

Aircastle LTD  
Form 10-K/A  
November 17, 2008



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

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 29, 2007 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately \$988.6 million. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 21, 2008, there were 78,560,176 outstanding shares of the registrant's common shares, par value \$0.01 per share.

### DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion of Documents Are Incorporated
<b>Proxy Statement for Aircastle Limited 2008 Annual General Meeting of Shareholders</b>	<b>Part III (Items 10, 11, 12, 13 and 14)</b>

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**EXPLANATORY NOTE REGARDING THIS FORM 10-K/A**

Aircastle Limited (the Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2007, originally filed with the Securities and Exchange Commission (SEC) on February 28, 2008 (the original Form 10-K), to amend and restate its consolidated statements of cash flows for the years ended December 31, 2005 through December 31, 2007 and its applicable selected financial data for the years ended December 31, 2004 through December 31, 2007.

The Company identified a misstatement in its consolidated statements of cash flows with regards to the presentation of non-cash activities related to security deposits, maintenance payments and lease rentals received in advance that were assumed from sellers when aircraft were acquired. In certain cases, the amount of these assumed liabilities were offset against the cash paid for the aircraft. However, in preparing the consolidated statements of cash flows, the Company included these assumed liabilities in the amount presented as cash paid for the acquisition and improvement of flight equipment in the investing section of its consolidated statements of cash flows. In addition, the Company included these assumed liabilities in the amounts presented as changes in security deposits and maintenance payments and lease rentals received in advance in the operating section of its consolidated statements of cash flows. After a re-evaluation, management concluded that it would be more appropriate to disclose security deposits, maintenance liabilities and lease rentals received in advance assumed in asset acquisitions as non-cash activities and to present the actual cash paid for the aircraft as cash outflows for the acquisition and improvement of flight equipment in the investing section of the consolidated statements of cash flows.

In addition, the Company had decided to reclassify the cash flow activities related to security deposits and maintenance payments collected from and returned to its lessees from the operating section to the financing section of the consolidated statements of cash flows to better reflect the nature of these activities.

The misstatement and reclassification had no impact on the Company's previously reported consolidated balance sheets, consolidated statements of income, including net income and earnings per share, consolidated statements of changes in shareholders' equity or cash balances for any period.

This Form 10-K/A includes new certifications as exhibits 31.1, 31.2, 32.1 and 32.2 by our principal executive officer and principal financial officer as required by Rules 12b-15 and 13a-14 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Except for the amended disclosure and reclassification described above, the information in this Form 10-K/A has not been updated to reflect events that occurred after February 28, 2008, the filing date of our original Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-K, including any amendments to those filings. The following information has been updated to give effect to the restatement:

Part II Item 6 Selected Financial Data

Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8 Financial Statements

Part II Item 9A Controls and Procedures

Part IV Item 15 Exhibits and Financial Statement Schedules

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**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following information has been adjusted to reflect the restatement and reclassification of our consolidated statements of cash flows which is more fully described in the Explanatory Note on page 1 and Note 20, *Restatement and Reclassification of Previously Issued Financial Statements* located in the Consolidated Financial Statements elsewhere in this Annual Report. The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and with the consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report.

	<b>Period from October 29, (Commencement of Operations) Through December 31, 2004</b>				<b>Year Ended December 31, 2005</b>				<b>2006</b>				<b>2007</b>			
	<b>(Dollars in thousands, except per share data)</b>															
<b>Selected Financial Data:</b>																
Consolidated Statements of Operation:																
Total revenues	\$	78	\$	31,638	\$	182,852	\$	381,091								
Selling, general and administrative expenses		1,117		12,493		27,836		39,040								
Depreciation		102		11,286		53,424		126,403								
Interest (income) expense, net		(9)		6,846		49,566		92,660								
Income (loss) from continuing operations		(1,143)		(803)		45,920		114,403								
Discontinued operations		(322)		1,031		5,286		12,941								
Net income (loss)		(1,465)		228		51,206		127,344								
Basic income (loss) per share:																
Income (loss) from continuing operations	\$	(0.03)	\$	(0.02)	\$	1.00	\$	1.71								
Discontinued operations	\$	(0.01)	\$	0.03	\$	0.12	\$	0.19								
Net income (loss)	\$	(0.04)	\$	0.01	\$	1.12	\$	1.90								
Diluted income (loss) per share:																
Income (loss) from continuing operations	\$	(0.03)	\$	(0.02)	\$	1.00	\$	1.70								
Discontinued operations	\$	(0.01)	\$	0.03	\$	0.11	\$	0.19								
Net income (loss)	\$	(0.04)	\$	0.01	\$	1.11	\$	1.89								
Cash dividends declared per share						1.1375		2.45								
<b>Other Operating Data:</b>																
EBITDA <sup>(1)</sup>	\$	(1,020)	\$	19,003	\$	149,349	\$	333,745								
<b>Consolidated Balance Sheet Data:</b>																
Flight equipment held for lease, net of accumulated depreciation	\$	61,679	\$	712,092	\$	1,559,365	\$	3,807,116								
Debt investments, available for sale				26,907		121,273		113,015								
Total assets		104,981		967,532		1,918,703		4,427,642								
Borrowings under credit facilities				490,588		442,660		798,186								
Borrowings under securitizations						549,400		1,677,736								

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	<b>Period from October 29, (Commencement of Operations) Through December 31, 2004</b>				<b>Year Ended December 31, 2005</b>				<b>2006</b>				<b>2007</b>							
	<b>(Dollars in thousands, except per share data)</b>																			
Repurchase agreements																				
Shareholders' equity	99,235				410,936				637,197					1,294,577						
<b>Other Data:</b>																				
Number of Aircraft (at the end of period)	2				31				68					133						
Total debt to total capitalization	N/A				54.9%				62.8%					66.3%						
<b>Consolidated Statements of Cash Flows:</b>																				
					<b>(Restated)</b>				<b>(Restated)</b>				<b>(Restated)</b>					<b>(Restated)</b>		
Cash flows (used in) provided by operations	\$ (194)				\$ (20,974)				\$ 42,712				\$ 200,210					\$ (2,369,796)		
Cash flows used in investing activities	(92,921)				(710,317)				(858,002)											
Cash flows provided by financing activities	93,115				811,234				793,465					2,125,014						

(1) EBITDA is a measure of operating performance that is not calculated in accordance with GAAP. EBITDA should not be considered a substitute for net income, income from operations or cash flows provided by or used in operations, as determined in accordance with GAAP. EBITDA is a key measure of our operating

performance used by management to focus on consolidated operating performance exclusive of income and expense that relate to the financing and capitalization of the business.

