircastle established a separate 401(k) plan and other health and benefit plans.

As of December 31, 2006 and September 30, 2007, \$132 and \$0, respectively, were payable to Fortress.

In May 2006, two of our operating subsidiaries entered into service agreements to provide certain leasing, remarketing, administrative and technical services to a Fortress entity, with respect to four aircraft owned by the Fortress entity and leased to third parties. Total fees paid to us for the three months ended September 30, 2006 and 2007 were \$153 and \$35, respectively. Total fees paid to us for the nine months ended September 30, 2006 and 2007 were \$153 and \$150, respectively. Our responsibilities include remarketing the aircraft for lease or sale, invoicing the lessees for expenses and rental payments, reviewing maintenance reserves, reviewing the credit of lessees, arranging for the periodic inspection of the aircraft and securing the return of the aircraft when necessary. The agreements also provide that the Fortress entity will pay us 3.0% of the collected rentals with respect to leases of the aircraft, plus expenses incurred during the service period and will pay us 2.5% of the gross sales proceeds from the sale of any of the aircraft plus expenses incurred during the service period. We believe that the scope of services and fees under these service agreements were concluded on an arms-length basis. In May 2007, we sold two aircraft owned by Fortress and Fortress paid us a fee in the amount of \$403 for the remarketing of these two aircraft. The service agreements have an initial term which expires on December 31, 2008, but will continue thereafter unless one party terminates the agreement by providing the other with advance written notice. As of December 31, 2006 and September 30, 2007, we had a \$53 and \$27 receivable, respectively, from Fortress.

For the three months ended September 30, 2006 and 2007, Aircastle paid \$439 and \$232, respectively, and for the nine months ended September 30, 2006 and 2007, Aircastle paid \$958 and \$375, respectively for legal fees related to

the establishment and financing activities of our Bermuda subsidiaries. For the three months ended September 30, 2006 and 2007, Aircastle paid \$0 and \$44, respectively, and for the nine months ended September 30, 2006 and 2007, Aircastle paid \$95 and

17

---



The counterparties to these agreements are highly rated financial institutions. At September 30, 2007, counterparties to these agreements were rated A1 or higher by Moody's. In the unlikely event that the counterparties fail to meet the terms of the interest rate swap contracts, our exposure is limited to the interest rate differential on the notional amount at each settlement period over the life of the agreements. We do not anticipate any non-performance by the counterparties.

In June, 2006 we terminated two swaps resulting in a net deferred gain of \$15,938, which will be amortized into income using the interest method over the life of Securitization No. 1 (the anticipated financing), which is expected to be five years. It is expected that approximately \$3,927 of this gain will be reclassified into earnings in the next twelve months. For the three months ended September 30, 2006 and 2007, gains of \$1,026 and \$989, respectively and for the nine months ended September 30, 2006 and 2007, gains of \$1,198 and \$2,992, respectively, were reclassified into earnings and are included in interest expense on the consolidated statements of income.

## Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

In June, 2007 we terminated three swaps resulting in a net deferred gain of \$7,656, which will be amortized into income using the interest rate method over the life of Securitization No. 2 (the anticipated financing) which will occur over the next five years. It is expected that approximately \$1,543 of this gain will be reclassified to earnings in the next twelve months. For the three and nine months ended September 30, 2007, \$391 and \$487 were reclassified into earnings and are included in interest expense on the consolidated statement of income.

In July 2007, we entered into two interest rate swap contracts with initial notional amounts of \$119,000 and \$5,000 to hedge the variable interest payments on debt we expect to incur to finance aircraft acquisitions over the next several years. The notional amounts will increase to a maximum of \$248,000 and \$55,000, respectively, and will amortize down as we repay debt. The terms of the interest rate swaps provide for payment of a fixed rate of 5.33% and 5.41%, respectively, and receipt of one-month LIBOR on the notional amount. These swaps have start dates of August 15, 2007 and May 15, 2008, respectively, termination dates of May 15, 2013 and March 15, 2014, respectively, and mandatory early termination dates of November 15, 2008 and September 15, 2009, respectively. We have designated these interest rate swaps as cash flow hedges for accounting purposes.

For the three months ended September 30, 2006 and 2007, we recognized ineffectiveness losses of \$43 and \$469, respectively, related to our cash flow hedges. For the nine months ended September 30, 2006, we recognized ineffectiveness gains of \$815 and for the nine months ended September 30, 2007, we recognized ineffectiveness losses of \$52, respectively, related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of income.

### Note 16. Segment Reporting

We have two reportable segments: Aircraft Leasing and Debt Investments. We present our segment information on a contribution margin basis consistent with the information that our chief executive officer (the Chief Operating Decision Maker (“CODM”)) reviews in assessing segment performance and allocating resources. Contribution margin includes revenue, depreciation, interest expense and other expenses that are directly connected to our business segments. We believe contribution margin is an appropriate measure of performance because it reflects the marginal profitability of our business segments excluding overhead.

#### Aircraft Leasing

The Aircraft Leasing segment consists of amounts earned from our commercial aircraft leasing operations. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying all operational and insurance costs. In many of our leases we are obligated to bear a portion of maintenance costs or costs associated with modifications required by manufacturers or regulators. We retain the benefit, and bear the risk, of re-leasing and the residual value of the aircraft upon expiration or early termination of the lease.

#### Debt Investments



The Debt Investments segment consists of amounts earned from our investments in debt investments secured by commercial jet aircraft including enhanced equipment trust certificates, or EETCs, and other forms of collateralized debt.

19

---

## Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

Information on reportable segments for the three months ended September 30, 2006 and 2007 is as follows:

		Three Months Ended September 30, 2006				Three Months Ended September 30, 2007				Aircraft		
Leasing	Debt											
Investments	Total Aircraft											
Leasing	Debt											
Investments	Total Revenues:					Lease rentals	\$ 48,796	\$ —	\$ 48,796	\$ 102,863		
\$ —	\$ 102,863	Interest income	—	2,487	2,487	—	2,367	2,367	Other revenue	153	—	153
34	—	34	Total revenues	48,949	2,487	51,436	102,897	2,367	105,264	Expenses:		
		Depreciation	15,360	—	15,360	34,812	—	34,812	Interest, net(1)	14,593		
1,290	15,883	30,234	1,076	31,310	Other expense (income)	304	—	304	503	—	503	
Total expenses	30,257	1,290	31,547	65,549	1,076	66,625	Contribution Margin	\$ 18,692	\$			
1,197	\$ 19,889	\$ 37,348	\$ 1,291	\$ 38,639								

(1) Net of capitalized interest of \$2,733 related to our aircraft leasing segment for the three months ended September 30, 2007 (See Note 13 “Commitments and Contingencies” and Note 17 “Interest, net”).

Information on reportable segments for the nine months ended September 30, 2006 and 2007 is as follows:

		Nine Months Ended September 30, 2006				Nine Months Ended September 30, 2007				Aircraft			
Leasing	Debt												
Investments	Total Aircraft												
Leasing	Debt												
Investments	Total Revenues:					Lease rentals	\$ 116,557	\$ —	\$ 116,557	\$			
252,147	\$ —	\$ 252,147	Interest income	—	6,588	6,588	—	7,683	7,683	Other revenue	153	—	
153	553	—	553	Total revenues	116,710	6,588	123,298	252,700	7,683	260,383			
Expenses:		Depreciation		35,358	—	35,358	83,911	—	83,911	Interest, net(1)	35,482	3,219	38,701
110	—	110	Total expenses	72,040	3,219	75,259	154,322	3,024	157,346	Contribution Margin	\$ 44,670	\$ 3,369	\$ 48,039
125,241	\$ 1,732,600	\$ 3,420,677	\$ 117,935	\$ 3,538,612	\$ 98,378	\$ 4,659	\$ 103,037	Segment Assets	\$ 1,607,359	\$			

(1) Net of capitalized interest of \$2,733 related to our aircraft leasing segment for the nine months ended September 30, 2007 (See Note 13 “Commitments and Contingencies” and Note 17 “Interest, net”).



Table of Contents

Aircastle Limited and Subsidiaries  
 Notes to Unaudited Consolidated Financial Statements  
 (Dollars in thousands, except per share amounts)  
 September 30, 2007

Total contribution margin reported as a segment profit for reportable business segments is reconciled to income from continuing operations before income taxes for the three and nine months ended September 30, 2006 and 2007 as follows:

Three Months Ended		September 30, 2006		September 30, 2007	
Contribution Margin	\$ 19,889	\$ 38,639	\$ 48,039	\$ 103,037	
Selling, general and administrative expenses	(5,107)	(8,380)	(20,976)	(27,324)	
Depreciation and other expenses	(142)	(168)	(382)	(467)	
Interest income on cash balances	1,814	4,236	4,554	10,174	
Income from continuing operations before income taxes	\$ 16,454	\$ 34,327	\$ 31,235	\$ 85,420	

The Company's CODM does not consider selling, general and administrative expenses, depreciation from leasehold improvements and office equipment and other expenses in the evaluation of the operating segment's results as such costs are recurring and do not bear a direct correlation to operating results. The Company's CODM does not consider interest income on all cash balances in the evaluation of the operating segment's results as such amounts do not bear a direct correlation to operating results.

