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Diluted earnings (loss) per share:

Income (loss) from continuing operations \$(.04
)
 \$(.02
)
 \$1.04
 Earnings from discontinued operations, net of income taxes —
 .03
 .07
 Net income (loss) per share \$(.04
)
 \$.01
 \$1.11
 Dividends paid per share \$—
 \$—
 \$.70

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

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

	Period from October 29 (Commencement of Operations) to December 31 2004	Year Ended December 31	
		2005	2006
Cash flows from Operating activities			
Net income (loss)	\$ (1,465)	\$ 228	\$ 51,206
Adjustments to reconcile net (loss) income to net cash provided by operating activities (inclusive of amounts related to discontinued operations)			

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Depreciation	390	14,460	56,629
Amortization of deferred financing costs	—	1,175	6,380
Amortization of lease premiums and discounts, and other related lease items	30	897	(3,705)
Deferred income taxes	—	333	2,341
Accretion of purchase discounts on debt securities	—	(787)	(756)
Non-cash share based payment expense	—	409	8,895
Cash flow hedges reclassified into earnings	—	—	(2,213)
Ineffective portion of cash flow hedges	—	126	(814)
Gain on the sale of flight equipment	—	—	(2,240)
Loss on sale of debt securities	—	7	—
Changes on certain assets and liabilities:			
Accounts receivable	(350)	(2,765)	(4,581)
Restricted cash and cash equivalents	—	(40,652)	(65,417)
Other assets	(61)	(535)	(634)
Accounts payable, accrued expenses and other liabilities	272	9,700	(255)
Payable to affiliates	1,098	(988)	27
Lease rentals received in advance	902	5,339	4,827
Security deposits and maintenance payments	3,474	33,615	85,592
Net cash provided by operating activities	4,290	20,562	135,282
Cash flows from investing activities			
Acquisition and improvement of flight equipment	(97,405)	(664,643)	(882,920)
Investment in purchase of flight equipment held for sale	—	(54,917)	—
Disposition of flight equipment held for sale	—	—	57,157
Purchase of debt securities	—	(29,376)	(92,726)
Margin call on derivative	—	—	(4,345)
Leasehold improvements, furnishings and equipment	—	(2,892)	(506)
Aircraft purchase deposits	—	(3,465)	(1,186)
Principal repayments on debt securities	—	10,461	3,606
Proceeds from sale of debt securities	—	2,688	—
Net cash used in investing activities	(97,405)	(742,144)	(920,920)
Cash flows from financing activities			
Issuance of common shares to Fortress, director and employees	400	—	38,703
Issuance of common shares in initial public offering, net	—	—	219,595
Repurchase of shares from Fortress	—	—	(36,932)
Proceeds from securitization	—	—	560,000
Credit facility borrowings	—	490,588	751,736
Securitization repayments	—	—	(10,600)
Credit facility repayments	—	—	(799,664)
Deferred financing costs	—	(4,613)	(19,434)
Proceeds from repurchase agreements	—	8,679	76,007
Proceeds from terminated cash flow hedges	—	—	16,142
Principal repayment on repurchase agreement	—	(14)	(978)
Dividends paid	—	—	(30,762)
Capital contributions	92,715	306,885	—
Net cash provided by financing activities	93,115	801,525	763,813
Net increase (decrease) in cash and cash equivalents	—	79,943	(21,825)
Cash and cash equivalents at beginning of period	—	—	79,943
Cash and cash equivalents at end of period	\$ —	\$ 9,943	\$ 58,118
Supplemental Disclosures of cash flow information			
Cash paid during the period for interest	\$ —	\$ 6,695	\$ 49,012

Cash paid during the period for income taxes \$ — \$ — \$ 2,288

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

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Aircastle Limited and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Dollars in thousands, except share amounts)

	Common Shares		Additional Paid-In Capital	Dividends in Excess of Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Shareholders' equity, October 29, 2004 (commencement of operations)	—	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of common shares	40,000,000	400	—	—	—	400
Capital contributions	—	—	100,300	—	—	100,300
Net (loss)	—	—	—	(1,465)	—	(1,465)
Balance, December 31, 2004	40,000,000	400	100,300	(1,465)	—	99,235
Capital contributions	—	—	299,300	—	—	299,300
Amortization of share based payments	—	—	409	—	—	409
Comprehensive income:						
Net income	—	—	—	228	—	228
Net change in fair value of derivatives	—	—	—	—	1,864	1,864
Net unrealized appreciation on debt securities	—	—	—	—	9,900	9,900
Total comprehensive income	—	—	—	—	—	11,992
Balance, December 31, 2005	40,000,000	400	400,009	(1,237)	11,764	410,936
Issuance of common shares – Initial public offering, net of offering expenses	10,454,535	104	219,491	—	—	219,595
Issuance of common shares to Fortress	3,693,200	37	36,895	—	—	36,932
Issuance of common shares to directors and employees	1,166,744	12	6,083	—	—	6,095
Repurchase of common shares from Fortress	(3,693,200)	(37)	(36,895)	—	—	(36,932)
Amortization of share based payments	—	—	4,571	—	—	4,571
Dividends declared	—	—	—	(53,351)	—	(53,351)
Comprehensive income:						
Net income	—	—	—	51,206	—	51,206
Other comprehensive income:						

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Net change in fair value of derivatives	—	—	—	—	(4,132)	(4,132)
Derivative gain reclassified into earnings					(2,213)	(2,213)
Net unrealized appreciation on debt securities	—	—	—	—	4,490	4,490
Total comprehensive income						49,351
Balance, December 31, 2006	51,621,279	\$ 516	\$ 630,154	\$ (3,382)	\$ 9,909	\$ 637,197

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

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

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited, formerly Aircastle Investment Limited, (“Aircastle,” the “Company,” “we,” “us” or “our”) is a Bermuda exempted company that was incorporated on October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates (together, the “Fortress Shareholders” or “Fortress”) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle’s business is investing in aviation assets, including acquiring, managing and leasing commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments. On August 11, 2006, we closed the sale of 10,454,535 common shares of Aircastle at \$23.00 per share in an initial public offering (the “initial public offering”). On February 13, 2007 the Company completed a follow-on public offering and closed the sale of 15,525,000 common shares of Aircastle at \$33.00 per share.

Pursuant to a Shareholders Agreement executed November 24, 2004 (“the Shareholders Agreement”), the Fortress Shareholders committed to contribute \$400,000 in initial equity to Aircastle. As of December 31, 2005, the Fortress Shareholders had completed making their initial \$400,000 cash capital contribution. Subsequent to the February 13, 2007 follow-on public offering, Fortress shareholders continue to beneficially own a majority of our outstanding 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 of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

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 a Variable Interest Entity (“VIE”) 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.