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense and depreciation and amortization.

We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-GAAP measure, is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate



meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results.

The table below shows the reconciliation of net income (loss) to EBITDA for the period October 29 through December 31, 2004 and the years ended December 31, 2005, 2006 and 2007.

	<b>Period from October 29, (Commencement of Operations) Through December 31, 2004</b>	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Net income (loss)	\$ (1,465)	\$ 228	\$ 51,206	\$ 127,344

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Depreciation	102	11,286	53,424	126,403
Amortization of lease premiums (discounts)	30	734	(4,406)	(7,379)
Interest, net	(9)	6,846	49,566	92,660
Income tax provision		940	4,845	7,658
(Earnings) loss from discontinued operations, net of income taxes	322	(1,031)	(5,286)	(12,941)
EBITDA	\$ (1,020)	\$ 19,003	\$ 149,349	\$ 333,745

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information has been adjusted to reflect the restatement and reclassification of our consolidated statements of cash flows which is more fully described in the Explanatory Note on page 1 and Note 20, Restatement and Reclassification of Previously Issued Financial Statements located in the Consolidated Financial Statements elsewhere in this Form 10-K/A.

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with Item 6 Selected Financial Data and our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under Item 1A. Risk Factors in the Company's September 30, 2008 Quarterly Report on Form 10-Q filed on the date hereof, and elsewhere in this report. Please see Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 in the Company's September 30, 2008 Quarterly Report on Form 10-Q filed on the date hereof, for a discussion of the uncertainties, risks and assumptions associated with these statements. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP, and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with GAAP. Unless otherwise indicated, all references to dollars and \$ in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

**OVERVIEW**

We are a global company that acquires 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 December 31, 2007, our aircraft portfolio consisted of 133 aircraft that were leased to 58 lessees located in 31 countries, including two aircraft being converted to freighter configuration which are subject to leases that will commence upon completion of the conversions, and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although, in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. We also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. As of February 21, 2008, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$4.2 billion and \$1.5 billion, respectively, for a total of approximately \$5.7 billion. Our revenues and income from continuing operations for the year ended December 31, 2007 were \$381.1 million and \$114.4 million, respectively. For the fourth quarter of 2007, our revenues and income from continuing operations were \$120.7 million and \$33.9 million, respectively.

We intend to pay regular quarterly dividends to our shareholders and plan to grow our dividends per share through the acquisition of additional aviation assets using cash on hand and available credit facilities. We expect to finance our acquisitions on a long-term basis using cost effective debt structures such as non-recourse securitizations or similar bank market financings. Securitizations and similarly structured bank market financings allow companies to raise long-term capital by pledging cash flows of an asset pool, such as aircraft leases. In June 2006, we closed our first securitization, which we refer to as Securitization No. 1, a \$560.0 million transaction comprising 40 aircraft and related leases, which we refer to as Portfolio No. 1. In June 2007, we closed our second securitization, which we refer to as Securitization No. 2, a \$1.17 billion transaction comprising 59 aircraft and related leases, which we refer to as Portfolio No. 2. We expect that long-term debt to refinance our short-term borrowings and to fund additional investments would also be available to us in the secured bank debt market under a broadly similar security structure.

**Segments**

We manage our business and analyze and report our results of operations on the basis of 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

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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 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 December 31, 2007, our portfolio consisted of 133 aircraft with 58 lessees in 31 countries, including two aircraft being converted to freighter configuration which are subject to leases that will commence upon completion of the conversions, with a net book value of \$3.80 billion. The weighted average (by net book value) age of the aircraft in the portfolio from the date of original delivery by manufacturer to December 31, 2007, was 10.2 years. The weighted average (by net book value) remaining lease term for aircraft we owned at December 31, 2007 was 5.0 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 investments secured by aircraft with a fair value of \$121.3 million. During the year ended December 31, 2007, we made one additional investment in debt investments secured by aviation assets. At December 31, 2007, our debt investment portfolio consisted of seven such debt investments with a fair value of \$113.0 million. In February 2008, we sold two of our debt investments for \$65.3 million, plus accrued interest. We repaid the outstanding balance of \$52.3 million, plus accrued interest, under the related repurchase agreement. Additionally, we terminated the related interest rate swap and paid breakage fees and accrued interest of approximately \$1.0 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 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.

Revenues in our Aircraft Leasing segment for the years ended December 31, 2006 and 2007 were \$173.8 million and \$370.7 million, respectively. Our revenues increased significantly from 2006 to 2007 primarily as a result of continued aircraft acquisitions during 2007 which caused our aircraft fleet to grow from 68 aircraft at December 31, 2006, to 133 aircraft at December 31, 2007, all of which were on lease or in freighter conversion.

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 year ended December 31, 2006 were \$9.0 million as compared to \$10.4 million for the year ended December 31, 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 with revenue growth. We also expect that SG&A will decline as a percentage of our segment assets and of our revenues as we leverage our existing infrastructure over a greater revenue base.

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

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries own aircraft that operate to, from or within the U.S. and therefore may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

### **History**

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

### **Acquisitions and Dispositions**

Our financial results are impacted by the timing and size of acquisitions and dispositions we complete. As of February 21, 2008, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$4.2 billion and \$1.5 billion, respectively, or a total of approximately \$5.7 billion.