Total segment assets are reconciled to total assets as follows:

2006		September 30, 2007		December 31, 2006		December 31, 2007	
Segment Assets	\$ 1,823,572	\$ 3,538,612	Operating cash accounts	58,118	26,867	Flight equipment	
held for sale	31,280	—	All other	5,733	9,627		
Note 17. Interest, Net				\$ 1,918,703	\$ 3,575,106		

The following table shows the components of interest, net:

Three Months Ended		September 30, 2006		September 30, 2007	
Interest expense	\$ 15,883	\$ 34,043	\$ 38,701	\$ 76,058	Less
interest income	(1,814)	(4,236)	(4,554)	(10,174)	Less capitalized interest
(2,733)	Interest, net	\$ 14,069	\$ 27,074	\$ 34,147	\$ 63,151



Table of Contents

Aircastle Limited and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)  
September 30, 2007

Note 18. Subsequent Events

Follow-On Public Offering of Common Shares

On October 10, 2007, the Company completed a follow-on public offering of 11,000,000 primary common shares at a public offering price of \$31.75 per share, including 1,000,000 common shares pursuant to the underwriter's option to cover over-allotments, resulting in gross proceeds from the offering of \$349,250 before offering costs. The net proceeds of the offering, after our payment of \$10,478 in underwriting discounts and commissions, and \$1,300 in offering expenses were \$337,473. Approximately \$230,889 of the proceeds was used to repay borrowings under Amended Credit Facility No. 2. The remainder of the net proceeds was used for working capital requirements.

In conjunction with this follow-on offering, certain Fortress Shareholders offered 11,000,000 secondary common shares in the public offering, including 1,000,000 common shares from the selling Fortress Shareholders pursuant to the underwriter's option to cover over-allotments. Following this offering, Fortress and certain officers of Fortress Investment Group LLC beneficially own approximately 39% of the Company's common shares. The Company did not receive any funds from this secondary offering by the selling Fortress Shareholders.

Aviation Asset Acquisitions

From October 1, 2007 through November 7, 2007, we acquired additional aviation assets for an aggregate purchase price of approximately \$367,966. The acquisitions were funded with cash on hand and borrowings under our credit facilities. At November 7, 2007, all of the purchased aircraft are subject to operating leases or commitments to lease with the exception of the one Boeing Model 747-400 acquired in October 2007 that was inducted into freighter conversion after purchase. We executed binding letters of intent to purchase seven additional aircraft.

On October 16, 2007, we made an accelerated payment to the relevant GAIF seller and assumed a purchase agreement to acquire six Airbus Model A320-200 aircraft in the amount of \$20,778. In connection with the assumed purchase agreement, we were required to post a standby letter of credit in favor of the relevant GAIF seller in the amount of one percent of each unadjusted aircraft's purchase price plus accrued interest or \$5,954. The aircraft are scheduled to be delivered to us through February 2009. On November 7, 2007, we agreed with GAIF to remove two aircraft from the GAIF Acquisition Agreement, reducing the total number of aircraft to be acquired to 36, with an aggregate base purchase price of approximately \$1,465,000.

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, 2006 and our Quarterly Report on Form 10-Q filed on August 14, 2007.

Certain items in this Quarterly Report on Form 10-Q, and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not necessarily limited to, statements relating to our ability to acquire, sell and lease aircraft, issue aircraft lease-backed securities on attractive terms, anticipate, manage and address industry trends and their effect on our business, pay and grow dividends, realize gains or income from our debt investments, obtain required licenses and governmental approvals, obtain favorable tax treatment, secure financing and increase revenues, earnings, and EBITDA. Words such as "anticipate(s)," "expect(s)," "intend(s)," "plan(s)," "target(s)," "project(s)," "believe(s)," "wi" "seek(s)," "estimate(s)" 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. Factors that could cause actual results to differ materially from Aircastle Limited's expectations include, but are not limited to, our significant customer concentration; our continued ability to obtain additional capital to finance our growth; our continued ability to acquire aircraft at attractive prices; our continued ability to obtain favorable tax treatment in Bermuda and other jurisdictions; our ability to pay or maintain dividends; our ability to lease aircraft at favorable rates and maintain the value of our aircraft; the possibility that conditions to closing of certain transactions will not be satisfied; our ability to realize gains or income from our debt investments; general economic conditions and economic conditions in the markets in which we operate; competitive pressures within the industry and/or markets in which we operate; the creditworthiness of our airline customers; interest rate fluctuations; our ability to obtain certain required licenses and approvals; the impact of future terrorist attacks or wars on the airline industry; our concentration of leases in certain geographical regions; and other risks detailed from time to time in Aircastle's filings with the SEC, including "Risk Factors" as previously disclosed in Aircastle's 2006 Annual Report on Form 10-K and updated in our Quarterly Report on Form 10-Q filed on August 14, 2007. Such forward-looking statements speak only as of the date of this Quarterly 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 our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

OVERVIEW

We are a global company that acquires and leases 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 September 30, 2007, our aircraft portfolio consisted of 109 aircraft with 51 lessees located in 30 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 and insurance costs although, in a majority of cases, we are obligated to pay a portion of specified

maintenance or modification costs. We also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. As of November 7, 2007, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$3.6 billion and \$2.1

23

---



## Table of Contents

billion, respectively, for a total of approximately \$5.7 billion. Our revenues and income from continuing operations for the three and nine months ended September 30, 2007 were \$105.3 million and \$33.0 million and \$260.4 million and \$80.5 million, respectively.

We intend to pay regular quarterly dividends to our shareholders. We plan to grow our dividends per share through the acquisition of additional aviation assets using cash on hand, cash generated from operating activities and available credit facilities. We expect to finance our acquisitions on a long-term basis using low-cost, non-recourse securitizations. Securitizations allow us to raise long-term capital by pledging cash flows of an asset pool, such as aircraft leases. In June 2007, we closed our second securitization, a \$1,170 million transaction comprising 59 aircraft, which we refer to as Securitization No. 2. On September 13, 2007, our board of directors declared a regular quarterly dividend of \$0.65 per common share, or an aggregate of \$43.8 million, for the three months ended September 30, 2007, which was paid on October 15, 2007 to holders of record as of September 28, 2007. These dividends may not be indicative of the amount of any future dividends.

## Segments

We manage our business and analyze and report our results of operations on the basis of the following two business segments: Aircraft Leasing and Debt Investments. We present our segment information on a contribution margin basis consistent with the information that our Chief Executive Officer (the chief operating decision maker) reviews in assessing segment performance and allocating resources. Contribution margin includes revenue, depreciation, interest expense and other expenses that are directly connected to our business segments. We believe contribution margin is an appropriate measure of performance because it reflects the marginal profitability of our business segments, excluding overhead.

### Aircraft Leasing

Typically, our aircraft are currently subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational and insurance costs. In many of our leases we are obligated to bear a portion of maintenance costs or costs associated with modifications required by manufacturers or regulators. We retain the benefit, and bear the risk, of re-leasing and the residual value of the aircraft upon expiry or early termination of the lease. As of September 30, 2007, our portfolio consisted of 109 aircraft with 51 lessees in 30 countries with a net book value of \$3.03 billion. The weighted average (by net book value) age of the aircraft in the portfolio from the date of original delivery by manufacturer to September 30, 2007, was 9.48 years. The weighted average (by net book value) remaining lease term for aircraft we owned at September 30, 2007 was 4.58 years.

### Debt Investments

We also invest in debt investments secured by commercial jet aircraft, including enhanced equipment trust certificates, and other forms of collateralized debt. We believe our experience in the aircraft leasing business, coupled with knowledge of structured finance, enables us to make opportunistic investments in this market sector. Our intent is not to actively trade debt investments, and accordingly we have classified debt investments purchased to date as available-for-sale or held to maturity as defined in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. As of December 31, 2006, we owned debt securities secured by aircraft with a fair value of \$121.3 million. During the nine months ended September 30, 2007 we made one additional investment in debt investments secured by aviation assets. At September 30, 2007, our debt investment portfolio consisted of seven such debt investments with a fair value of \$114.7 million.

Revenues

Revenues in our Aircraft Leasing segment are comprised primarily of operating lease rentals on flight equipment held for lease. The amount of rent we receive depends on various factors, including

24

---

## Table of Contents

the type, size and age of the aircraft in our portfolio. Lease rental revenue is recognized on a straight-line basis over the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease. However, the amount of rent we receive may vary due to several factors, including the credit worthiness of our lessees and the occurrence of delinquencies 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 trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

As of September 30, 2007, we executed or extended thirteen leases on owned aircraft with scheduled lease expirations in 2007. Overall, these renewals or new leases have a weighted average lease term of 4.9 years at monthly lease rates that are 18% higher than the previous rentals.

Since June 2007, we purchased three off lease Boeing 747-400 aircraft. In June 2007, we also entered in a passenger to freighter conversion agreement for these aircraft. The first two aircraft were purchased in June and August and placed on short-term interim leases until their scheduled freighter conversion processes begin during the second and fourth quarters of 2008, respectively. We purchased the third aircraft during the fourth quarter of 2007, and it is now undergoing freighter conversion.

In addition to the three Boeing 747-400 aircraft noted above, during the first nine months of 2007, we acquired five aircraft that were off lease at the time of purchase and subsequently executed leases for all of these aircraft with a weighted average lease term of 5.5 years. For the balance of 2007, we have commitments to acquire four additional off lease aircraft. In addition, we own one debt instrument which matures in late 2007 and is secured by an aircraft. We expect the borrower to elect not to repay the debt at maturity and, accordingly, we expect that in satisfaction of this debt instrument we will take ownership of this additional off-lease aircraft in 2007. We executed leases for all five off-lease aircraft we expect to acquire during the balance of 2007.

Revenues in our Aircraft Leasing segment for the three months ended September 30, 2006 and 2007 were \$48.9 million and \$102.9 million, respectively, and \$116.7 million and \$252.7 million, respectively, for the nine months ended September 30, 2006 and 2007. Our revenues increased significantly from 2006 to 2007 as a result of continued aircraft acquisitions during the balance of 2006 and the first nine months of 2007 which caused our aircraft fleet to grow from 64 aircraft at September 30, 2006 to 109 aircraft at September 30, 2007, all of which were on lease.

Revenues in our Debt Investments segment are recognized using the effective interest method. Certain investments which represent residual interests are accounted for using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest. Revenues in our Debt Investments segment for the three months ended September 30, 2006 and 2007 were \$2.5 million and \$2.4 million, respectively, and \$6.6 million and \$7.7 million, respectively, for the nine months ended September 30, 2006 and 2007.