Risk and Uncertainties

In the normal course of business, Aircastle encounters two significant types of economic risk: credit and market. Credit risk is the risk of a lessee’s inability or unwillingness to make contractually required payments. Market risk reflects the change in the value of debt securities, repurchase agreements, derivatives, credit facilities and securitization agreements due to changes in interest rate spreads or other market factors, including the value of collateral underlying debt securities, repurchase agreements, credit facilities and securitization agreements. The Company believes that the carrying values of its investments and obligations are reasonable taking into consideration these risks along with estimated collateral values, payment histories and other relevant financial information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While Aircastle believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

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

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Aircastle considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted cash and cash equivalents consists primarily of maintenance deposits and security deposits received from lessees pursuant to the terms of various lease agreements, and rent collections held in lockbox accounts pursuant to our credit facilities and securitization agreements.

All of our cash and cash equivalents and restricted cash and cash equivalents are held by four major financial institutions.

Debt Securities

Aircastle accounts for debt securities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, Accounting for Certain Investments in Debt and Equity Securities. As of December 31, 2006 all of our debt securities are classified as available-for-sale and are reported at fair value, based on quoted market prices, with unrealized gains and losses included in shareholders’ equity as a component of accumulated other comprehensive

income. The cost of securities sold is based on the specific identification method. Interest on these securities is accrued as earned and included in interest income. Unrealized losses considered to be “other-than-temporary” are recognized in earnings.

Flight Equipment Held for Lease

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

- Flight equipment where estimates of the manufacturer’s realized sales prices are not relevant (e.g., freighter conversions)
- Flight equipment where estimates of the manufacturer’s realized sales prices are not readily available (e.g., older flight equipment)
- Flight equipment which may have a shorter useful life due to obsolescence.

Major improvements and modifications incurred in connection with the acquisition of aircraft that are required to get the aircraft ready for initial service are capitalized and depreciated over the remaining life of the flight equipment.

Lease acquisition costs related to reconfiguration of the aircraft cabin and other lessee specific modifications are capitalized and amortized into expense over the initial life of the lease, assuming no lease renewals and are included in other assets.

Cash incentives paid to lessees are capitalized as prepaid lease incentive costs and are amortized into revenue over the initial life of the lease, assuming no lease renewals and are included in other assets.

Generally, lessees are required to provide for repairs, scheduled maintenance and overhauls during the lease and to be compliant with return conditions of flight equipment at lease termination. Costs paid by us for scheduled maintenance and overhauls in excess of amounts paid by lessees are capitalized and depreciated over a period to the next scheduled maintenance or overhaul event. Miscellaneous repairs are expensed when incurred.

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

Lease discounts or premiums relate to leases acquired with the purchase of an aircraft that were determined to be below or above fair value. This discount or premium is accrued or capitalized and amortized using the straight-line method over the initial lease term assuming no renewals, and is included in other liabilities or other assets in the consolidated balance sheet.

Flight Equipment Held for Sale

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS No. 144”), flight equipment held for sale is stated at the lower of carrying value or fair value less estimated costs to sell.

Flight equipment held for sale is not depreciated and related deferred costs are not amortized. Subsequent changes to the asset’s fair value, either increases or decreases are recorded as adjustments to the carrying value of the flight equipment; however, any such adjustment would not exceed the original carrying value of the flight equipment held for sale. The rent received from flight equipment held for sale and related interest expense, net of income taxes, are reported in income from discontinued operations.

Impairment of Flight Equipment

In accordance with SFAS No. 144, Aircastle reviews its flight equipment for impairment when indicators of impairment exist. Impairment exists when the carrying value of an aircraft exceeds the sum of the undiscounted cash flows and its fair value. Our review for impairment includes a consideration of the existence of impairment indicators including third party appraisals of our aircraft, adverse changes in market conditions for specific aircraft types and the occurrence of significant adverse changes in general industry and market conditions that could affect the fair value of our aircraft. When indicators of impairment suggest that the carrying value of an aircraft may not be recoverable, we determine whether SFAS No. 144’s impairment recognition criteria have been met by evaluating whether the carrying value of the asset exceeds the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. The preparation of the undiscounted cash flows requires the use of assumptions and estimates, including the level of future rents, the residual value expected to be realized upon disposition of the asset, estimated downtime between re-leasing events and the amount of re-leasing costs.

If we determine that the carrying value may not be recoverable, we will assess the fair values of the assets. In determining the fair value of the assets, we consider market trends, published values for similar aircraft, recent transactions of similar aircraft and quotes from third party appraisers.

Security Deposits

Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. At December 31, 2005 and 2006, security deposits represent cash received from the lessee that are held on deposit until lease expiry. Aircastle’s operating leases also obligate the lessees to maintain flight equipment and comply with all governmental requirements applicable to the flight equipment, including, without limitation, operational, maintenance, registration requirements and airworthiness directives.

Maintenance Payments

Under all of our leases, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to

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(Dollars in thousands, except per share amounts)

make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, will depend on a variety of factors, including the creditworthiness of the lessee, the level of security deposit which may be provided by the lessee and market conditions at the time. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually shortly following completion of the relevant work.

We record maintenance payments paid by the lessee as maintenance payments in recognition of our contractual commitment to refund such receipts. In these contracts, we do not recognize such maintenance payments as revenue during the lease. Reimbursements to the lessee upon the receipt of evidence of qualifying maintenance work are charged against the existing maintenance payments. We defer income recognition of all maintenance payments collected until such time as we can reasonably estimate the amount by which reserve payments received exceed costs to be incurred by the current lessee or subsequent lessees in performing scheduled maintenance.

Income Taxes

Aircastle provides for income taxes, of its taxable subsidiaries, under the provisions of SFAS No. 109, Accounting for Income Taxes (“SFAS No. 109”). SFAS No. 109 requires an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amount estimated by Aircastle to be realizable.

Hedging Activities

We utilize derivative financial instruments to manage our exposure to interest rate risks. We account for derivatives in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS No. 133”). All derivatives are recognized on the balance sheet at their fair value. Through December 31, 2006 all of our derivatives were designated as cash flow hedges. On the date that we enter into a derivative contract, we formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions.

This includes linking all derivatives that are designated as cash flow hedges to specific assets or liabilities on the balance sheet. We also assess (both at the hedge’s inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. If it were to be determined that a derivative is not (or has ceased to be) highly effective as a hedge, we would discontinue hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in accumulated other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of the variable rate liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative exceeds the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of derivative financial instruments that did not qualify for hedge treatment under SFAS No. 133 are reported in current period earnings as a component of interest expense.

Aircastle may choose to terminate certain derivative financial instruments prior to their contracted maturities. Any net gains or losses on the derivative financial instrument in accumulated

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

other comprehensive income at the date of termination are not reclassified into earnings if it remains probable that the cash flows of the hedged items (interest payments) will occur. The amounts in accumulated other comprehensive income are reclassified into earnings as the hedged items (interest payments) effect earnings.