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 and is predicated on sourcing investments we believe to be accretive to shareholders. 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 January 22, 2007, we entered into the GAIF Acquisition Agreement, pursuant to which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately \$1.595 billion, subject to certain agreed adjustments. 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. For certain of the aircraft, we agreed to make accelerated payments to the relevant sellers and acquire their rights 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. We acquired 28 aircraft in 2007 related to this transaction, and of the remaining eight aircraft, we expect to acquire seven in 2008 and one in February 2009. We have made accelerated payments to the relevant GAIF seller in relation to certain of the aircraft remaining to be delivered in 2008 and 2009.

On June 20, 2007, we entered into the Airbus A330F Agreement, under which we agreed to acquire from Airbus fifteen new A330-200F freighter aircraft, or the New A330F Aircraft. Pre-delivery payments for each aircraft are payable to Airbus and are refundable to us only in limited circumstances. We agreed to separate arrangements with Rolls-Royce PLC, or Rolls-Royce, and Pratt & Whitney, or P&W, pursuant to which we committed to acquire aircraft engines for the New A330F Aircraft. We agreed to acquire six shipsets of Trent 772B engines from Rolls-Royce 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 New A330F Aircraft are scheduled for delivery between June 2010 and November 2011, with five



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scheduled for delivery in 2010. Under limited circumstances, we have the right to change certain delivery positions from A300-200F freighter configuration aircraft to A330-200 passenger configuration aircraft.

The following table sets forth certain information with respect to the aircraft acquired or to be acquired by us as of December 31, 2007:

**AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)**

	<b>Owned</b>	<b>Aircraft Committed to be Acquired as of</b>	
	<b>Aircraft as of December 31, 2007<sup>(1)</sup></b>	<b>December 31, 2007<sup>(2)(5)</sup></b>	<b>Total</b>
Flight Equipment Held for Lease	\$ 3,807	\$ 363	\$4,170
Number of Aircraft	133	8	141
Number of Lessees	58	4	61
Number of Countries	31	3	32
Weighted Average Age Passenger (years) <sup>(3) (6)</sup>	10.0	17.1	10.2
Weighted Average Age Freighter (years) <sup>(3) (6)</sup>	10.9		7.9
Weighted Average Age Combined (years) <sup>(3) (6)</sup>	10.2	3.7	9.7
Weighted Average Remaining Passenger Lease Term (years) <sup>(4)</sup> <sup>(6)</sup>	4.2	5.0	4.2
Weighted Average Remaining Cargo Lease Term (years) <sup>(4) (6)</sup>	8.7	11.0	9.3
Weighted Average Remaining Combined Lease Term (years) <sup>(4) (6)</sup>	5.0	9.7	5.5

(1) Calculated using net book value.

(2) Excludes 15 Airbus Model A330-200F scheduled for delivery between June 2010 and November 2011.

(3) Weighted average age (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of December 31, 2007. The age of

any aircraft not yet acquired is measured as of its expected acquisition date.

- (4) 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 December 31, 2007. Remaining lease term for any aircraft not yet acquired is measured as of the expected acquisition date.
- (5) Calculated using base purchase price which represents the purchase price subject to certain agreed upon adjustments.
- (6) Two Boeing Model 747-400 aircraft being converted to freighter configuration are included as Freighter aircraft and because we have executed post-conversion leases for these aircraft, we measure the remaining lease term for these aircraft on the

basis of their  
respective  
ten-year  
post-conversion  
leases. Two  
Boeing Model  
747-400 aircraft  
currently on  
short-term leases  
in passenger  
configuration are  
included as  
Passenger  
aircraft; the  
remaining lease  
term for one of  
these aircraft, for  
which we have  
an executed lease  
post-conversion,  
is measured  
based on the  
ten-year term of  
that  
post-conversion  
lease, while the  
remaining lease  
term for the other  
is measured  
based on the  
2008 expiry date  
on the existing  
short-term  
passenger  
configuration  
lease.

Our owned aircraft portfolio as of December 31, 2007 is listed in Exhibit 99.1 in the original Form 10-K. Approximately 86% of the aircraft we owned as of December 31, 2007 are what we consider to be the most current technology for the relevant airframe and engine type and airframe size, as listed under the headings Latest Generation Narrowbody Aircraft, Latest Generation Midbody Aircraft, Latest Generation Widebody Aircraft and Latest Generation Widebody Freighter Aircraft in Exhibit 99.1 in the original Form 10-K.

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<b>Aircraft Type</b>	<b>Owned Aircraft as of December 31, 2007</b>		<b>Aircraft Committed to be Acquired as of December 31, 2007<sup>(1)</sup></b>		<b>Total % of Net Book Value  plus Base Purchase</b>	
	<b>Number of Aircraft</b>	<b>% of Net Book Value</b>	<b>Number of Aircraft</b>	<b>% of Base Purchase Price<sup>(2)</sup></b>	<b>Number of Aircraft</b>	<b>Price</b>
<b>Passenger:</b>						
Narrowbody	92	51%	6	21%	98	48%
Midbody	24	25%		%	24	23%
Widebody	3	5%		%	3	4%
<b>Total Passenger</b>	<b>119</b>	<b>81%</b>	<b>6</b>	<b>21%</b>	<b>125</b>	<b>75%</b>
Freighter <sup>(4)</sup>	14	19%	2	79%	16	25%
<b>Total</b>	<b>133</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>141</b>	<b>100%</b>
<b>Manufacturer</b>						
Boeing	93	65%	2	79%	95	66%
Airbus	40	35%	6	21%	46	34%
<b>Total</b>	<b>133</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>141</b>	<b>100%</b>
<b>Lessee Diversification</b>						
Top Five Lessees <sup>(5)</sup>	34	28%	8	100%	28	28%
<b>Regional Diversification</b>						
Europe <sup>(6)</sup>	65	47%	1	39%	66	47%
Asia <sup>(7)</sup>	35	27%	6	22%	41	26%
North America <sup>(8)</sup>	13	10%		%	13	9%
Latin America	12	7%		%	12	7%
Middle East and Africa	8	9%	1	39%	9	11%
<b>Total</b>	<b>133</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>141</b>	<b>100%</b>

(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) Two Boeing Model 747-400 aircraft currently on short-term leases in passenger configuration are included as  
Passenger aircraft.
- (4) Two Boeing Model 747-400 aircraft being converted to freighter configuration are included as  
Freighter aircraft.
- (5) Our top five customers for aircraft we owned and were committed to acquire as of December 31, 2007, in order of declining exposure, are  
Martinair  
Holland N.V.,  
Emirates, US  
Airways Inc.,

Sterling Airlines  
A/S. and Iberia  
Lineas Aereas de  
Espana, S.A. No  
individual  
customer  
accounted for  
more than 8% of  
net book value.