## Operating Expenses

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, or SG&A, and other expenses. As we continue to grow, we expect that depreciation of flight equipment held for lease and interest expense will grow proportionately with revenue growth. We also expect that SG&A will decline as a percentage of revenues as we leverage our existing infrastructure over a greater revenue base.

Since our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of other expenses relating to aircraft reflected in our statement of income has been nominal.

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

25

---

## Table of Contents

imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in or earn income in jurisdictions that impose income taxes, primarily Ireland and the United States.

All of our aircraft-owning subsidiaries are foreign corporations that, depending upon the flight activities of the leased aircraft, generally earn income from sources outside the United States and therefore are exempt from U.S. federal, state and local income taxes. We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

## Acquisitions and Dispositions

Our financial results are impacted by the timing and size of acquisitions and dispositions we complete. As of November 7, 2007 we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$3.6 billion and \$2.1 billion, respectively, or a total of approximately \$5.7 billion. To date, we have sold two aircraft and one debt security.

We believe the large and growing aircraft market continues to evolve, generating significant additional acquisition opportunities. Our acquisition strategy is flexible and allows us to take advantage of the best available market opportunities. Currently, we are primarily focused on acquiring high-utility commercial jet aircraft for the passenger and freighter markets and we may also make opportunistic acquisitions of other asset-backed aviation assets. Our business strategy has been to pursue acquisitions through multiple channels across the world, such as sale-leasebacks with airlines and purchases from operating lessors, banks and other aircraft owning entities. We also explore opportunities to purchase aircraft from manufacturers. Our ability to successfully and efficiently acquire and integrate additional aviation assets on favorable terms will significantly impact our financial results and growth prospects.

On June 20, 2007, we entered into an acquisition agreement, which we refer to as the “Airbus A330F Agreement” with Airbus SAS, or “Airbus”, under which we agreed to acquire the 15 New A330F Aircraft. Pre-delivery payments for each aircraft are payable to Airbus by us on an agreed upon schedule, and are refundable to us only in limited circumstances. We agreed to separate arrangements with Rolls Royce PLC (“Rolls”) and Pratt & Whitney (“P&W”) pursuant to which we committed to acquire aircraft engines for the New A330F Aircraft. More specifically, we agreed to acquire from Rolls six shipsets of Trent 772B engines and were granted options to acquire an additional four shipsets. We also committed to acquire five shipsets of PW4170 engines from P&W, and were granted options to acquire an additional five shipsets. Each shipset consists of two engines. The aircraft we will acquire under the Airbus A330F Agreement are scheduled to be delivered between June 2010 and November 2011, with five scheduled for delivery in 2010.

On January 22, 2007, we entered into an acquisition agreement, which we refer to as the GAIF Acquisition Agreement, with Guggenheim Aviation Investment Fund LP, or GAIF, under which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately \$1.595 billion, subject to certain agreed upon adjustments. The aircraft we will acquire under the GAIF Acquisition Agreement are scheduled to be delivered to us through February 2009. For certain of the aircraft, we have agreed to make an accelerated payment to the relevant seller and acquire its right and obligations under the seller’s purchase or freighter conversion agreement, with final payment and delivery of the aircraft to us being made upon delivery by the manufacturer or seller, or completion of the conversion

process. On July 26, 2007, we made an accelerated payment under the GAIF Acquisition Agreement with respect to three Boeing Model 747-400ERF aircraft in the amount of \$106.7 million and assumed a pre-delivery payment credit facility with an outstanding principal balance of \$95.9 million. As of September 30, 2007, we had completed the acquisition of 26 of the

26

---

## Table of Contents

GAIF aircraft for approximately \$950.4 million, including one of the Boeing Model 747-400ERF aircraft discussed above. On November 7, 2007, we agreed with GAIF to remove two aircraft from the GAIF Acquisition Agreement, reducing the total number of aircraft to be acquired to 36, with an aggregate base purchase price of approximately \$1.465 billion. We expect to take delivery of 2 aircraft during the remainder of 2007, 7 aircraft in 2008 and 1 aircraft in 2009, for an additional aggregate purchase price, before adjustment, of approximately \$497.0 million.

The closing of the transactions contemplated by the Aircraft Acquisition Agreements, which we sometimes refer to as the “Aircraft Acquisitions,” are subject to certain customary closing conditions for transactions of these types. There can be no assurance that these conditions will be satisfied or that we will complete the acquisition of all the aircraft contemplated by the Aircraft Acquisition Agreements. Failure to close on the purchase price of some or all the aircraft under the Aircraft Acquisition Agreements could negatively impact our stock price and financial results.

We initially expect to pay for substantially the entire purchase price of the Aircraft Acquisitions using cash on hand, debt financing available on our Revolving Credit Facility and Amended Credit Facility No. 2 or other borrowings that may be available to us at the time of acquisition. See “Liquidity and Capital Resources — Credit Facilities.” We expect to fund our aircraft on a long-term basis by securitizing their future cash flows using a structure similar to our current securitizations. Therefore, we expect to incur additional interest expense as a result of the Aircraft Acquisitions.

The following table sets forth certain information with respect to the aircraft acquired or to be acquired by us as of September 30, 2007, including the aircraft to be acquired pursuant to the Aircraft Acquisition Agreements.

## AIRCATTLE AIRCRAFT INFORMATION (Dollars in millions)

Net Book Value as of September 30, 2007	Base Purchase Price of Aircraft Committed to be Acquired as of September 30, 2007	(1)(4)(5)	Total Flight Equipment Held for Lease	\$ 3,030	\$ 1,119	\$ 4,149	Number of Aircraft	109
		27	136	Number of Lessees	51	11	57	Number of Countries
					9.63	10.80	9.69	Weighted Average Age – Passenger (years)(2)
					9.48	9.44	9.48	Weighted Average Age – Combined (years)(2)
					3.74	5.42	3.88	Weighted Average Remaining Passenger Lease Term (years)(3)
					9.98	9.01	4.58	Weighted Average Remaining Cargo Lease Term (years)(3)
							7.79	5.42

(1)

Excludes 15 Airbus Model A330-200F scheduled for delivery between June 2010 and November 2011. (2) Weighted average age (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of September 30, 2007. (3) Weighted average remaining lease term (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of September 30, 2007. Excludes one Boeing Model 747-400 we acquired in October 2007 and subsequently inducted into a freighter conversion program. (4) Base purchase price represents the purchase price subject to certain agreed upon adjustments. (5) Two aircraft included in the Company’s commitments as

of September 30, 2007, were subsequently removed from the GAIF Acquisition Agreement.

27

---



Table of Contents

PORTFOLIO DIVERSIFICATION

Owned Aircraft as of													
September 30, 2007 Aircraft Committed to be													
Acquired as of													
September 30, 2007(1)(5) Total Number of													
Aircraft % of Net Book													
Value Number of													
Aircraft % of Base													
Purchase													
Price(2) Number of													
Aircraft % of Net													
Book Value													
plus Base													
Purchase													
Price Aircraft Type													
Passenger:													
Narrowbody 76 51													
23 % Widebody 3 6 %													
72 % Freighter 11 19 %													
100 % Manufacturer													
Boeing 78 66 % 18 77 % 96 69 % Airbus 31 34 % 9 23 % 40													
31 % Total 109 100 % 27 100 % 136 100 % Lessee Diversification													
Top Five Lessees(3) 27 30 % 11 62 % 30 29 % Regional Diversification													
Europe 53 45 % 7 39 % 60 43 % Asia 30 28 % 11 20 % 41 26 %													
North America 12 11 % 2 12 % 14 12 % Latin America 7 5 % 5 12 % 12 7													
% Middle East and Africa 7 11 % 1 13 % 8 11 % Off Lease(4) 0 0 % 1 4 % 1													
1 % Total 109 100 % 27 100 % 136 100 %													

(1)

Excludes 15 Airbus Model A330-200F scheduled for delivery between June 2010 and November 2011. (2) Base purchase price represents the purchase price subject to certain agreed upon adjustments. (3) On a total combined basis, our top five customers are Martinair Holland N.V., Emirates, US Airways Inc., GOL Transportes Aereos S/A and Sterling Airlines A/S. No individual customer accounted for more than 8% of net book value. (4) Represents one Boeing Model 747-400 acquired in October 2007 that was inducted into freighter conversion after purchase. (5) Two aircraft included in the Company's commitments as of September 30, 2007, were subsequently removed from the GAIF Acquisition Agreement.

Finance

A key aspect of our growth strategy is our capital management approach, which supports the financing of our acquisitions of aircraft and other aviation assets. We typically finance the initial purchase of aircraft and other aviation assets using flexible, committed short-term credit arrangements and cash on hand. We believe our ability to execute acquisitions expeditiously and without financing



Table of Contents

contingencies has benefited us in competitive bidding situations. Our short-term borrowed funds for our aircraft acquisitions and repurchase obligations for our securities are provided by secured term credit facilities from banks.

It is our intention to fund future aircraft acquisitions initially through borrowings under our credit facilities, and to repay all or a portion of such borrowings from time to time with the net proceeds from subsequent securitizations or other long-term financings and additional equity issuances. We are currently utilizing a \$1.00 billion senior secured credit facility, which we refer to as Amended Credit Facility No. 2, to finance up to 65% of the purchase price and eligible improvements of certain aircraft not included in our two securitizations. We expect to continue to purchase aircraft using our credit facilities plus cash on hand and, once a portfolio of 30 to 60 aircraft has been acquired, finance the portfolio on a long-term basis using a securitization structure or other long-term financing structure.

RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2006 to the three months ended September 30, 2007

Revenues and Contribution Margin

Revenues and contribution margin by segment is set forth in the tables below. See Note 16 “Segment Reporting” to our consolidated financial statements for the reconciliation to operating income and our reasons for using contribution margin to discuss our results of operations.