Repurchase Agreements

Debt securities sold under agreements to repurchase (“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. Repurchase agreements are recorded as liabilities, with the underlying debt securities sold continuing to be classified as debt securities available-for-sale. Liabilities recorded under these agreements are accounted for on an accrual basis with interest reported in interest expense.

Lease Rentals

We lease flight equipment under net operating leases with lease terms typically ranging from 3 to 7 years. We generally do not offer renewal terms or purchase options to our lessees, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a LIBOR index are recognized on a straight-line basis over the period the rentals are fixed and accruable. Revenue is not recognized when collection is not reasonably assured.

Comprehensive Income

Comprehensive income consists of net income (loss) and other gains and losses, net of income taxes, if any, affecting shareholders’ equity that under GAAP are excluded from net income (loss). At December 31, 2006 such amount consists of the effective portion of fluctuations in the fair value of derivatives designated as cash flow hedges and unrealized gains on the fair value of debt securities classified as available-for-sale.

Share Based Compensation

Aircastle adopted SFAS No. 123(R), Share Based Payment (“SFAS No. 123(R)”), effective January 1, 2005. Pursuant to SFAS No. 123(R), Aircastle recognizes compensation cost relating to share-based payment transactions in the financial statements based on the fair value of the equity instruments issued. Aircastle uses the straight line method of accounting for compensation cost on share-based payment awards that contain pro-rata vesting provisions.

Deferred Financing Costs

Deferred financing costs which are included in other assets in the Consolidated Balance Sheet are amortized using the interest method for amortizing loans and on a straight line basis for revolving credit facilities over the lives of the related debt.

Leasehold Improvements, Furnishings and Equipment

Improvements made in connection with the leasing of office facilities are capitalized as leasehold improvements and are amortized on a straight line basis over the minimum lease period. Furnishings and equipment are capitalized at cost and are amortized over the estimated life of the related assets or remaining lease term which range between 3 and 5 years.

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for the Company on January 1, 2007. Although the Company has not yet completed its assessment, this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In September 2006, FASB issued SFAS No. 157 Fair Value Measurements (“SFAS No. 157”). This Statement defines fair value, establishes a framework for measuring fair value on our consolidated financial statements 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 in the process of analyzing the impact of SFAS No. 157, if any.

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 securities, accounts payable, amounts borrowed under credit facilities, borrowings from securitization, repurchase agreements and cash flow hedges. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short term nature. Borrowings under our credit facilities, securitization and repurchase agreements bear floating rates of interest which reset monthly or quarterly 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 securities and cash flow hedges is generally determined by reference to broker quotations.

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

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Minimum future annual lease rentals contracted to be received under our existing operating leases at December 31, 2006 were as follows:

Year Ending December 31	Amount
2007	\$ 233,093
2008	210,683
2009	179,867
2010	142,854
2011	111,290
Thereafter	112,283
	\$ 990,070

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

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

Region	For the Period from October 29, 2004 (Commencement of Operations) to December 31,	Year Ended December 31,	
		2005	2006
Europe	100%	40%	43%
Asia	—	32%	23%
North America	—	19%	27%
Latin America	—	9%	5%
Africa	—	—	2%
	100%	100%	100%

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

For the period from October 29, 2004 (Commencement of Operations) through December 31, 2004, one customer accounted for 100% of lease rental income.

For the year ended December 31, 2005, four customers accounted for 55% of lease rental revenue. No other customer accounted for more than 10% of lease rental revenue. For the year ended December 31, 2006, one customer accounted

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for 23% of lease rental revenue, three customers accounted for 19% of lease rental revenue. No other customers accounted for more than 4% of lease rental revenue.

Amortization of lease premium and discounts related to certain acquired operating leases was \$30, \$734 and \$4,406 for 2004, 2005 and 2006, respectively.

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

Region	December 31, 2005		December 31, 2006	
	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Europe	16	40%	35	45%
Asia	9	26%	15	23%
North America	4	29%	11	22%
Latin America	3	5%	5	6%
Africa	—	—	3	4%
	32	100%	69	100%

At December 31, 2005 and 2006, lease acquisition costs included in other assets on the consolidated balance sheets were \$775 and \$794, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were \$453 and \$830 at December 31, 2005 and 2006, respectively.

Note 4. Discontinued Operations and Flight Equipment Held for Sale

As of December 31, 2005, one of our aircraft was classified as flight equipment held for sale. During the year ended December 31, 2006, we completed the sale of this aircraft. In accordance with 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.

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

Earnings from discontinued operations for the nine months ended December 31, 2006, related solely to the aircraft held for sale, were as follows:

Earnings from discontinued operations	
Lease rentals	\$ 2,135
Gain on disposition	2,240
Interest expense	(528)

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Earnings before income tax provision	3,847
Income tax provision	(448)
Earnings from discontinued operations	\$ 3,399

Note 5. Debt Securities

As of December 31, 2005 and December 31, 2006, all of our debt securities were U.S. corporate obligations and were classified as available-for-sale. The aggregate fair value of these debt securities at December 31, 2006 was \$121,273. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which \$98,464 are investment grade and \$22,809 are subordinate to other debt related to such aircraft. All of our debt securities had unrealized gain positions relative to their net book values, which aggregated to \$9,900 and \$14,390 at December 31, 2005 and 2006, respectively.

Two of our debt securities, with a fair value of \$50,414 at December 31, 2006, have stated maturities in 2010. One of our debt securities with a fair value of \$51,127 has a stated maturity in 2011. Our other three debt securities with an aggregate fair value of \$19,732 have remaining terms to stated maturity in excess of 10 years after December 31, 2006. All of our debt securities 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 securities may be less than the stated maturities.

Note 6. Securitization and Borrowings under Credit Facilities

We used three separate credit facilities and our first securitization, as described below, to fund a portion of the purchase price of our acquisitions of flight equipment. These borrowings are secured by our interests in the leases on the flight equipment, including the rights to receive rents and other income from the flight equipment, funds on deposit in lockbox accounts and established to collect rents and any security deposits and/or maintenance payments received from lessees and certain other interests

Securitization No. 1

On June 15, 2006, we completed our first securitization, a \$560,000 transaction comprised of 40 aircraft, which we refer to as Securitization No. 1. In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc (“ACS Ireland”) and ACS Aircraft Finance Bermuda Limited (“ACS Bermuda”), which we refer to together with their subsidiaries as the “ACS Group,” issued \$560,000 of Class A-1 notes, or the “Notes,” to a newly formed trust, the ACS 2006-1 Pass Through Trust, or the “Trust.” The Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the “Certificates,” representing undivided fractional interests in the notes. Payments on the Notes will be passed through to holders of the certificates. The Notes are secured by ownership interests in aircraft-owning subsidiaries of ACS Bermuda and ACS Ireland and the aircraft leases, cash, rights under service agreements and any other assets they may hold. Each of ACS Bermuda and ACS Ireland has fully and unconditionally guaranteed the other’s obligations under the notes. However, the Notes are neither obligations of nor guaranteed by Airastle Limited. The Notes mature on June 20, 2031.