(6) Includes one  
Boeing Model  
747-400 aircraft  
being converted  
to freighter  
configuration for  
which we have  
an executed  
lease  
post-conversion  
with a carrier in  
Europe.

(7) Includes two  
Boeing Model  
747-400 aircraft  
currently on  
short-term lease  
in passenger  
configuration to  
airlines in Asia.  
These aircraft  
will be converted  
to freighter  
configuration in  
2008 and 2009  
and we have  
executed a lease  
with a carrier in  
North America  
for one of these  
aircraft  
post-conversion.

(8) Includes one  
Boeing Model  
747-400 aircraft  
being converted  
to freighter  
configuration for  
which we have

an executed  
lease  
post-conversion  
with a carrier in  
North America.

**Finance**

A key aspect of our growth strategy is our flexible capital structure 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 committed short-term credit arrangements and cash on hand. We believe our ability to execute acquisitions expeditiously and without financing 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 credit facilities from banks.

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We intend to continue funding aircraft acquisitions initially through borrowings under our short-term credit facilities, and to repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings and additional equity offerings. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive. Given our existing commitments and the potential volume of aircraft acquisitions, we expect to execute additional securitizations, other long-term debt financing and/or additional equity offerings during the course of the next 12 months. We also intend to extend, modify or replace our short-term credit facilities in 2008. However, the level of new investment activity and, in turn, financing requirements will be driven by the attractiveness of new investment opportunities available in the marketplace and financial market conditions. 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. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities, Securitizations, and Equity Offerings.

***Comparison of the year ended December 31, 2006 to the year ended December 31, 2007******Revenues and Contribution Margin***

Revenues and contribution margin by segment is set forth in the tables below. See Note 16 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:

<b>(Dollars in thousands)</b>	<b>Year Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
Revenues:		
Lease rentals	\$ 173,605	\$ 369,876
Other revenues	209	815
Total revenues	173,814	370,691
Expenses:		
Depreciation	52,895	125,762
Interest	51,194	100,882
Other expenses	1,261	927
Total expenses	105,350	227,571
Contribution margin	\$ 68,464	\$ 143,120

For the year ended December 31, 2006, the contribution margin of our Aircraft Leasing segment was \$68.5 million on \$173.8 million of revenues. At December 31, 2006, we owned 68 aircraft held for lease, all of which were on-lease.

For the year ended December 31, 2007, the contribution margin of our Aircraft Leasing segment was \$143.1 million on \$370.7 million of revenues. At December 31, 2007, we owned 133 aircraft held for lease, all of which were on-lease or in freighter conversion. Aircraft leasing revenue of \$370.7 million, depreciation expense of \$125.8 million, and interest expense of \$100.9 million all increased relative to the year ended December 31, 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:

<b>(Dollars in thousands)</b>	<b>Year Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
Revenues:		
Interest income	\$ 9,038	\$ 10,400
Other revenues		
Total revenues	9,038	10,400
Expenses:		
Interest	4,572	4,017
Total expenses	4,572	4,017
Contribution margin	\$ 4,466	\$ 6,383

For the year ended December 31, 2006, the contribution margin of our Debt Investments segment was \$4.5 million on \$9.0 million of revenues. At December 31, 2006, we owned \$121.3 million of debt investments with \$14.4 million of unrealized gains as reflected in accumulated other comprehensive income at December 31, 2006.

For the year ended December 31, 2007, the contribution margin of our Debt Investments segment was \$6.4 million on \$10.4 million of revenues. At December 31, 2007, we owned \$113.0 million of debt investments with \$10.8 million of unrealized gains as reflected in accumulated other comprehensive loss at December 31, 2007.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses, or SG&A, consists of personnel costs, professional fees and other expenses. SG&A as a percentage of total segment assets was 0.9% for the year ended December 31, 2007, as compared with 1.5% for the same period in 2006. We expect SG&A as a percentage of total segment assets to continue to decrease as we grow our segment assets. SG&A increased \$11.2 million for the year ended December 31, 2007, as compared with the same period in 2006. The increase was due to an increase of \$8.7 million in personnel costs, consisting primarily of salary and non-cash share based payments, as the number of employees increased from 45 at December 31, 2006, to 69 at December 31, 2007, an increase in professional fees of \$2.7 million, consisting primarily of auditing and tax compliance fees, and a decrease in other expenses. Non-cash share based payment expense of \$6.7 million in 2007 included \$1.7 million of compensation resulting from the acceleration of unvested shares previously granted to a former employee. Non-cash share based payment expense of \$8.9 million in 2006 included \$3.4 million in compensation to a director for the purchase of common shares below fair value.

**Income Tax Provision**

Our provision for income taxes for the years ended December 31, 2006 and 2007 was \$4.8 million and \$7.7 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of approximately \$2.9 million from December 31, 2006 to December 31, 2007 was primarily attributable to the increase in our operating revenue subject to tax in Ireland and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries own aircraft that operate to, from or within the U.S. and therefore may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

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

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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.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and *Interpretation of FASB Statement No. 109* ( FIN 48 ), effective 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. 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 the adoption of FIN 48.

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 year. See Note 11 to our consolidated financial statements.