Aircraft Leasing

Aircraft Leasing revenues and contribution margin were as follows:

						Three Months Ended	
September 30, (Dollars in thousands)		2006	2007	Revenues:	Lease rentals	\$ 48,796	\$ 102,863
revenues	153 34	Total revenues	48,949	102,897	Expenses:	Depreciation	15,360 34,812
Interest(1)	14,593 30,234	Other expense (income)	304	503	Total expenses	30,257	65,549
Contribution margin	\$ 18,692	\$ 37,348					

(1) Net of capitalized interest of \$2,733 for the three months ended September 30, 2007, (See Note 13 “Commitments and Contingencies” and Note 17 “Interest, net” to our consolidated financial statements).

For the three months ended September 30, 2006, the contribution margin of our Aircraft Leasing segment was \$18.7 million on \$48.9 million of revenues. At September 30, 2006, we owned 64 aircraft held for lease, all of which were on-lease.

For the three months ended September 30, 2007, the contribution margin of our Aircraft Leasing segment was \$37.4 million on \$102.9 million of revenues. At September 30, 2007, we owned 109 aircraft held for lease, all of which were on lease. Aircraft leasing revenue of \$102.9 million, depreciation expense of \$34.8 million and interest expense of \$30.2 million all increased compared to the three months ended September 30, 2006 due to the increase in the size of our aircraft portfolio.



## Table of Contents

## Debt Investments

Debt Investment revenues and contribution margin were as follows:

				Three Months Ended					
September 30, (Dollars in thousands)		2006	2007	Revenues:	Interest income	\$ 2,487	\$ 2,367	Total	
revenues	2,487	2,367	Expenses:	Interest	1,290	1,076	Total expenses	1,290	1,076
Contribution margin	\$ 1,197	\$ 1,291							

For the three months ended September 30, 2006, the contribution margin of our Debt Investments segment was \$1.2 million on \$2.5 million of revenues. At September 30, 2006, we owned \$120.3 million of debt investments with \$13.5 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2006.

For the three months ended September 30, 2007, the contribution margin of our Debt Investments segment was \$1.3 million on \$2.4 million of revenues. At September 30, 2007, we owned \$114.7 million of debt investments with \$12.2 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2007.

## Selling, General, Administrative and Other Expenses

Selling, general, administrative and other expenses increased \$3.3 million for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 primarily due to increases in personnel costs. Personnel costs, consisting primarily of salary, non-cash share-based payments, recruitment and relocation expenses, increased by \$1.8 million as the number of employees increased from 38 at September 30, 2006 to 65 at September 30, 2007. Non-cash share-based payments were \$1.0 million and \$1.2 million, respectively, for the three months ended September 30, 2006 and 2007 of which \$0.9 million and \$1.1 million are included in personnel costs and \$0.1 million and \$0.1 million are included in director fee and expenses. Personnel related non-cash share-based payments increased primarily due to the acceleration of unvested shares for a former employee in the amount of \$1.7 million. Professional fees, consisting primarily of legal, accounting and tax fees associated with our legal organization and administration, increased by \$0.4 million, travel expenses, consisting primarily of costs associated with travel to and from the locations of aircraft to be acquired and aircraft lessees, increased by \$0.3 million and other selling, general and administrative expenses increased by \$0.8 million due to the expansion of facilities to accommodate increased headcount and to meet the demands of our growing business over the same period in 2006.

## Income Tax Provision

Our provision for income taxes for the three months ended September 30, 2006 and 2007 was \$1.7 million and \$1.9 million, respectively. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. Consequently, the provision for income taxes recorded relates to income earned by certain of our subsidiaries which are located in jurisdictions that impose income taxes, primarily Ireland and the United States.

Table of Contents

Comparison of the nine months ended September 30, 2006 to the nine months ended September 30, 2007

Revenues and Contribution Margin

Revenues and contribution margin by segment is set forth in the tables below. See Note 16 “Segment Reporting” to our consolidated financial statements for the reconciliation to operating income and our reasons for using contribution margin to discuss our results of operations.

Aircraft Leasing

Aircraft Leasing revenues and contribution margin were as follows:

						Nine Months Ended		
September 30, (Dollars in thousands)		2006	2007	Revenues:		Lease rentals	\$ 116,557	\$ 252,147
Other revenues	153	553	Total revenues	116,710	252,700	Expenses:	Depreciation	35,358
83,911	Interest(1)	35,482	70,301	Other expense (income)	1,200	110	Total expenses	72,040
154,322	Contribution margin	\$ 44,670	\$ 98,378					

(1) Net of capitalized interest of \$2,733 for the nine months ended September 30, 2007 (See Note 13 “Commitments and Contingencies” and Note 17 “Interest, net” to our consolidated financial statements).

For the nine months ended September 30, 2006, the contribution margin of our Aircraft Leasing segment was \$44.7 million on \$116.7 million of revenues. At September 30, 2006, we owned 64 aircraft held for lease, all of which were on-lease.

For the nine months ended September 30, 2007, the contribution margin of our Aircraft Leasing segment was \$98.4 million on \$252.7 million of revenues. At September 30, 2007, we owned 109 aircraft held for lease, all of which were on lease. Aircraft leasing revenue of \$252.7 million, depreciation expense of \$83.9 million and interest expense of \$70.3 million all increased compared to the nine months ended September 30, 2006 due to the increase in the size of our aircraft portfolio.

## Table of Contents

## Debt Investments

Debt Investment revenues and contribution margin were as follows:

						Nine Months Ended			
September 30, (Dollars in thousands)		2006	2007	Revenues:		Interest income	\$ 6,588	\$ 7,683	Total
revenues	6,588	7,683	Expenses:	Interest	3,219	3,024	Total expenses	3,219	3,024
Contribution margin	\$ 3,369	\$ 4,659							

For the nine months ended September 30, 2006, the contribution margin of our Debt Investments segment was \$3.4 million on \$6.6 million of revenues. At September 30, 2006, we owned \$120.3 million of debt investments with \$13.5 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2006.

For the nine months ended September 30, 2007, the contribution margin of our Debt Investments segment was \$4.7 million on \$7.7 million of revenues. At September 30, 2007, we owned \$114.7 million of debt investments with \$12.2 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2007.

## Selling, General, Administrative and Other Expenses

Selling, general, administrative and other expenses increased \$6.4 million for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 primarily due to increases in personnel costs. Personnel costs, consisting primarily of salary, non-cash share-based payments, recruitment and relocation expenses, increased by \$5.6 million as the number of employees increased from 38 at September 30, 2006 to 65 at September 30, 2007. Non-cash share-based payments were \$7.7 million and \$5.3 million, respectively, for the nine months ended September 30, 2006 and 2007 of which \$4.2 million and \$5.0 million are included in personnel costs and \$3.5 million and \$0.3 million are included in director fee and expenses. Personnel related non-cash share-based payments increased primarily due to the acceleration of unvested shares for a former officer of the Company in the amount of \$1.7 million. Director's fees and expenses decreased \$3.2 million from the same period in 2006. Director's fees and expenses in 2006 included \$3.4 million in compensation to a director recorded as a non-cash share based payment expense for the purchase of common shares below fair market value. Professional fees, consisting primarily of legal, accounting and tax fees associated with our legal organization and administration, increased by \$1.2 million; travel expenses, consisting primarily of costs associated with travel to and from the locations of aircraft to be acquired and aircraft lessees, increased by \$1.0 million; business insurance increased by \$0.6 million; and other selling, general and administrative expenses increased by \$1.2 million due to the expansion of facilities to accommodate increased headcount and to meet the demands of our growing business over the same period in 2006.

## Income Tax Provision

Our provision for income taxes for the nine months ended September 30, 2006 and 2007 was \$4.4 million and \$4.9 million, respectively. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. Consequently, the provision for income taxes recorded relates to income earned by certain of our subsidiaries which are located in jurisdictions that impose income taxes, primarily Ireland and the United States.

## Discontinued Operations

During 2005, we purchased an aircraft and immediately held it for sale. As of December 31, 2005, the aircraft was classified on the balance sheet as flight equipment held for sale and all operating

32

---



## Table of Contents

activities were classified as discontinued operations. The aircraft was sold on March 29, 2006 for a \$2.2 million gain. As of March 31, 2007, another aircraft was classified on the balance sheet as flight equipment held for sale and all operating activities were classified as discontinued operations. The aircraft was sold on May 22, 2007 for a \$10.2 million gain.

Earnings from discontinued operations for the three and nine months ended September 30, 2006, and 2007 related solely to the two aircraft held for sale, were as follows:

Three Months Ended		September 30, 2006		September 30, 2007		2006		2007		Earnings from discontinued operations:		Lease rentals	
\$ 1,618	\$ —	\$ 6,991	\$ 2,364	Depreciation	(917)	—	(2,442)	(761)	Gain on disposition	—	—	—	—
2,240	10,219	Interest expense	(107)	—	(1,439)	—	Other expenses	(80)	—	(272)	(185)		
Earnings before income tax provision	514	—	5,078	11,637	Income tax provision	(44)	—	(521)					
(43)	Earnings from discontinued operations	\$ 470	\$ —	\$ 4,557	\$ 11,594								

## CRITICAL ACCOUNTING POLICIES

Except for the adoption of Financial Accounting Standards Board, or FASB, Interpretation No. 48 Accounting for the Uncertainty in Income Taxes — an Interpretation of FASB No. 109 on January 1, 2007, which did not have an impact on our consolidated financial statements, there have been no material changes to our critical accounting policies from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Application of Critical Accounting Policies included in our Annual Report on Form 10-K for the year ended December 31, 2006.

## Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No 159, which amends SFAS No 115, allows certain financial assets and liabilities to be recognized, at the company's election, at fair market value, with any gains or losses for the period recorded in the statement of income. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Currently, the Company records the gains or losses for the period in the statement of comprehensive income and in the equity section of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated results of operations and financial position.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies in conjunction with other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impacts of SFAS No. 157 on its consolidated results of operations and financial position.



Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

The acquisition of aircraft and debt investments drives our growth and fuels our need for liquidity. We have been able to meet our liquidity requirements from several sources, including:

- Lines of credit, securitizations and other secured borrowings;
- Our public offerings of common shares;
- Prior to our initial public offering, equity contributions from the Fortress Funds;
- Aircraft lease revenues and maintenance payments;
- Principal and interest payments from our debt investments; and
- Asset sales.

During the nine months ended September 30, 2007, we acquired \$1.49 billion of commercial jet aircraft and related capital improvements, net of related liabilities, and \$15.3 million of debt investments secured by a commercial jet aircraft, for a total of \$1.51 billion. We have also made \$153.7 million in net progress payments or deposits for aircraft related to the Airbus A330F Agreement, the GAIF Acquisition Agreement and other aircraft purchase agreements. We expect to acquire a substantial amount of aviation assets over the next twelve months, including approximately \$1.2 billion of aircraft at September 30, 2007, to be delivered under the Aircraft Acquisition Agreements, letters of intent and other aircraft purchase agreements, and additional acquisitions that we may enter into from time to time in the ordinary course of business. In addition, over the next twelve months we anticipate capital expenditures for the aircraft we owned at September 30, 2007 in an amount of approximately \$80.3 million, excluding freighter conversion payments, which we include in our aircraft acquisition commitments. This amount consists primarily of periodic maintenance costs as well as transition costs and aircraft improvements required to be funded by us. We anticipate that approximately \$49.3 million of this amount will comprise a reimbursement of maintenance reserves collected to date and over the 12 month period. We anticipate the balance of \$31.0 million to consist of additional contributions to maintenance costs in excess of maintenance reserve collections.

These estimates are subject to significant variation because, among other reasons, the maintenance payment collections will depend upon how the relevant aircraft is operated, the maintenance events giving rise to our obligation to reimburse the lessee, or contribute separately to the maintenance cost, may not be scheduled events and the total cost of the event may not match our current estimates.

However, there can be no assurance that we will be able to acquire such additional aircraft, or regarding the timing and amount of such acquisitions, or that our capital expenditures will not exceed the expected amount.

It is our intention to fund future aircraft acquisitions initially through borrowings under our credit facilities, and to repay all or a portion of such borrowings from time to time with the net proceeds from subsequent securitizations or other long-term financings and additional equity issuances. It is also our intention to finance investments in debt investments with borrowings arranged at the time of the investment which may include entering into repurchase agreements. Therefore, our ability to execute our business strategy, particularly the growth of our acquisitions, depends to a significant degree on our ability to obtain additional debt and equity capital. Given the volume of aircraft acquisitions and opportunities to invest in debt investments, we expect to execute additional securitizations or other

long-term financings and additional equity offerings during the course of the next 12 months. Decisions by investors and lenders to enter into such transactions with us will depend upon a number of factors, such as our historical and projected performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and the relative attractiveness of alternative investments.

We believe that funds will be available to satisfy our liquidity needs over the next twelve months and enable us to pay dividends to our common shareholders as contemplated by our dividend policy. We expect to continue to structure our long-term debt with relatively low leverage through aircraft

## Table of Contents

lease securitizations or other long-term financing structures. We believe this approach will be less susceptible to capital markets volatility than higher-leverage debt financing structures. However, future deterioration in our performance, our markets or the capital markets could limit our ability to access these sources of financing and/or increase our cost of capital, which may negatively impact our ability to raise additional funds, grow our business and to pay dividends to our common shareholders.

## Cash Flows

	2006		2007		Nine Months Ended	
September 30, (Dollars in thousands)						
Net cash flow provided by operating activities					\$ 100,251	\$ 253,674
Net cash flow used in investing activities					\$(820,960)	\$(1,604,975)
Net cash flow provided by financing activities	\$ 679,736	\$ 1,320,050				

Operating activities provided net cash flow of \$100.3 million for the nine months ended September 30, 2006 and \$253.7 million in the nine months ended September 30, 2007. Cash flow from operations is primarily generated from rents received pursuant to the lease agreements on our aircraft. It is reduced by interest paid on our borrowings and by selling, general and administrative expenses. The amount of rent we receive depends on various factors, including the size, age and composition of our aircraft portfolio. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease. However, the amount of rent we receive may vary due to several factors, including the creditworthiness of our lessees and the occurrence of delinquencies and defaults. It is 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. Our success in re-leasing aircraft is affected by market conditions for our aircraft and by general industry trends. At September 30, 2006, all 64 of our aircraft were on-lease. At September 30, 2007, all 109 of our aircraft were on lease.

Under our aircraft leases, the lessee is typically required to make monthly or end of lease payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. For the nine months ended September 30, 2007, we collected net cash related to maintenance payments and security deposits of \$75.6 million and \$28.0 million, respectively.

Cash flow provided by operations is also affected by the interest expense we pay on our credit facilities and by our decisions to hedge the risk of changing interest rates. All of our debt is currently floating rate and varies with changes in London Interbank Offered Rate ("LIBOR"). To the extent interest rates increase, we may be liable for more interest payments to our lenders. Our practice has been to hedge the expected future interest payments on a portion of our floating rate liabilities by entering into derivative contracts. However, we remain exposed to changes in interest rates to the extent we decide to remain unhedged and the degree to which our hedges are not perfectly correlated to the hedged future cash flows.

Net cash flow used in investing activities totaled \$821.0 million and \$1.60 billion for the nine months ended September 30, 2006 and 2007, respectively. During the nine months ended September 30, 2006 we acquired 33 aircraft as compared to 41 aircraft during the nine months ended September 30, 2007, resulting in a gross investment of \$1.56 billion in the acquisition and improvement of flight equipment during the nine months ended September 30, 2007 (or \$1.49 billion, net of liabilities) as compared to a gross investments of \$802.8 million during the nine months ended September 30, 2006 (or \$746.1 million, net of accrued liabilities). We invested \$15.3 million in debt investments during the nine months ended September 30, 2007 as compared to \$92.7 million during the nine

Edgar Filing: Aircastle LTD - Form 10-Q

months ended September 30, 2006. We received \$20.3 million of principal payments on our debt investments during the nine months ended September 30, 2007 versus \$3.6 million during the same period in 2006. We paid \$153.7 million for aircraft purchase deposits and progress payments during the nine months ended September 30, 2007, as compared to \$41.0 million during the nine months ended September 30, 2006. Cash outflows from investing activities during the nine months ended September 30, 2006 and 2007 were partially offset by proceeds of \$57.2 million

35

---

Table of Contents

and \$34.9 million, respectively from the sale of two aircraft that had been classified on the balance sheet as aircraft held for sale and reported as discontinued operations.

Net cash flow from financing activities totaled \$679.7 million and \$1.32 billion for the nine months ended September 30, 2006 and 2007, respectively. In 2006, cash flows from financing activities resulted from borrowing \$560.0 million under Securitization No. 1, \$660.3 million under our credit facilities, the receipt of \$76.0 million of proceeds from repurchase agreements and \$258.5 million from the issuance of common shares, including \$240.5 million from the Company's initial public offering, partially offset by the \$799.7 million repayment of credit facilities and \$12.8 million of restricted cash related to unreleased securitization borrowings. In 2007, the period to period increase primarily reflects the cash flows provided by the proceeds of \$1.17 billion from Securitization No. 2 in June 2007, borrowing under our credit facilities of \$1.33 billion and the public offering of common shares in February 2007, which generated \$493.1 million of net proceeds, partially offset by repayments of amounts owed under the credit facilities of \$1.53 billion and the payment of \$96.7 million in dividends.

On February 8, 2006, the Fortress Shareholders contributed an additional \$36.9 million in exchange for 3,693,200 of our common shares. On July 21, 2006, we returned the \$36.9 million to Fortress in exchange for the cancellation of 3,693,200 of our common shares.

We also repaid \$36.7 million of debt outstanding on Credit Facility No. 3 on March 31, 2006 when we sold one of the aircraft that had been financed under this facility. The aircraft had been classified as held for sale for accounting purposes and results of operations related to the aircraft have been reported in Discontinued Operations.

On August 11, 2006, we completed our initial public offering of 10,454,535 common shares at a price of \$23.00 per share, raising \$240.5 million before offering costs. The net proceeds of the initial public offering, after our payment of \$16.8 million in underwriting discounts and commissions, and \$4.0 million in offering expenses were \$219.8 million, of which \$205.5 million of the net proceeds were used to repay a portion of Credit Facility No. 2. The remainder of the net proceeds was used for working capital requirements and to fund additional aircraft acquisitions.

On February 13, 2007, we completed a follow-on public offering of 15,525,000 common shares at a price of \$33.00 per share, raising \$512.3 million before offering costs. The net proceeds of the offering, after our payment of \$17.9 million in underwriting discounts and commissions and \$1.3 million in offering expenses, was \$493.1 million, \$398.1 million of which was used to repay borrowings under Amended Credit Facility No. 2 and \$75.0 million of which was used to repay borrowings under the Revolving Credit Facility. The remainder of the net proceeds was used for general corporate purposes.

In July 2007, we repaid the \$73.3 million outstanding balance of Credit Facility No. 3 with proceeds from Securitization No. 2.

On July 26, 2007, we assumed a pre-delivery payment credit facility related to 747-400ERF aircraft (the "Accelerated ERF Aircraft"), which we refer to as the 747 PDP Credit Facility. The total outstanding amount of borrowings assumed under the 747 PDP Credit Facility was \$95.9 million and was used to finance progress payments made to Boeing during the manufacturing of the aircraft. On July 30, 2007, we took delivery of the first Accelerated ERF Aircraft and paid down \$31.8 million under the 747 PDP Credit Facility.