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(Dollars in thousands, except per share amounts)

The terms of Securitization No. 1 require the ACS Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS 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. 1 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 54.8% of the assumed future depreciated value of the portfolio. 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. 1, 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.

The Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, which at December 31, 2006 was 5.62%, and scheduled payments of principal. Financial Guaranty Insurance Company issued a financial guaranty insurance policy to support the payment of interest when due on the Certificates and the payment, on the final distribution date, of the outstanding principal amount of the Certificates. The 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 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.

ACS Ireland, which had total assets of \$146,990 at December 31, 2006, is a VIE which we consolidate. At December 31, 2006, the outstanding principal amount of ACS Ireland's notes was \$106,366.

Credit Facility No. 2

On February 28, 2006, we entered into a \$500,000 revolving credit facility with a group of banks to finance the acquisition of aircraft and related improvements which we refer to as Credit Facility No. 2. The borrowing base is equal to 85% of the net book value of the aircraft. Borrowings under this credit facility incur interest at the one-month LIBOR rate plus 1.25%. Additionally, we are subject to a 0.12% fee on any unused portion of the total committed facility. Credit Facility No. 2 requires the monthly payment of interest and principal, to the extent of 85% of any decrease in the net book value of the assets. Prior to our initial public offering in August 2006, Credit Facility No. 2 limited our ability to pay dividends. After the initial public offering, Credit Facility No. 2 has no restrictions on the amount of dividends we can pay, provided that we are not in default. Effective June 15, 2006, Credit Facility No. 2 was amended to increase the maximum committed amount to \$750,000 and to extend the maturity to November 15, 2007. On December 15, 2006, the \$750,000 credit facility was amended to increase the maximum committed amount to \$1,000,000 and to extend the maturity to December 15, 2008 ("Amended Credit Facility No. 2"). In addition, the borrowing base was revised to equal 65% of the purchase price of aircraft secured under the facility. The interest rate at December 31, 2006 was 6.60%. As of December 31, 2006, we had borrowed \$369,328 under Amended Credit Facility No. 2.

Revolving Credit Facility

On December 15, 2006, the Company entered into a \$250,000 revolving credit facility (the "Revolving Credit Facility") with a group of banks. The Revolving Credit Facility provides loans for working capital and other general corporate purposes and also provides for issuance of letters of credit for the account of any borrower up to \$250,000 and matures on December 15, 2007. Borrowings

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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”) plus 0.50% per annum or (b) in the case of loans with an interest rate based on the eurodollar rate (the “EDR”), 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. Additionally, we are required to maintain a net worth determined in accordance with GAAP of not less than \$550,000. As of December 31, 2006, there were no borrowings under the Revolving Credit Facility. 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.

Credit Facility No. 1

In February 2005, we entered into a \$300,000 revolving credit facility with a group of banks to finance the acquisition of flight equipment and related improvements, which we refer to as Credit Facility No. 1. The interest rate on Credit Facility No. 1 was the one month LIBOR plus 1.50%. In August 2005, the terms of Credit Facility No. 1 were amended to increase the amount of the facility to \$600,000. On February 24, 2006, the revolving period of our \$600,000 Credit Facility No. 1, was extended to April 28, 2006 and the maximum amount of this credit facility was reduced to \$525,000. The other terms of Credit Facility No. 1 remained the same. Monthly payments of interest only continued through repayment of Credit Facility No. 1. Credit Facility No. 1 was repaid in full and terminated on August 4, 2006. In addition, we wrote off the remaining balance of deferred financing fees of \$1,840 upon the termination of Credit Facility No. 1.

Credit Facility No. 3

In October 2005, the Company entered into a credit facility for \$109,998 with a bank to finance the acquisition of three aircraft which we refer to as Credit Facility No. 3. The interest rate on this facility is one-month LIBOR plus 1.50%. On March 30, 2006, \$36,666 of Credit Facility No. 3 was repaid using a portion of the proceeds from the disposition of flight equipment held for sale which had been financed under this facility. Credit Facility No. 3 was amended on July 18, 2006, to increase the maximum committed amount by approximately \$25,116 and to extend the maturity date to March 31, 2007. The increase in the maximum committed amount was reduced by \$25,116 with the closing of the initial public offering. As of December 31, 2006, we had borrowed \$73,332 under Credit Facility No. 3 and the interest rate was 6.85%.

The weighted average interest of these credit facilities at December 31, 2004, 2005 and 2006 were 0%, 5.87%, and 6.64%, respectively.

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Maturities of the securitization and credit facilities over the next five years and thereafter are as follows:

2007	\$ 102,380
2008	385,387
2009	24,239
2010	25,410
2011	65,668
Thereafter	388,976
	\$ 992,060

Note 7. Repurchase Agreements

We entered into repurchase agreements to fund a portion of the purchase price of certain of our debt securities. At December 31, 2005 and 2006 the repurchase agreements are secured by liens on the debt securities with a fair value of \$11,107 and \$105,550, respectively. The repurchase agreements provide for the payment of interest at LIBOR based rates plus spreads ranging from 0.50% to 0.75%. At December 31, 2006 the rate for LIBOR plus 0.50% was 5.85% and the rate for LIBOR plus 0.75% was 6.10%. The repurchase agreements are substantially all with parties other than those from whom we originally purchased the debt investments. At December 31, 2006, the repurchase agreements are scheduled to mature through June 2007. Upon maturity, we plan to refinance the repurchase agreements on similar terms and conditions. The weighted average interest rate of these repurchase agreements was 0%, 5.09% and 5.88% in 2004, 2005 and 2006, respectively.

Note 8. Shareholders' Equity and Share Based Payment

In August 2006, the Company completed its initial public offering ("IPO") 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. \$205,470 of the net proceeds was used to repay a portion of Credit Facility No. 2. The remainder of the proceeds were used for working capital requirements and to fund additional aircraft acquisitions.

On February 8, 2006, Fortress purchased an additional 3,693,200 common shares at \$10 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 per share.