**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 activities were classified as discontinued operations. No depreciation expense was recorded on this aircraft. The aircraft was sold on March 29, 2006 for a \$2.2 million gain and the related debt in the amount of \$36.7 million was repaid on March 30, 2006.

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 an \$11.6 million gain. The operating activities of this aircraft have been reflected in discontinued operations for all periods presented and the aircraft is presented as flight equipment held for sale at both December 31, 2005 and 2006.

Earnings from discontinued operations for the years ended December 31, 2006, and 2007 related solely to the two aircraft held for sale, were as follows:

	<b>Year Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
Earnings from discontinued operations:		
Lease rentals	\$ 8,610	\$ 2,364
Depreciation	(3,532)	(761)
Gain on disposition	2,240	11,566
Interest expense	(1,439)	
Other expenses	(30)	(185)
Earnings from discontinued operations before income tax provision	5,849	12,984
Income tax provision	(563)	(43)
Earnings from discontinued operations, net of income taxes	\$ 5,286	\$ 12,941

***Comparison of the year ended December 31, 2005 to the year ended December 31, 2006***  
***Revenues and Contribution Margin***

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

**Table of Contents****Aircraft Leasing**

Aircraft Leasing revenues and contribution margin were as follows:

<b>(Dollars in thousands)</b>	<b>Year Ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
Revenues:		
Lease rentals	\$ 28,590	\$ 173,605
Other revenues	2	209
Total revenues	28,592	173,814
Expenses:		
Depreciation	11,121	52,895
Interest	7,999	51,194
Other expenses	783	1,261
Total expenses	19,903	105,350
Contribution margin	\$ 8,689	\$ 68,464

For the year ended December 31, 2005, the contribution margin of our Aircraft Leasing segment was \$8.7 million on \$28.6 million of revenues. At December 31, 2005, we owned 31 aircraft held for lease, all of which were on-lease.

For the year ended December 31, 2006, the contribution margin of our Aircraft Leasing segment was \$68.5 million on \$173.8 million of revenues. At December 31, 2006, we owned 68 aircraft held for lease, all of which were on-lease. Aircraft leasing revenue of \$173.8 million, depreciation expense of \$52.9 million, interest expense of \$51.2 million and other expenses of \$1.3 million all increased relative to the year ended December 31, 2005 due to the increase in the size of our aircraft portfolio.

**Debt Investments**

Debt Investment revenues and contribution margin were as follows:

<b>(Dollars in thousands)</b>	<b>Year Ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
Revenues:		
Interest income	\$ 2,942	\$ 9,038
Other revenues	104	
Total revenues	3,046	9,038
Expenses:		
Interest	173	4,572
Total expenses	173	4,572
Contribution margin	\$ 2,873	\$ 4,466

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For the year ended December 31, 2005, the contribution margin of our Debt Investments segment was \$2.9 million on \$3.0 million of revenues. At December 31, 2005, we owned \$26.9 million of debt investments with \$9.9 million of unrealized gains as reflected in accumulated other comprehensive income at December 31, 2005.

For the year ended December 31, 2006, the contribution margin of our Debt Investments segment was \$4.5 million on \$9.0 million of revenues. At December 31, 2006, we owned \$121.3 million of debt investments with \$14.4 million of unrealized gains as reflected in accumulated other comprehensive income at December 31, 2006.

**Table of Contents****Selling, General and Administrative Expenses**

SG&A consists of personnel costs, professional fees and other expenses. SG&A as of percentage of total segment assets was 1.5% for the year ended December 31, 2006, as compared with 1.6% for the same period in 2005. SG&A increased \$15.3 million for the year ended December 31, 2006, as compared with the same period in 2005. The increase was due to an increase of \$11.7 million in personnel costs, consisting primarily of salary and non-cash share based payments, as the number of employees increased from 29 at December 31, 2005, to 45 at December 31, 2006, an increase in professional fees of \$1.0 million, consisting primarily of auditing and tax compliance fees, and increases in rent, insurance, travel and other expenses of \$2.6 million. Non-cash share based payment expense in 2006 was \$8.9 million, including \$3.4 million in compensation to a director for the purchase of common shares below fair value. Non-cash share based payment expense in 2005 was \$0.4 million.

**Income Tax Provision**

Our provision for income taxes for the years ended December 31, 2005 and 2006 was \$0.9 million and \$4.8 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States.

**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 activities were classified as discontinued operations. No depreciation expense was recorded on this aircraft. The aircraft was sold on March 29, 2006 for a \$2.2 million gain and the related debt in the amount of \$36.7 million was repaid on March 30, 2006.

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 an \$11.6 million gain. The operating activities of this aircraft have been reflected in discontinued operations for all periods presented and the aircraft is presented as flight equipment held for sale at both December 31, 2005 and 2006.

Earnings from discontinued operations for the years ended December 31, 2005 and 2006 related solely to the two aircraft held for sale were as follows:

	<b>Year Ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
Earnings from discontinued operations:		
Lease rentals	\$ 6,014	\$ 8,610
Depreciation		(3,532)
Gain on disposition	(3,469)	2,240
Interest expense	(102)	(1,439)
Other expenses	(1,297)	(30)
Earnings from discontinued operations before income tax provision	1,146	5,849
Income tax provision	(115)	(563)
Earnings from discontinued operations, net of income taxes	\$ 1,031	\$ 5,286

**APPLICATION OF CRITICAL ACCOUNTING POLICIES**

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





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our financial condition and results and require our most subjective judgments, estimates and assumptions. Our most critical accounting policies and estimates are described below.

**Lease Revenue Recognition**

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

**Income and Valuation of Debt Investments**

Income on debt investments is recognized using the effective interest method. Certain investments which represent a residual interest 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 receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data and market changes. These uncertainties and contingencies are difficult to predict and are subject to future events and economic and market conditions, which may alter the assumptions. We have classified our investments in debt investments as available for sale or held to maturity. As such, debt investments available for sale are carried at fair value with any net unrealized gains and losses reported as a component of accumulated other comprehensive income. Fair value is based primarily upon broker quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. These quotations are subject to significant variability based on market conditions, such as interest rates and credit spreads. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in our results of operations and financial position. At December 31, 2007, our portfolio of debt investments available for sale had a net unrealized gain.