## Table of Contents

## Debt Obligations

The following table provides a summary of our credit facilities at September 30, 2007:

As of September 30, 2007	Debt Obligation	Collateral	Commitment	Outstanding	
Borrowings Interest Rate(2) Final Stated Maturity (Dollars in thousands)	Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	\$ 532,999	\$ 532,999	1M LIBOR +
0.27% = 6.02% 6/20/31	Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	1,160,233	1,160,233	1M LIBOR +
0.26% = 6.08% 6/14/37	747 PDP Credit Facility	Interests in aircraft leases, rights under aircraft purchase contract, beneficial interest in entities and related interests	64,127	64,127	1M LIBOR +
1.00% = 6.67% 4/15/08	Revolving Credit Facility	Beneficial interests in subsidiaries	250,000	—	1M LIBOR +
1.50% – N/A 6/15/08	Amended Credit Facility No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	1,000,000	272,038	1M LIBOR +
1.25% = 7.00% 12/15/08	Repurchase Agreements	Securities available for sale	59,679	59,679	1M LIBOR +
0.50% = 6.27% 3/1/08	Repurchase Agreements	Securities available for sale	2,524	2,524	1M LIBOR +
0.50% = 5.63% 6/28/08	Repurchase Agreements(1)	Securities available for sale	5,303	5,303	1M LIBOR +
0.75% = 6.55% 10/15/07	Total		\$ 3,074,865	\$ 2,096,903	

(1)

Refinanced in October 2007 with new maturity date of November 15, 2007. We intend to refinance this repurchase agreement on a monthly basis. (2) London Interbank Offered Rate, or “LIBOR,” in effect at the applicable reset date.

On July 26, 2007, we made an accelerated payment to the relevant GAIF seller for 3 Boeing Model 747-400ERF aircraft in the amount of \$106.7 million and assumed a pre-delivery payment credit facility related to such 747-400ERF aircraft (the “Accelerated ERF Aircraft”), which we refer to as the 747 PDP Credit Facility. The total outstanding amount of borrowings assumed under the 747 PDP Credit Facility was \$95.9 million and was used to finance progress payments made to Boeing during the manufacturing of the aircraft. Borrowings under the 747 PDP Credit Facility bear interest at one-month LIBOR plus 1.00% per annum and will mature upon delivery of the final aircraft scheduled for April 2008. On July 30, 2007, we took delivery of the first Accelerated ERF Aircraft and paid down \$31.8 million under the 747 PDP Credit Facility. As of September 30, 2007, we had outstanding borrowings of \$64.1 million under the 747 PDP Credit Facility and the interest rate was 6.67%.

The Revolving Credit Facility provides loans to certain direct and indirect subsidiaries of Aircastle for working capital and other general corporate purposes, and also provides for the issuance of letters of credit with an aggregate stated amount not exceeding \$125.0 million, and matures on June 15, 2008. The aggregate amount of borrowings together with the aggregate stated amount of all

## Table of Contents

letters of credit under the Revolving Credit Facility may not exceed \$250.0 million. Borrowings under the Revolving Credit Facility bear interest (a) in the case of loans with an interest rate based on the applicable base rate (the “ABR”) which is the greater of the prime rate and the federal funds rate, the ABR plus 0.50% per annum or (b) in the case of loans with an interest rate based on the Eurodollar rate (the “EDR”) which is one-month LIBOR, the EDR plus 1.50% per annum. Additionally, we are subject to a per annum fee on any unused portion of the total committed facility of 0.25%, during periods when the average outstanding loans under the Revolving Credit Facility are less than \$125.0 million, and 0.125% per annum when the average outstanding loans are equal to or greater than \$125.0 million. Fees on any outstanding letters of credit will equal 1.625% per annum on the stated amount thereof. We are also required to pay customary agency fees. As of September 30, 2007, we are required to maintain a minimum consolidated net worth, determined according to GAAP in an amount of \$750.0 million plus one-half of the proceeds of any additional equity capital we raise. As of September 30, 2007, there were no outstanding loans and \$13.9 million of letters of credit outstanding under the Revolving Credit Facility.

On June 8, 2007, the maximum committed amount of Amended Credit Facility No. 2 was reduced to \$1.00 billion and \$509.9 million was repaid on Amended Credit Facility No. 2 from the proceeds of Securitization No. 2. As of September 30, 2007, we had \$272.0 million outstanding under this facility. Borrowings under Amended Credit Facility No. 2 bear interest (a) in the case of loans with an interest rate based on the ABR plus 0.50%, an annual rate equal to the ABR plus 0.25% or (b) in the case of loans with an interest rate based on the EDR, an annual rate equal to the EDR plus 1.25% per annum. The interest rate at September 30, 2007 was 7.00%. Additionally, we are subject to a 0.125% per annum fee on any unused portion of the total committed facility. We are also required to pay customary agency fees. The facility has no restrictions on the amount of dividends we can pay, provided we are not in default.

Credit Facility No. 3, with an outstanding balance of \$73.3 million as of June 30, 2007, was repaid in full in July of 2007 out of the proceeds of Securitization No. 2.

From time to time, we also enter into repurchase agreements to finance certain of our securities available for sale. Repurchase agreements are agreements to sell securities to a counterparty with the simultaneous agreement to repurchase the same or substantially identical securities from the same counterparty at a later date with accrued interest. Repurchase agreements normally do not constitute economic sales and are therefore treated as collateralized financing transactions and are carried at the amount of cash received with the underlying securities sold continuing to be recognized as securities available for sale. Interest incurred on repurchase agreements is reported in interest expense. At September 30, 2007, we had three outstanding repurchase agreements totaling \$67.5 million. Two of the repurchase agreements provide for the payment of interest at one-month LIBOR plus 0.50% and one of the agreements provides for the payment of interest at one-month LIBOR plus 0.75%. At September 30, 2007, the weighted average interest rate on our repurchase agreements was 6.26% per annum. The repurchase agreements provide for an original term to maturity ranging from one to nine months. If we cannot renew or replace these repurchase agreements as they mature we will be required to repay them from internal funds or find alternative sources of financing, as to which no assurance can be given.

Our debt obligations contain various customary non-financial loan covenants. Such covenants do not, in management’s opinion, materially restrict our investment strategy or our ability to raise capital. We are in compliance with all of our loan covenants as of September 30, 2007.

## Securitizations

In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc and ACS Aircraft Finance Bermuda Limited issued \$560.0 million of Class A-1 notes, or the “ACS 1 Notes.” The ACS 1 Notes mature on

June 20, 2031. The ACS 1 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, which at September 30, 2007 was 6.02%, and scheduled payments of principal. We entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations

38

---

## Table of Contents

backed by primarily fixed-rate lease assets. These contracts, together with the related guarantee premium, the spread referenced above and other costs of trust administration, result in a fixed rate cost of 6.60% per annum, after the amortization of issuance fees and expenses.

On June 8, 2007, we completed our second securitization, a \$1.17 billion transaction comprising 59 aircraft, which we refer to as Securitization No. 2. In connection with Securitization No. 2, two of our subsidiaries, ACS Aircraft Finance Ireland 2 Limited (“ACS Ireland 2”) and ACS 2007-1 Limited (“ACS Bermuda 2”), which we refer to together with their subsidiaries as the “ACS 2 Group,” issued \$1.17 billion of Class A notes, or the “ACS 2 Notes” to a newly formed trust, the ACS 2007-1 Pass Through Trust, or the ACS 2 Trust. The ACS 2 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the ACS 2 Certificates, representing undivided fractional interests in the ACS 2 Notes. Payments on the ACS 2 Notes will be passed through to the holders of the ACS 2 Certificates. The ACS 2 Notes are secured by ownership in aircraft owning subsidiaries of ACS Bermuda 2 and ACS Ireland 2 and the aircraft leases, cash rights under service agreements and any other assets they may hold. Each of ACS Bermuda 2 and ACS Ireland 2 has fully and unconditionally guaranteed the other’s obligations under the ACS 2 Notes. However, the ACS 2 Notes are neither obligations of nor guaranteed by Aircastle Limited. The ACS 2 Notes mature on June 8, 2037.

As of September 30, 2007, the ACS 2 Group had used the proceeds from the sale of the ACS 2 Notes to acquire all 59 aircraft from us and we paid certain expenses incurred in connection with the ACS 2 Certificates offering of approximately \$12.6 million. We used a portion of Securitization No. 2 to repay amounts owed on Credit Facility No. 2. The ACS 2 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.26%, which at September 30, 2007 was 6.08%, and scheduled payments of principal. The terms of Securitization No. 2 require the ACS 2 Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS 2 Groups’ compliance with these covenants depends substantially upon the timely receipt of lease payments from their lessees. In particular, during the first five years from issuance, Securitization No. 2 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 60.6% of the Initial Appraised Value of the aircraft, decreased over time by an assumed amount of depreciation. During the first five years of the transaction, subject to compliance with the debt service coverage ratio test in years four and five, all cash flows attributable to the underlying aircraft after payment of expenses, interest and scheduled principal payments, or excess securitization cash flows, will be available for distribution to us. We have used and intend to use the excess securitization cash flow to pay dividends and to make additional investments. We expect to refinance the notes on or prior to June 2012. In the event that the notes are not repaid on or prior to June 2012, the excess securitization cash flow will be used to repay the principal amount of the notes and will not be available to us to pay dividends to our shareholders. If during year four or five of the transaction, the debt service coverage ratio test fails on two consecutive payment dates the excess securitization cash flow will be used to repay the principal amount of the notes and will not be available to us to pay dividends to our shareholders or make additional investments.

Financial Guaranty Insurance Company issued a financial guaranty insurance policy to support the payment of interest when due and the payment, on the final distribution date, of the outstanding principal amount. We have entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. These contracts, together with the related guarantee premium, the spread referenced above and other costs of trust administration, result in a fixed rate cost of 6.20% per annum, after the amortization of issuance fees and expenses.