In January 2006, the board of directors (the "Board") and the Fortress Shareholders adopted the Aircastle Investment Limited 2005 Equity and Incentive Plan, and the Board and the Fortress Shareholders approved an amendment to and restatement thereof on July 20, 2006 (as so amended and restated, the "2005 Plan"). The purpose of the 2005 Plan is to provide additional incentive to selected management employees. The 2005 Plan provides that the Company may grant (a) share options, (b) share appreciation rights, (c) awards of restricted shares, deferred shares, performance shares, unrestricted shares or other share-based awards, or (d) any combination of the foregoing. Four million shares were reserved under the 2005 Plan, increasing by 100,000 each year beginning in 2007 through and including 2016. The 2005 Plan provides that grantees of restricted shares will have all of the rights of shareholders, including the right to

receive dividends, other than the right to sell, transfer, assign or otherwise dispose of the shares until the lapse of the restricted period. Generally, the restricted shares vest over three or five year periods based on continued service and are being expensed on a straight line basis over the requisite service period of the awards. The terms of the grants provide for accelerated vesting under certain circumstances, including termination without cause following a change of control.

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In February and March of 2006, the Board ratified the initial grants under the 2005 Plan of 347,500 restricted shares in the first half of 2005 and 25,000 restricted shares on July 5, 2005 which were provided for in certain employment contracts, and approved new grants of 412,500 restricted shares. The grants also imposed lock-up restrictions on restricted shares from the date of grant through 120 days after the date of any initial public offering, and provide for certain further restrictions and notice periods thereafter.

During the year ended December 31, 2005, a total of 372,500 restricted shares were granted at a fair value of \$8.50. The fair value of the restricted shares granted in 2005 was determined based on a retrospective valuation performed by an unrelated valuation specialist. The valuation relied on observed equity investments made by the Fortress Shareholders, adjusted to reflect the lack of marketability of the shares granted to employees.

A summary of the fair value of nonvested shares for the year ended December 31, 2006 is as follows:

	Shares (in 000's)	Weighted Average Grant Date Fair Value	Fair Value of Nonvested Shares at Grant Date
Nonvested Shares			
Nonvested at January 1, 2006	372.5	\$ 8.50	\$ 3,166
Granted	604.3	23.59	14,258
Cancelled	(4.5)	22.00	(99)
Vested	(71.0)	14.92	(1,059)
Forfeited	—	—	—
Nonvested at December 31, 2006	901.3	\$ 18.05	\$ 16,266

The fair value of the restricted shares granted in 2006 prior to the IPO was determined based on an estimate of the offering range per share from the anticipated initial public offering. The fair value of restricted shares granted in 2006 subsequent to the date of the initial public offering 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 December 31, 2005 and 2006 in the amount of \$2,757 and \$12,667, respectively is expected to be recognized over a weighted average period of four years.

In May 2006, 200,000 of the Company's common shares were purchased by a family trust of an individual who was appointed to the Board on July 20, 2006, for cash consideration of \$5 per share. In addition, certain members of our management purchased 77,000 of the Company's common shares in exchange for cash consideration in the amount of \$10 per share. The respective purchase prices of these shares were below the fair value of \$22 per share for the Company's common shares. Accordingly, the Company recorded non-cash share based payment expense of approximately \$4,324 which is recorded as selling, general and administrative expense in the accompanying consolidated statement of operations for the year ended December 31, 2006. The fair value of the Company's common shares was determined based on an estimate of the offering range per share from our initial public offering.

Note 9. Dividends

On July 20, 2006, the Board declared a dividend from cash on hand in the amount of \$0.35 per common share, or an aggregate of \$14,367 to shareholders of record on July 26, 2006, which was paid on July 31, 2006. In addition, on August 2, 2006, our Board declared a dividend of \$0.156 per common share, or an aggregate of \$6,403 to shareholders of record on August 1, 2006, which was paid on August 15, 2006. The Company paid these dividends so that holders of our common shares prior to the initial public offering would receive a distribution for the period prior to the initial public offering.

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On October 9, 2006 the Board declared a partial third quarter dividend on its common shares of \$0.194 per share, or \$9,992 to holders of record of as of October 31, 2006. This dividend was paid on November 15, 2006.

On December 13, 2006 the Board declared a fourth quarter dividend of \$0.4375 per common share, or an aggregate of \$22,584 to shareholders of record as of December 29, 2006, which was paid on January 15, 2007.

Note 10. Earnings Per Share

Aircastle is required to present both basic and diluted earnings (loss) per share ("EPS"). Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during each period. The weighted average shares outstanding exclude our unvested shares for purposes of Basic EPS. Diluted EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period while also giving effect to all potentially dilutive common shares that were outstanding during the period based on the treasury stock method. For the year ended December 31, 2005, based on the treasury stock method, we had 24,071 anti-dilutive common share equivalents resulting from restricted shares. There were no anti-dilutive common shares for the year ended December 31, 2006.

The calculations of both basic and diluted earnings (loss) per share for the period from October 29 (Commencement of Operations) to December 31, 2004, and for the years ended December 31, 2005 and 2006 are as follows:

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	For the Period from October 29 (Commencement of Operations) to December 31, 2004		Year Ended December 31	
	2005	2006	2005	2006
Numerator				
Income (loss) from continuing operations	\$ (1,465)	\$ (879)	\$ 47,807	
Earnings from discontinued operations, net of income taxes	—	1,107	3,399	
Net income (loss)	(1,465)	\$ 228	\$ 51,206	
Denominator				
Denominator for basic earnings per share	40,000,000	40,000,000	45,758,242	
Effect of dilutive restricted shares	—	(a)	293,757	
Denominator for diluted earnings per share	40,000,000	40,000,000	46,051,999	
Basic Earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.04)	\$ (0.02)	\$ 1.05	
Earnings from discontinued operations, net of income taxes	—	\$ 0.03	\$ 0.07	
Net income (loss) per share	\$ (0.04)	\$ 0.01	\$ 1.12	
Diluted Earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.04)	\$ (0.02)	\$ 1.04	
Earnings from discontinued operations, net of income taxes	—	\$ 0.03	\$ 0.07	
Net income (loss) per share	\$ (0.04)	\$ 0.01	\$ 1.11	

(a) Anti-dilutive

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Note 11. Income Taxes

Income taxes have been provided based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2016. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in or earn income in jurisdictions that impose income taxes, primarily the United States and Ireland.