**Maintenance Payments**

Under an operating lease, the lessee is typically required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the 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.

In addition, many of our leases contain provisions which may require us to pay a portion of such costs in excess of the amounts paid to us by the lessee on a monthly basis, although the timing of the maintenance, overhaul or replacement of the relevant components and the actual cost of the work will determine the portion of the excess, if any, we must pay. As part of our due diligence review of each aircraft we purchase, we prepare an estimate of the expected maintenance payments and any excess costs which may become payable by us, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

We record maintenance payments paid by the lessee as accrued maintenance liabilities 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 accrued maintenance liability. We defer income recognition of all maintenance reserve



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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 in performing scheduled maintenance.

**Flight Equipment Held for Lease**

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

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

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

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

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

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

Our flight equipment held for lease is evaluated for impairment when events and circumstances indicate that the assets may be impaired. Indicators include 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.

**Derivative Financial Instruments**

In the normal course of business we utilize derivative instruments to manage our exposure to interest rate risks. We account for derivative instruments in accordance with Statement of Financial Accounting Standards, or SFAS, No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, or SFAS No. 133. In accordance with SFAS No.133, all derivatives are recognized on the balance sheet at their fair value. We obtain the values on a quarterly basis from the counterparty of the derivative contracts. When hedge treatment is achieved under SFAS No.133, the changes in fair values related to the effective portion of the derivatives are recorded in other comprehensive income or in income, depending on the designation of the derivative as a cash flow hedge. The ineffective portion of the derivative contract is calculated and recorded in income at each quarter end.

At inception of the hedge, we choose a method of ineffectiveness calculation, which we must use for the life of the contract. For a majority of our hedges, we use the change in variable cash flows method for calculation of hedges not considered to be perfectly effective. In the case of swap transactions, the calculation involves a comparison of the present value of the cumulative change in the expected future cash flows on the variable leg of the swap and the present value of the cumulative change in the expected future interest cash flows on the floating-rate liability. The difference is the calculated ineffectiveness and is recorded in income.

We use the hypothetical trade method for hedges that do not qualify for the change in variable cash flow method under SFAS No.133. The calculation involves a comparison of the change in the fair value of a hypothetical

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trade to the change in the fair value of the hedge. The difference is the calculated ineffectiveness and is recorded in income as a component of interest expense.

**Share Based Payments**

Compensation costs relating to share based payments are recognized based on the fair value of the equity instruments issued in accordance SFAS No. 123(R), *Share-Based Payment*. We use the straight line method of accounting for compensation cost on share based payment awards that contain pro-rata vesting provisions, net of estimated forfeitures. Prior to our initial public offering, the fair value of the equity instruments was determined based on a valuation which took into account various assumptions that were subjective. Such assumptions involved projecting our earnings through the date of the anticipated initial public offering to develop an estimated annualized rate of earnings and annualized earnings and dividends per share. Key assumptions used in developing the projection included expected monthly acquisition volume through the date of the initial public offering, leverage and interest costs, revenues from new aircraft acquisitions and the growth of selling, general and administrative expenses. Compensation costs relating to share based payments recognized subsequent to the initial public offering are measured based upon the market price of our common shares at the grant date.

**Income Taxes**

Aircastle provides for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes*, or 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.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, or FIN 48, effective 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. 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 the adoption of FIN 48.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued statement No. 157, *Fair Value Measurements*, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company is subject to the provisions of SFAS 157 beginning January 1, 2008. The Company has not yet determined whether SFAS 157 will have a material impact on its financial condition, results of operations, or cash flow. However, the Company believes it will likely be required to provide additional disclosures as part of future financial statements, beginning with first quarter 2008.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). Statement 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe Statement 159 will result in a material adverse effect on its financial condition, results of operations, or cash flow.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*, or SFAS No. 141(R). SFAS No. 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain specific items in a business combination, and applies prospectively to business combinations for which the acquisition

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date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. The Company has currently not determined the potential effects, if any, on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*, or SFAS No. 160. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company has currently not determined the potential effects, if any, on the consolidated financial statements.

**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, our 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; and

Principal and interest payments from our debt investments.

During the year ended December 31, 2007, we acquired commercial jet aircraft and made capital improvements to our aircraft portfolio totaling \$2.2 billion (excluding assets not yet earning revenue of \$170.7 million comprising deposits and progress payments under our Airbus A330F Agreement and freighter conversion contracts and excluding payments under the GAIF Acquisition Agreement for aircraft accelerations) and \$15.3 million of debt investments secured by commercial jet aircraft, for a total of \$2.22 billion. We expect to acquire a substantial amount of aviation assets over the next twelve months, including approximately \$363.4 million of aircraft to be delivered under the GAIF Acquisition Agreement, all of which were subject to letters of intent at December 31, 2007, and additional acquisitions that we may enter into from time to time in the ordinary course of business. In addition, at December 31, 2007, we expect capital expenditures and lessee maintenance payment draws on our owned and committed aircraft portfolio to be approximately \$98.9 million, excluding freighter conversion payments (see Purchase Obligations in

Contractual Obligations below) and we expect maintenance payment collections from lessees on our owned aircraft portfolio of approximately \$131.4 million over the next twelve months. There can be no assurance that we will be able to acquire the additional aircraft described above, and no assurance regarding the timing and amount of such acquisitions. In addition, there can be no assurance that the capital expenditures described above will not be greater than expected or that our expected maintenance payment collections will equal our current estimates.