## Contractual Obligations

Our contractual obligations consist of principal and interest payments on variable rate liabilities, obligations under binding letters of intent to purchase aircraft and rent payments pursuant to our office leases. Total contractual obligations increased from \$1.69 billion at the end of 2006 to

39

---

## Table of Contents

approximately \$5.06 billion at September 30, 2007 due primarily to an increase in aircraft purchase obligations. The primary reason for the increase is:

- The closing of Securitization No. 2 in June 2007; and
- The increase in purchase obligations mainly due to the Airbus A330F Agreement in June 2007, the remaining purchase obligations under the GAIF transaction and the 747 PDP Credit Facility.

The following table presents our actual contractual obligations and their maturity dates as of September 30, 2007:

Payments Due By Period as of September 30, 2007		Contractual Obligations		Total	Less than	
1 year	2-3 years	4-5 years	More than			
5 years	(Dollars in thousands)	Securitization No. 1(1)	\$ 704,749	\$ 54,824	\$ 108,541	\$ 195,264
346,120	Securitization No. 2(1)	1,631,970	110,920	246,322	248,966	1,025,762
Facility (2)	66,632	66,632	—	—	—	Amended Credit Facility No. 2(2) 296,084
—	—	Repurchase agreements(2)	69,037	69,037	—	—
1,983	933	Purchase obligations(4)(5)	2,288,244	1,169,315	556,567	562,362
5,062,522	\$ 1,496,225	\$ 1,184,907	\$ 1,008,575	\$ 1,372,815		

(1)

Includes interest on variable rate, LIBOR-based instruments at the September 30, 2007 rate and principal payments based on amortization schedules through October 2015 and February 2018 that require the securitizations' cash flows be applied to the outstanding principal balance of the indebtedness so that the loan to assumed aircraft values are held constant until the securitizations' fifth anniversaries, after which all excess cash flow is required to reduce the principal balances of the indebtedness. We expect that the securitization principal balance will be refinanced in full on or before June 2011 and June 2012, respectively. (2) Includes interest on variable rate, LIBOR-based instruments at the September 30, 2007 rate. (3) Represents contractual payments on our office leases in Stamford, Connecticut and Dublin, Ireland. (4) At September 30, 2007, we had purchase agreements or binding letters of intent to acquire 42 aircraft, including twelve from GAIF and fifteen from Airbus. As of November 7, 2007, eight of the aircraft were subsequently acquired; the remaining letters of intent are still pending. As of November 7, 2007, we executed binding letters of intent to purchase seven additional aircraft. Purchase agreements and binding letters of intent are subject to certain conditions to closing and there can be no assurance that such conditions will be satisfied and these acquisitions consummated. (5) Two aircraft included in the Company's commitments as of September 30, 2007, were subsequently removed from the GAIF Acquisition Agreement.

Our hedging transactions using derivative instruments and our securities repurchase transactions also involve counterparty credit risk. The counterparties to our derivative arrangements and repurchase agreements are major financial institutions rated A1 or higher by Moody's. As a result, we do not anticipate that any of these counterparties will fail to meet their obligations.

However, there can be no assurance that we will be able to adequately protect against this risk and will ultimately realize an economic benefit from our hedging strategies or recover the full value of the securities underlying our repurchase agreements in the event of a default by a counterparty.



## Table of Contents

### Margin Calls

Our repurchase agreements and interest rate derivative instruments are also subject to margin calls based on the value of the underlying security and the level of interest rates. Margin calls resulting from decreases in the value of our debt instruments or mark-to-market losses on our derivative instruments due to decreasing interest rates could require that we post additional collateral. Management believes that we maintain adequate cash reserves and liquidity to meet any reasonably possible margin calls resulting from these risks, but can make no assurances that we will have adequate additional collateral under all potential scenarios. At December 31, 2006 and September 30, 2007, we had margin deposits in the amount of \$4.3 million and \$0.6 million, respectively.

### Capital Expenditures

We make capital expenditures from time to time in connection with improvements made to our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the nine months ended September 30, 2006 and 2007, we incurred a total of \$2.9 million and \$7.4 million of capital expenditures related to the acquisition of aircraft.

As of September 30, 2007, the weighted average (by net book value) age of our owned aircraft was approximately 9.48 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Under our leases, the lessee is primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft or a lessee fails to meet its maintenance obligations under the lease agreement. At September 30, 2007, \$153.4 million of maintenance reserves paid by lessees is reflected 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 additional 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 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. If lessees are unable to fund their maintenance requirements on our aircraft, our cash flow and our ability to meet our debt obligations or to pay dividends on our common shares could be adversely affected.

### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2007.

### Foreign Currency Risk and Foreign Operations

At September 30, 2007, all of our lease rentals are payable 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 September 30, 2007, 11 of our 65 employees were based in Ireland and three were based in Singapore. For the nine months ended September 30, 2007, expenses denominated in currencies other than the U.S. dollar, such as payroll and office costs, aggregated to approximately \$4.0 million in U.S. dollar equivalents and represented approximately 15% 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

41

---

## Table of Contents

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 three months ended September 30, 2006, we recorded a net gain of \$36 thousand and for the three months ended September 30, 2007, we recorded a net loss of \$15 thousand on foreign currency transactions. For the nine months ended September 30, 2006 and 2007 we recorded net gains of \$12 thousand and \$8 thousand, respectively.

## 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, debt investments, floating rate debt obligations and interest rate derivative instruments. Our lease agreements typically require the payment of a fixed amount of rent during the term of the lease. Similarly, our debt investments are predominately collateralized by fixed rate aircraft leases and provide for a fixed coupon interest rate. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, 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. We are also exposed to loss on (i) our fixed-pay interest rate swaps to the extent interest rates decrease below the contractual fixed rates of our swaps and (ii) our other interest rate derivative instruments.

Changes in interest rates may also impact our net book value as our debt investments and derivatives are periodically marked-to-market through stockholders' equity. Generally, as interest rates increase the value of our fixed rate debt investments decrease. The magnitude of the decrease is a function of the difference between the coupon rate and the current market rate of interest, the average life of the securities and the face amount of the securities. We are also exposed to loss on (i) our fixed pay interest rate swaps to the extent interest rates decrease below the contractual fixed rates of our swaps and (ii) our other derivative instruments. In general, we would expect that over time, decreases in the value of our debt investments attributable to interest rate changes will be offset to some degree by increases in the value of our derivative instruments, and vice versa. However, our policy is to hedge only a portion of the variable rate interest payments on our outstanding and/or expected future debt obligations rather than hedge the amount of our investments; therefore, our assets remain partially un-hedged. Furthermore, the relationship between spreads on debt investments and 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 also can affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

## 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 swaps and interest rate forward contracts to hedge the current and expected future interest rate payments on our variable rate debt. Interest rate swaps are agreements in which a series of interest rate flows are exchanged with a third party over a prescribed period. An interest rate forward contract is an agreement to make or receive a payment at the end of the period covered by the contract, with reference to a change in interest rates. The notional amount on a swap or forward contract is not exchanged. Our swap transactions 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 and debt investments. Similarly, our interest rate forward contracts typically provide for us to receive payment if interest rates increase and make a payment if they decrease. However, we can give no

assurance that our net income will not be adversely affected during any period as a result of changing interest rates.

42

---

## Table of Contents

We held the following interest rate derivative contracts as of September 30, 2007:

Hedged Item	Current/																			
Starting																				
Notional																				
Amount	Effective																			
Date	Mandatory																			
Early																				
Termination																				
Date	Maturity																			
Date	Maximum																			
Notional																				
Amount	Floating																			
Rate	Fixed Rate	Fair Value																		
of																				
Derivative																				
Asset or																				
(Liability)	Securitization No. 1	\$ 532,999	Jun-06	N/A	Jun-16	\$ 560,000	1M LIBOR													
+ 0.27%	5.78%	\$ (16,865 )	Securitization No. 2	1,160,233	Jun-07	N/A	Jun-12	1,170,000	1M											
LIBOR	5.25% to 5.36%	(24,460 )	Revolving Credit Facility	28,000	Jun-07	Dec-11	Jan-12	203,000												
1M LIBOR	4.89%	(753 )	Amended Credit Facility No. 2	190,000	Jun-07	Jun-08	Feb-13	440,000												
1M LIBOR	4.88%	(2,477 )	Amended Credit Facility No. 2	90,000	Jul-07	Aug-08	Dec-17	150,000												
1M LIBOR	5.14%	(1,408 )	Amended Credit Facility No. 2	248,000	Aug-07	Nov-08	May-13	248,000												
1M LIBOR	5.33%	(4,894 )	Future debt and securitization	40,000	Jan-08	Feb-09	Feb-19	360,000												
1M LIBOR	5.16%	(2,808 )	Future debt and securitization	5,000	May-08	Sep-09	Mar-14	55,000	1M											
LIBOR	5.41%	(1,228 )	Future debt and securitization	46,000	Apr-10	Nov-11	Oct-15	231,000	1M											
LIBOR	5.17%	464	Future debt and securitization	95,000	Jan-11	May-12	Apr-16	238,000	1M											
LIBOR	5.23%	673	Future debt and securitization	143,000	Jul-11	Oct-12	Sep-16	238,000	1M											
LIBOR	5.27%	776	Repurchase Agreement	2,900	Jun-05	N/A	Mar-13	2,900	1M LIBOR	4.21%										
94	Repurchase Agreement	5,000	Dec-05	N/A	Sep-09	5,000	3M LIBOR	4.94%	(22 )	Repurchase										
Agreement	39,000	Feb-06	N/A	Jul-10	74,000	1M LIBOR	5.02%	(190 )	Total	\$ 2,625,132										
	\$ 3,974,900									\$ (53,098 )										

## Related Party Transactions

Prior to our initial public offering, substantially all of the ownership interests in Aircastle were beneficially owned by certain funds managed by affiliates of Fortress Investment Group LLC, which we refer to as the Fortress Shareholders, and by our employees. In 2004, the Fortress Shareholders committed to invest \$400.0 million of equity in Aircastle, all of which was invested as of December 31, 2005. On February 8, 2006, the Fortress Shareholders contributed an additional \$36.9 million in exchange for 3,693,200 of our common shares. On July 21, 2006, we returned the \$36.9 million to the Fortress Shareholders in exchange for the cancellation of 3,693,200 of our common shares.