The sources of income (loss) from continuing operations before income taxes for the years ended December 31, 2005 and 2006 were as follows:

	Year Ended December 31,	
	2005	2006
U.S. operations	\$ 676	\$ 1,566
Non-U.S. operations	(615)	51,201
Total	\$ 61	\$ 52,767

The components of the income tax provision from continuing operations for the year ended December 31, 2005 and 2006 consisted of the following:

	Year Ended December 31,	
	2005	2006
Current:		
United States:		
Federal	\$ 373	\$ 2,039
State	184	463
Non-U.S.	50	118
Current income tax provision	607	2,620
Deferred:		
United States:		
Federal	96	(331)
State	(26)	(66)
Non-U.S.	263	2,737
Deferred income tax provision	333	2,340
Total	\$ 940	\$ 4,960

All of our aircraft owning subsidiaries are non U.S. 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. Income earned by our non-U.S. subsidiaries that is attributable to leased aircraft used for flights to or from places within the United States are subject to U.S. federal income tax. In addition, certain of our non-U.S. subsidiaries are subject to state and local income taxes on a portion of their income as a result of aircraft used for flights to or from particular states or localities. The Company has a U.S. based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

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For the period from October 29, 2004 (commencement of operations) through December 31, 2004, the Bermuda companies sustained operating losses for which no benefit was recorded.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2005 and 2006 consisted of the following:

	December 31, 2005	December 31, 2006
Deferred tax assets:		
Non-cash share based payments	\$ 152	\$ 1,051
Net operating loss carry forwards	49	1,176
Other	6	246
Total deferred tax assets	207	2,473
Deferred tax liabilities		
Accelerated depreciation	(333)	(4,971)
Other	—	(176)
U.S. federal withholding tax on unremitted earnings	(207)	—
Total deferred tax liabilities	(540)	(5,147)
Net deferred tax liabilities	\$ (333)	\$ (2,674)

The Company had approximately \$2,836 of net operating loss carry forwards available at December 31, 2006 to offset future taxable income subject to U.S. graduated tax rates. If not utilized, these loss carryforwards expire in 2027. The company also had net operating loss carryforwards of \$723 with no expiration date to offset future Irish taxable income. Deferred tax assets and liabilities are included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated balance sheets.

We do not expect to incur income taxes on future distributions of undistributed earnings of non-U.S. subsidiaries, and, accordingly, no deferred income taxes have been provided for the distributions of such earnings. As of December 31, 2006 we have elected to permanently reinvest our accumulated undistributed U.S. earnings of \$2,548. Accordingly no U.S. withholding taxes have been provided. Withholding tax of \$764 would be due if such earnings were remitted.

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

	December 31, 2005	December 31, 2006
Notional U.S. federal income tax expense at the statutory rate:	\$ 21	\$ 18,451
U.S. state and local income tax, net	103	186
Non-U.S. operations	558	(14,209)
Non-deductible expenses in the U.S.	13	644
Other	245	(112)
Provision for income taxes	\$ 940	\$ 4,960

Note 12. Accumulated Comprehensive Income

Accumulated comprehensive income includes net income (loss), the changes in the fair value of derivatives, reclassification into earnings of amounts previously deferred relating to our derivative financial instruments and the change in unrealized appreciation of debt securities.

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The components of accumulated other comprehensive income was as follows:

	Fair Value of Derivatives	Unrealized Appreciation of Debt Securities	Accumulated Other Comprehensive Income
January 1, 2005	\$ —	\$ —	\$ —
Net change in fair value of derivatives	1,864	—	1,864
Net change in unrealized appreciation of debt securities	—	9,900	9,900
December 31, 2005	1,864	9,900	11,764
Net change in fair value of derivatives	(4,132)	—	(4,132)
Derivative gain reclassified into earnings	(2,213)	—	(2,213)
Net change in unrealized appreciation of debt securities	—	4,490	4,490
December 31, 2006	\$ (4,481)	14,390	9,909

Note 13. Commitments and Contingencies

Rent expense, primarily for the corporate office and sales and marketing facilities, was approximately \$293 and \$777 for the years ended December 31, 2005 and 2006, respectively. Amounts in 2005 include \$43 of rent expense paid to Fortress for occupancy of shared space.

As of December 31, 2006 Aircastle is obligated under non-cancelable operating leases relating principally to office facilities, for future minimum lease payments are as follows:

December 31,	Amount
2007	\$ 658
2008	666
2009	673
2010	680
2011	686
Thereafter	1,320
	\$ 4,683

At December 31, 2006, Aircastle had letters of intent to acquire six aircraft for an estimated purchase price of \$230,850. Three acquisitions were completed during first quarter of 2007, one acquisition is anticipated to be completed in during the first half of 2007, and two of the letters of intent were subsequently cancelled during the first quarter of 2007. The purchase price of the aircraft under these letters of intent is subject to variable price provisions that typically reduce the final purchase price if the actual closing occurs beyond an initially agreed upon date.

Note 14. Related Party Transactions

During 2004 and 2005, Fortress provided certain support services to Aircastle. These support services were primarily for payroll, benefits and administrative services and rent. 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 operations. Total costs of direct operating services were \$1,098 in 2004; \$311 in 2005 and \$228 in 2006.

Through December 31, 2006, Aircastle employees participated in various benefit plans sponsored by Fortress including a voluntary savings plan (“401(k) Plan”) and other health and benefit plans.

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Aircastle reimbursed Fortress \$13, \$155 and \$627 in 2004, 2005 and 2006, respectively, for its costs under the 401(k) Plan and the health and benefit plans. Aircastle also reimburses 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.

As of December 31, 2005 and 2006, \$105 and \$132, 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. 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, 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. As of December 31, 2006, we had accrued \$209 in fees due from the Fortress entity. 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.

On August 10, 2006 we acquired an aircraft from an affiliate of one of the Fortress Shareholders for a purchase price of \$11,063 which we believe represented fair value at the acquisition date.

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For the years ended December 31, 2005 and 2006, Aircastle paid \$235 and \$1,124, respectively for legal fees related to the establishment and financing activities of our Bermuda subsidiaries, and, for the years ended December 31, 2005 and 2006, Aircastle paid \$155 and \$120 for Bermuda corporate services related to our Bermuda companies to a law firm and a corporate secretarial services provider affiliated with a Bermuda resident director serving on certain of our subsidiaries' board of directors. The Bermuda resident director serves as an outside director of these subsidiaries.

Note 15. Derivatives

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate 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 securities. Similarly, our interest rate forward contracts typically provide for us to receive payment if interest rates increase and make a payment if they decrease. We held the following interest rate derivative contracts as of December 31, 2006:

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Hedged Item	Notional Amount	Effective Date	Maturity Date	Floating Rate	Fixed Rate	Fair Value of Derivative Asset or (Liability)
Securitization No. 1	\$ 549,400	Jun-06	Jun-16	1 Month LIBOR + 0.27%	5.78%	\$(15,311)
Amended Credit Facility No. 2 and Credit Facility No. 3	500,000	Mar-06	Mar-11	1 Month LIBOR	5.07%	(2,007)
Amended Credit Facility No. 2 and Credit Facility No. 3	200,000	Jan-07	Aug-07	1 Month LIBOR	5.06%	(717)
Repurchase Agreement	67,000	Feb-06	Jul-10	1 Month LIBOR	5.02%	157
Repurchase Agreement	5,000	Dec-05	Sep-09	3 Month LIBOR	4.94%	22
Repurchase Agreement	2,900	Jun-05	Mar-13	LIBOR	4.21%	134

		1 Month LIBOR	
Total	\$1,324,300		\$(17,722)

The counterparties to these agreements are highly rated financial institutions. 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.