It is our intention to fund future aircraft acquisitions, including the aircraft to be acquired from GAIF under the GAIF Acquisition Agreement, 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 debt financings and/or 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 acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital. Given the volume of aircraft acquisitions and opportunities to invest in debt investments, we expect to execute additional non-recourse securitizations, similar bank market financings and/or 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 available from operations and our credit facilities, including the 2008-A Credit Agreement and including extensions, replacements and refinancings of our existing credit facilities, will be sufficient 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. At December 31, 2007, we had borrowings of \$734.1 million related to 31

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aircraft under our Amended Credit Facility No. 2. During the second quarter of 2008, we plan to refinance a majority of these aircraft, as well as 5 additional aircraft that we expect to acquire during the first half of 2008, with long-term financing using a cost effective debt structure such as a non-recourse securitization or similar bank market financing. We believe that similar bank market financing would be available in a single, diversified portfolio transaction structured like a securitization or would also be available in a series of smaller financings. We expect to extend, modify or replace the maturity of our Revolving Credit Facility prior to its current maturity of June 15, 2008 and to modify or replace Amended Credit Facility No. 2 with a similar aircraft acquisition facility prior to its current maturity of December 15, 2008. However, future deterioration in our performance or the 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 (Restated)**

	<b>Year Ended December 31, 2005 (Restated)</b>	<b>Year Ended December 31, 2006 (Restated)</b>	<b>Year Ended December 31, 2007 (Restated)</b>
<b>(Dollars in thousands)</b>			
Net cash flow (used in) provided by operating activities	\$ (20,974)	\$ 42,712	\$ 200,210
Net cash flow used in investing activities	(710,317)	(858,002)	(2,369,796)
Net cash flow provided by financing activities	811,234	793,465	2,125,014

Operating activities (used) provided net cash flow of \$(21.0) million, \$42.7 million and \$200.2 million for the years ended December 31, 2005, 2006 and 2007, respectively. 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 credit worthiness 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 December 31, 2005, 2006 and 2007, all 31, 68 and 133 of our aircraft, respectively, were on-lease or inducted into the freighter conversion process. 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 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 \$710.3 million, \$858.0 million and \$2.37 billion for the years ended December 31, 2005, 2006 and 2007, respectively. The period to period increase reflects the increase in our acquisition of aviation assets during this time. During the year ended December 31, 2007, we acquired 65 aircraft, as compared with 37 aircraft during the year ended December 31, 2006 and 29 aircraft during the year ended December 31, 2005, resulting in our gross investment of \$2.27 billion for the acquisition and improvement of flight equipment, or \$2.21 billion net of accrued liabilities, compared with \$837.4 million, or \$820.0 million net of accrued liabilities, during the year ended December 31, 2006, and \$634.2 million, or \$632.8 million net of accrued liabilities, during the year ended December 31, 2005. We also invested \$15.3 million in debt investments during the year ended December 31, 2007, as compared with \$92.7 million and \$29.4 million during the years ended December 31, 2006 and 2005, respectively. We paid \$170.7 million in net aircraft purchase deposits and progress payments during the year ended December 31, 2007, compared with \$1.2 million during the year ended December 31, 2006 and \$5.6 million during the year ended December 31, 2005. Cash outflows from investing activities during the years ended December 31, 2007 and 2006 were partially offset by proceeds of \$34.9 million and \$57.2 million, respectively, from the sale of

one aircraft in May 2007 and one aircraft in March 2006 that are reported as discontinued operations.

Net cash flow from financing activities totaled \$811.2 million, \$793.5 million and \$2.13 billion for the years ended December 31, 2005, 2006 and 2007, respectively. The period to period increase for 2007 as compared with 2006 and



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2005 reflects the significant increase in financing the acquisition of aviation assets during these periods as discussed in investing activities above. During 2007, we raised \$830.8 million through equity offerings, received \$1.17 billion in proceeds from our second securitization and received net proceeds of \$259.6 million from our Credit Facilities for a combined total of \$2.26 billion of financings to invest in aviation assets. Net cash flows from financing activities also reflects net proceeds of \$9.7 million, \$29.7 million and \$67.1 million from security and maintenance deposits for the years ended December 31, 2005, 2006 and 2007, respectively.

On June 18, 2007, we closed our second portfolio securitization, which we refer to as Securitization No. 2. The net proceeds from Securitization No. 2 were used to repay amounts owed under Amended Credit Facility No. 2 and to repay Credit Facility No. 3 in full in July 2007. The remainder of the proceeds was used for working capital purposes.

We 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.

Net cash flow from financing activities for the year ended December 31, 2006 also reflects the receipt of \$76.0 million from repurchase agreements. The cash flow is primarily related to the acquisition and financing of two debt investments on March 10, 2006.

In 2004, Fortress Shareholders (as defined herein) committed to invest \$400.0 million of equity in Aircastle. Of this amount, \$93.1 million was contributed in 2004 and the remaining \$306.9 million was invested in 2005. In 2005, we borrowed a total of \$490.6 million on secured credit facilities and \$8.7 million on repurchase agreements. During 2006, we received cash from credit facilities and securitizations of \$501.5 million, net of repayments, to finance investments in aircraft, and we received cash from repurchase agreements of \$75.0 million, net of repayments, to finance the acquisition of debt investments. The borrowings under our credit facilities were collateralized by leases on our aircraft, ownership interests in the subsidiaries that own the aircraft, cash on deposit in lockbox accounts and other assets held by the collateral agent and rights under the service provider agreement and certain other agreements.

**Table of Contents****Debt Obligations**

The following table provides a summary of our credit facilities at December 31, 2007:

Debt Obligation (Dollars in thousands)	Collateral	As of December 31, 2007		Interest Rate <sup>(1)</sup>	Final Stated Maturity
		Commitment	Outstanding Borrowing		
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	\$ 527,397	\$ 527,397	1M LIBOR + 0.27% = 5.30%	6/20/31
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	1,150,339	1,150,339	1M LIBOR + 0.26% = 5.50%	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% = 6.03%	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	1,000,000	734,059	1M LIBOR + 1.25% = 6.28%	12/15/08

	owning entities and related interests				
Repurchase Agreements <sup>(2)</sup>	Securities available for sale	60,282	60,282	1M LIBOR + 0.50% = 5.75%	3/1/08
Repurchase Agreements	Securities available for sale	2,490	2,490	1M LIBOR + 0.50% = 5.36%	6/28/08
Repurchase Agreements <sup>(3)</sup>	Securities available for sale	4,972	4,972	1M LIBOR + 0.75% = 5.85%	1/15/08
Total		\$ 3,059,607	\$ 2,543,666		

(1) LIBOR in effect at the applicable reset date.