In conjunction with the follow-on public offering of our common shares on October 10, 2007, certain Fortress Shareholders offered 11,000,000 secondary common shares in a public offering, including 1,000,000 common shares from the selling Fortress Shareholders pursuant to the underwriter's option to cover over-allotments. Following this

offering, funds managed by the Fortress Shareholders and certain officers of Fortress Investment Group LLC beneficially own approximately 39% of the Company's common shares. The Company did not receive any funds from this secondary offering by the Fortress Shareholders.

#### Inflation

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

#### Management's Use of EBITDA

We define EBITDA as income from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-GAAP measure is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure

## Table of Contents

(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.

## Limitations of EBITDA

EBITDA has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings. Material limitations in making the adjustments to our earnings to calculate EBITDA, and using this non-GAAP financial measure as compared to GAAP net income (loss), 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; and

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

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

EBITDA is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of EBITDA to GAAP net income (loss), along with our consolidated financial statements included elsewhere in this report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the EBITDA measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies. The table below shows the reconciliation of net income to EBITDA for the three and nine months ended September 30, 2006 and 2007.

## Three Months Ended

September 30, Nine Months Ended

September 30, (Dollars in thousands)	2006	2007	2006	2007	Net income	\$ 15,182	\$ 32,470	\$ 31,412	
\$ 92,079	Depreciation	15,502	34,980	35,740	84,378	Amortization	(1,475 )	(3,241 )	(3,093 )
(6,673 )	Interest, net	14,069	27,074	34,147	63,151	Income tax provision	1,742	1,857	4,380
4,935	Earnings from discontinued operations, net of income taxes	(470 )	—	(4,557 )	(11,594 )				
EBITDA	\$ 44,550	\$ 93,140	\$ 98,029	\$ 226,276					

## Table of Contents

## ITEM 3.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes through our securities portfolio, our variable rate liabilities and our interest rate swap and forward contracts. Significant increases in interest rates could decrease the fair value of our debt investments, increase the amount of interest payments on our variable rate debt and reduce the spread we earn between our generally fixed-rate revenues and our variable rate interest expense. We enter into interest rate swaps and forward contracts to minimize the risks associated with variable rate debt.

The following table provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For our debt investments and variable rate liabilities, the table presents principal cash flows by expected maturity date and related weighted-average interest rates as of the end of each period. Weighted-average variable rates are based on implied forward rates as derived from appropriate annual spot rate observations as of the reporting date. For interest rate swaps and forward contracts, the table presents notional amounts by expected maturity date or mandatory termination date and weighted-average interest rates as of the end of each period.

		Face/Notional/							
Market Value									
amount									
September 30, 2007		Face/Notional Amount Maturing Twelve Months Ended September 30, Fair Value							
September 30,									
2007 (Dollars in thousands)		2008	2009	2010	2011	2012	Thereafter	Fixed Rate Assets	
Securities Available for Sale		\$ 101,484	\$ 22,059	\$ 19,818	\$ 37,855	\$ 5,336	\$ 664		
\$ 15,752	\$ 100,516	Weighted average coupon rate, end of period		7.77 %	7.78 %	7.82 %	8.04 %		
8.10 %	8.15 %	8.15 %	Security Held Until Maturity	\$ 14,293	\$ 14,293	\$ —	\$ —	\$ —	\$ —
\$ 14,201	Average interest rate		8.88 %	8.88 %	Variable Rate Liabilities				
Borrowed under Credit Facilities		\$ 336,165	\$ 69,325	\$ 266,840	\$ —	\$ —	\$ —	\$ —	\$ —
\$ —	\$ —	\$ 336,165	Weighted average interest rate end of period		6.94 %	5.75 %	—	—	—
Securitized Notes		Notes Issued		\$ 1,693,232	\$ 63,163	\$ 80,366	\$ —	\$ —	\$ —
83,871	\$ 92,541	\$ 183,682	\$ 1,189,609	\$ 1,693,232	Weighted average interest rate, end of period		6.06 %		
%	4.77 %	4.94 %	5.13 %	5.36 %	5.53 %	Repurchase Obligations		\$ 67,506	\$ 67,506
\$ —	\$ —	\$ —	\$ —	\$ 67,506	Weighted average interest rate, end of period		6.26 %	—	—
—	—	Interest Rate Swaps Related to Repurchase Obligations							Pay
fixed/receive variable	\$ 46,900	\$ 11,500	\$ 14,500	\$ 18,000	\$ —	\$ —	\$ 2,900	\$ (118)	Weighted
average pay fixed rate	4.96 %	4.94 %	4.88 %	4.21 %	4.21 %	4.21 %	—	—	Weighted average
receive variable rate, end of period	5.14 %	4.50 %	4.68 %	4.87 %	5.10 %	5.26 %	—	—	
Interest Rate Forwards Related to Securitization No. 1		Notional Amounts							\$
532,999	\$ 22,825	\$ 23,952	\$ 25,113	\$ 78,268	\$ 38,869	\$ 343,972	\$ (16,865)	Weighted average	
pay fixed rate	5.78 %	5.78 %	5.78 %	5.78 %	5.78 %	5.78 %	—	—	Weighted average
variable rate, end of period	5.39 %	4.77 %	4.95 %	5.14 %	5.37 %	5.53 %	—	—	





Table of Contents

Market Value amount	Face/Notional/									
September 30, 2007	Face/Notional Amount						Maturing Twelve Months Ended September 30, Fair Value			
September 30, 2007 (Dollars in thousands)	2008	2009	2010	2011	2012	Thereafter	Interest Rate Forwards Related to Securitization No. 2			
\$ 58,758	\$ 43,441	\$ 961,282	\$ —	\$ (24,460)			Notional Amounts	\$ 1,160,233	\$ 40,338	\$ 56,414
5.25 %	5.25 %	5.30 %	—	—	—	—	Weighted average pay fixed rate	5.26 %	5.26 %	
4.68 %	4.87 %	5.10 %	—	—	—	—	Weighted average receive variable rate, end of period	5.12 %	4.50 %	
(162,000)	(356,000)	115,000	1,661,000	(10,902)			Interest Rate Forwards Related to Credit Facility No. 2 and Future Borrowings			
5.08 %	5.07 %	5.07 %	5.14 %	5.15 %	—	—	Notional Amounts	\$ 556,000	\$ (623,000)	\$ (79,000)
5.12 %	4.50 %	4.68 %	4.87 %	5.10 %	5.26 %	—	Weighted average pay fixed rate	5.12 %		
							Weighted average receive variable rate, end of period			

The increase in debt investments from December 31, 2006 to September 30, 2007 related to the purchase of one debt security, net principal repayments on debt investments and changes in fair value. In addition, during the nine months ended September 30, 2007, we entered into a series of interest rate swaps to hedge variable interest rate payments associated with Securitization No. 2. We also entered into nine other interest rate swaps to hedge variable interest rate payments on debt we expect to incur to finance aircraft acquisitions over the next several years, and terminated two existing interest rate swap agreements and one interest rate forward contract upon the completion of Securitization No. 2.

Item 4.

Controls and Procedures

a) Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2007, our disclosure controls and procedures were effective.

b) Changes in Internal Controls

There have not been any changes in our internal control over financial reporting (as such terms is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our 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 Quarterly Report on Form 10-Q filed with the SEC on August 14, 2007.

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to Vote of Security Holders

None

Item 5. Other Information

None

47

---

Table of Contents

Item 6. Exhibits

Description	Exhibit No.
2 .1 Asset Purchase Agreement, dated as of January 21, 2007 by and among the Sellers listed on Schedule 1-A, each of which is a direct or indirect subsidiary of Guggenheim Aviation Investment Fund, LP, a Delaware limited partnership; and the Purchasers listed on Schedule 1-B, each of which is a direct or indirect subsidiary of Aircastle Limited, a Bermuda exempted company.††	3 .1
3 .1 Memorandum of Association†	3 .2
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.†	
10 .44 Third Amendment, dated as of August 20, 2007, to the Credit Agreement (2006-B), dated as of December 15, 2006, by and among Aircastle Limited, an exempted company organized and existing under the laws of Bermuda, Aircastle Holding Corporation Limited, an exempted company organized and existing under the laws of Bermuda, Aircastle Ireland Holding Limited, a limited liability company incorporated in Ireland, JPMorgan Chase Bank, N.A., as administrative agent and certain lenders from time to time parties thereto.*	10 .45
10 .45 Second Amendment, dated as of September 14, 2007, to the Amended and Restated Credit Agreement, dated as of December 14, 2006, by and among Aircastle Investment Holdings 2 Limited, Aircastle Ireland No. 1 Limited, Aircastle Ireland No. 3 Limited, and certain borrowers, as Borrowers, JPMorgan Chase Bank, N.A., Bear Stearns Corporate Lending Inc. and Citicorp North America, Inc., as Lenders, and JPMorgan Chase Bank, N.A., as Agent.**	
31 .1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	31 .2
31 .2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002	
32 .1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

†

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. †† Incorporated by reference to the Company’s current report on Form 8-K filed with the SEC on January 25, 2007. \* Incorporated by reference to the Company’s current report on Form 8-K filed with the SEC on August 20, 2007. \*\* Incorporated by reference to the Company’s current report on Form 8-K filed with the SEC on September 18, 2007.

Table of Contents

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.

AIRCASTLE LIMITED

(Registrant) Date: November 9, 2007 By: /s/ Aaron Dahlke  
Chief Accounting Officer and  
Authorized Officer

Aaron Dahlke

49

---