On June 1, 2006, we entered into a series of forward contracts to hedge the variable interest rate payments on Securitization No. 1. The notional amounts of the initial forward contracts in that series start at \$560,000 with respect to the July 2006 forward contract and decrease monthly based on the projected principal payments on the certificates. The terms of the forward contracts provide for a comparison of, on average, a fixed rate of 5.78% per annum and of one-month LIBOR plus 0.27%. The aggregate fair value of the forward contracts at December 31, 2006 was a payable of \$15,311. The interest rate forward contracts are treated as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

On March 21, 2006 we entered into a series of interest rate forward contracts to hedge the variable interest rate payments on debt we expected to incur to finance aircraft acquisitions over the next year. The notional amounts of the forward contracts in that series started at \$100,000 with respect to the March 2006 forward contract and increased to a maximum of \$500,000 with respect to the December 2006 forward contract. The increase in notional amount over time reflected projected aircraft acquisitions and related borrowings through December 2006. To the extent that actual interest payments on borrowings do not match anticipated cash flows from forward contracts, we may be required to recognize additional income or expense on the forward contracts. The terms of the forward contracts provide for a comparison of, on average, a fixed rate of 5.07% per annum and of one-month LIBOR. The aggregate fair value of the forward contracts at December 31, 2006 was a payable of \$2,007. The interest rate forward contracts are treated as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

In November 2006 we entered into a \$200,000 notional interest rate swap to hedge the variable interest payments we expect to incur to finance aircraft acquisitions over the next year. The terms of the swap provide for payment of a fixed rate of 5.06% and the receipt of one month LIBOR. The aggregate fair value of the swaps at December 31, 2006 was a payable of \$717. This swap has a start date of January 15, 2007 and a mandatory termination date of August 15, 2007. We have designated this interest rate swap as a cash flow hedge for accounting purposes.

In March 2006 we designated an interest rate swap which we had entered into in February 2006 as a hedge of the future variable-rate interest payments on a repurchase agreement we executed to finance our acquisition of securities. The interest rate swap had an initial notional principal amount of

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\$74,000 and decreases periodically based on estimated projected principal payments on the securities. The interest rate swap, which matures in July 2010, requires that we make semi-annual payments of a fixed rate of 5.02% per annum and receive monthly an amount based on the one-month LIBOR rate and the then current notional principal amount. At December 31, 2006 the fair value of the swap was a receivable of \$157. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

On December 5, 2005, we entered into a four-year interest rate swap with a notional amount of \$5,000 to hedge a repurchase agreement we had entered into to finance our acquisition of securities. The swap requires that we make semi-annual fixed rate payments of 4.94% and receive quarterly floating rate payments equal to three-month LIBOR. The fair value of the swap was a (payable) receivable of (\$17) and \$22 at December 31, 2005 and 2006, respectively. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

On June 28, 2005, we entered into a seven-year interest rate swap with a notional amount of \$2.9 million to hedge a floating rate repurchase agreement we had entered into to finance our acquisition of securities. The swap requires that we make quarterly fixed rate payments at 4.21% per annum and receive monthly floating rate payments equal to one-month LIBOR. The fair value of the swap was a receivable of \$116 and \$134 at December 31, 2005 and 2006. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

During 2005, we also entered into two forward starting interest rate swaps with a total notional amount of \$600,000 to hedge the risk of interest rate fluctuations with respect to anticipated financings. The primary risk involved is that interest rates may increase between the date flight equipment is acquired and the closing of the anticipated financings. At December 31, 2005, the fair value of the \$400,000 notional swap was a receivable of \$3,492 and the fair value of the \$200,000 notional swap was a payable of (\$1,854). In June 2006, we terminated these 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 \$3,967 of these existing gains will be reclassified into earnings in the next twelve months. This amount is included in interest expense on the consolidated statements of operations.

For the years ended December 31, 2005 and 2006, we recognized ineffectiveness gains (losses) of (\$126) and \$814 related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of operations. We did not have any derivatives for the period October 29, 2004 (commencement of operations) through December 31, 2004.

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. All of our aircraft are subject to net operating leases whereby the lessee is generally

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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 securities secured by commercial jet aircraft including enhanced equipment trust certificates, or EETCs, and other forms of collateralized debt.

Information on reportable segments for the period October 29, 2004 (commencement of operations) to December 31, 2004 is as follows:

	Period October 29 to December 31, 2004		
	Aircraft Leasing	Debt Investments	Total
Revenues			
Lease rentals	\$ 78	\$ —	\$ 78
Interest income	—	—	—
Other revenue	—	—	—
Total revenues	\$ 78	—	\$ 78
Expenses			
Depreciation	390	—	390
Interest	—	—	—
Other expenses	45	—	45
Total expenses	435	—	435
Contribution Margin	\$ (357)	\$ —	\$ (357)
Segment Assets	\$ 104,981	\$ —	\$ 104,981

Information on reportable segments for the years ended December 31, 2005 and 2006 is as follows:

	Year Ended December 31, 2005			Year Ended December 31, 2006		
	Aircraft Leasing	Debt Investments	Total	Aircraft Leasing	Debt Investments	Total
Revenues						
Lease rentals	\$ 32,978	\$ —	\$ 32,978	\$ 180,080	\$ —	\$ 180,080

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Interest income	—	2,942	2,942	—	9,038	9,038
Other revenue	2	104	106	209	—	209
Total revenues	32,980	3,046	36,026	180,289	9,038	189,327
Expenses						
Depreciation	14,295	—	14,295	56,100	—	56,100
Interest	8,930	173	9,103	52,186	4,572	56,758
Other expenses	1,078	—	1,078	1,588	—	1,588
Total expenses	24,303	173	24,476	109,874	4,572	114,446
Contribution Margin	\$ 8,677	\$ 2,873	\$ 11,550	\$ 70,415	\$ 4,466	\$ 74,881
Segment Assets	\$803,418	\$27,447	\$830,865	\$1,725,765	\$129,087	\$1,854,852

Total contribution margin reported as a segment profit for reportable business segments is reconciled to income (loss) from continuing operations before income taxes for the period October 29 (Commencement of Operations) to December 31, 2004 and for the years ended December 31, 2005 and 2006 as follows:

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	2004	2005	2006
Contribution Margin	\$ (357)	\$ 11,550	\$ 74,881
Selling, general and administrative expenses	(1117)	(12,595)	(27,866)
Depreciation and other expenses	—	(258)	(529)
Interest income on cash balances	9	1,364	6,281
Income (loss) from continuing operations before income taxes	\$ (1,465)	\$ 61	\$ 52,767

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:

	December 31, 2005	December 31 2006
Segment Assets	\$ 830,865	\$ 1,854,852
Operating cash accounts	79,943	58,118

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Flight equipment held for sale	54,917	—
All other	1,807	5,733
	\$ 967,532	\$ 1,918,703

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Note 17. Quarterly Financial Data (Unaudited)

Quarterly results of our operations for the years ended December 31, 2005 and 2006 are summarized below (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Revenues	\$ 2,187	\$ 5,292	\$ 7,858	\$ 20,689
Income (loss) from continuing operations	(1,374)	(876)	(1,606)	2,977
Earnings from discontinued operations	—	—	—	1,107
Net Income (loss)	\$ (1,374)	\$ (876)	\$ (1,606)	\$ 4,084
Basic earnings (loss) per share				
Income (loss) from continuing operations	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ 0.07
Discontinued operations	—	—	—	0.03
Net income	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ 0.10
Diluted earnings (loss) per share				
Income (loss) from continuing operations	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ 0.07
Discontinued operations	—	—	—	0.03
Net income (loss)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ 0.10
2006 ⁽¹⁾				
Revenues	\$ 33,012	\$ 42,087	\$ 53,055	\$ 61,173
Income from continuing operations	7,781	5,050	15,182	19,794
Earnings from discontinued operations	3,399	—	—	—
Net Income	\$ 11,180	\$ 5,050	\$ 15,182	19,794
Basic earnings per share				
Income from continuing operations	\$ 0.19	\$ 0.12	\$ 0.32	\$ 0.39
Discontinued operations	0.08	—	—	—
Net income	\$ 0.27	\$ 0.12	\$ 0.32	\$ 0.39
Diluted earnings per share				
Income from continuing operations	\$ 0.19	\$ 0.11	\$ 0.32	\$ 0.39
Discontinued operations	0.08	—	—	—
Net income	\$ 0.27	\$ 0.11	\$ 0.32	\$ 0.39

(1) During the second quarter of 2006, we recorded compensation to a director and employees for a non-cash share based payment expense for the purchase of common shares below fair value in the amount of \$4,324. During the second quarter of 2006, we wrote off the remaining deferred financing fees in the amount of \$1,840 related to the termination of Credit Facility No 1.

The sum of the quarterly earnings per share amounts does not equal the annual amount reported since per share amounts are computed independently for each period presented.

Note 18. Subsequent Events

Aviation Asset Acquisitions

From January 1, 2007 through March 15, 2007, we acquired additional aviation assets for an aggregate purchase price of approximately \$438,387, including five aircraft associated with the

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Guggenheim Aviation Investment Fund LP (“GAIF”) transaction (see below). The acquisitions were funded with borrowings under our credit facilities. At March 15, 2007, all of the purchased aircraft are subject to operating leases.

As of March 15, 2007, Aircastle had binding letters of intent to additional aviation assets with an estimated purchase price of \$107,450. In addition, on January 22, 2007 Aircastle entered into a definitive purchase agreement with GAIF to purchase 38 aircraft for an aggregate purchase price of approximately \$1,594,950. As of March 15, 2007 Aircastle had acquired five of these aircraft, which are included in the eight total acquired aviation assets above, for a purchase price of approximately \$258,751, leaving the remaining 33 to be acquired at an aggregate purchase price of approximately \$1,336,199. The GAIF aircraft will be purchased in a series of closings scheduled to occur through February 2009. The closing of each purchase is contingent on the seller meeting certain conditions precedent. The Company expects that all of the non-GAIF aircraft will be acquired during the first and second quarters of 2007. The purchase price of certain of the aircraft is subject to variable price provisions that typically reduce the final purchase price if the actual closing occurs beyond an initially agreed upon date.

Shareholders' Equity

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 \$1,550 in offering expenses, were \$492,844. \$473,074 of the net proceeds was used to repay borrowings under Amended Credit Facility No. 2 and the Revolving Credit Facility as of January 31, 2007. The remainder of the net proceeds were used for other general corporate purposes.

On March 14, 2007, the Board declared a first quarter dividend of \$0.50 per Common Share, or an aggregate of \$33,634 payable on April 13, 2007 to the shareholders of record as of March 30, 2007.

Financing

On January 22, 2007, the \$1,000,000 Amended Credit Facility No. 2 was amended to increase the maximum committed amount to \$1,250,000; provided that such amount will reduce to \$1,000,000 on the earlier of (1) the closing of our next securitization financing or (2) June 30, 2007 (or, if we pay a commitment fee to the lenders, December 31, 2007).

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

On January 23, 2007, we entered into three interest rate swaps with a combined notional amount of \$920,000 to hedge the variable interest payments on debt we expect to incur to finance aircraft acquisitions over the next several years. The terms of the swap provide for payment of a fixed rate of 5.14%, 5.14% and 5.16%, respectively, and receipt of one-month LIBOR on the notional amount. These swaps have a start date of February 15, 2007, July 15, 2007 and January 15, 2008, respectively, a termination date of April 15, 2017, December 15, 2017 and February 15, 2019, respectively, and an mandatory early termination date of August 15, 2007, August 15, 2008 and February 15, 2009, respectively. We have designated these interest rate swaps as cash flow hedges for accounting purposes.

On January 26, 2007, Credit Facility No. 3 was amended to extend the maturity date from March 31, 2007 to the earlier of September 30, 2007 or the closing of the next securitization.

At December 31, 2006, two of the repurchase agreements totaling \$75.0 million matured on March 1, 2007 and were subsequently extended to March 1, 2008; and one of the repurchase agreements for \$5.9 million matured on March 12, 2007 and was subsequently extended to September 12, 2007.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Aircastle Limited has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 21, 2007

Aircastle Limited
By: /s/ Ron Wainshal
Ron Wainshal
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Aircastle Limited and in the capacities and on the date indicated.

SIGNATURE

TITLE

DATE

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/s/ Ron Wainshal Ron Wainshal	Chief Executive Officer	March 21, 2007
/s/ Mark Zeidman Mark Zeidman	Chief Financial Officer	March 21, 2007
/s/ Aaron Dahlke Aaron Dahlke	Chief Accounting Officer	March 21, 2007
/s/ Wesley R. Edens Wesley R. Edens	Chairman of the Board	March 21, 2007
/s/ Joseph P. Adams, Jr. Joseph P. Adams, Jr.	Deputy Chairman of the Board	March 21, 2007
/s/ Ronald W. Allen Ronald W. Allen	Director	March 21, 2007
/s/ Douglas A. Hacker Douglas A. Hacker	Director	March 21, 2007
/s/ John Z. Kukral John Z. Kukral	Director	March 21, 2007
/s/ Ronald L. Merriman Ronald L. Merriman	Director	March 21, 2007
/s/ Peter V. Ueberroth Peter V. Ueberroth	Director	March 21, 2007

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