(2) In February 2008, we sold the underlying debt investments and paid the outstanding amount under this repurchase agreement.

(3) Refinanced for one month in both January and February 2008. We intend to continue to refinance this repurchase agreement on a monthly basis.

#### Securitizations

On June 15, 2006, we closed Securitization No. 1 comprising 40 aircraft in Portfolio No. 1. In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc, or ACS Ireland, and ACS Aircraft Finance Bermuda Limited, or ACS Bermuda, which we refer to together with their subsidiaries as the ACS 1 Group,

issued \$560.0 million of ACS 1 Notes to the ACS 2006-1 Pass Through Trust or the ACS 1 Trust. The ACS 1 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the ACS1 Certificates, representing undivided fractional interests in the notes. Payments on the ACS 1 Notes will be passed through to holders of the ACS 1 certificates. The ACS 1 Notes are secured by ownership interests in aircraft-owning subsidiaries of ACS Bermuda

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and ACS Ireland and the aircraft leases, cash, rights under service agreements and any other assets they may hold. We retained 100% of the rights to receive future cash flows from Portfolio No. 1 after the payment of claims that are senior to our rights, including but not limited to payment of expenses related to the aircraft and fees of service providers, interest and principal payments to certificate holders, amounts owed to hedge providers and amounts, if any, owed to the policy provider and liquidity provider for previously unreimbursed advances.

Each of ACS Bermuda and ACS Ireland has fully and unconditionally guaranteed the other's obligations under the ACS 1 Notes. However, the ACS 1 Notes are neither obligations of nor guaranteed by Aircastle Limited. The ACS 1 Notes mature on June 20, 2031, but we expect to refinance the ACS 1 Notes on or prior to June 2011. In the event that the notes are not repaid on or prior to June 2011, the excess securitization cash flow will be used to repay the principal amount of the ACS1 Notes and will not be available to us to pay dividends to our shareholders.

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 Portfolio No. 1. 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, 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 ACS 1 Groups' compliance with these requirements depends substantially upon the timely receipt of lease payments from their lessees.

The ACS 1 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, which at December 31, 2007 was 5.30%, and scheduled payments of principal. Financial Guaranty Insurance Company, or FGIC, issued a financial guaranty insurance policy to support the payment of interest when due on the ACS 1 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 1 Certificates. A downgrade in the rating of FGIC will not result in a change in any of the rights or obligations of the parties to Securitization No. 1.

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. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 1 Notes and, accordingly, the ACS 1 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging 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.

On June 8, 2007, we completed Securitization No. 2 comprising 59 aircraft in Portfolio No. 2. In connection with Securitization No. 2, two of our subsidiaries, ACS Aircraft Finance Ireland 2 Limited, or ACS Ireland 2, and ACS 2007-1 Limited, or 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. We retained 100% of the rights to receive future cash flows from Portfolio No. 2 after the payment of claims that are senior to our rights. All claims are senior to our rights to receive future cash flows, including but not limited to payment of expenses related to the aircraft and fees of service providers, interest and principal payments to certificate holders, amounts owed to hedge providers and amounts, if any, owed to the policy provider and liquidity provider under Securitization No. 2 for previously unreimbursed advances.

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, but 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.

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 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

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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. 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. The ACS 2 Groups' compliance with these covenants depends substantially upon the timely receipt of lease payments from their lessees.

The ACS 2 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.26%, which at December 31, 2007 was 5.50%, and scheduled payments of principal. FGIC 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. A downgrade in the rating of FGIC will not result in any change in the rights or obligations of the parties to Securitization No. 2.

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. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 2 Notes and, accordingly, the ACS 2 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging 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.

**Credit Facilities**

On July 26, 2007, we made an accelerated payment to the relevant GAIF seller under our acquisition agreement with GAIF for three Boeing Model 747-400ERF aircraft in the amount of \$106.7 million and assumed a credit facility related to such 747-400ERF aircraft, or 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. 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, which at December 31, 2007 was 6.03%, 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.

On December 15, 2006, the Company entered into a \$250.0 million revolving credit facility, which we refer to as 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 for the account of any borrower up to \$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, or ABR, plus 0.50% per annum or (b) in the case of loans with an interest rate based on the euro dollar rate, or 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 million. On January 22, 2007, our Revolving Credit Facility was amended to increase the maximum committed amount to \$450.0 million. The maximum committed amount was subsequently reduced to \$250.0 million 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 \$550.0 million to \$750.0 million plus one-half of the net proceeds of any future equity capital we raise, which, as of December 31, 2007 resulted in a minimum net worth covenant equal to \$918.9 million. 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 December 31, 2007, there were no outstanding loans. The interest rate, including margin, applicable to loans under the Revolving Credit Facility at December 31, 2007 was 6.53% and \$6.0 million of letters of credit outstanding 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. We expect to extend, modify or replace the maturity of our Revolving Credit Facility before its current maturity of June 15, 2008.



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On February 28, 2006, we entered into a \$500.0 million 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 one-month LIBOR 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. Effective June 15, 2006, Credit Facility No. 2 was amended to increase the maximum committed amount to \$750.0 million and to extend the maturity to November 15, 2007. On December 15, 2006, the \$750.0 million credit facility was amended to increase the maximum committed amount to \$1.0 billion 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. On January 22, 2007, the \$1.0 billion Amended Credit Facility No. 2 was amended to increase the maximum committed amount to \$1.25 billion; provided that such amount will reduce to \$1.0 billion 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 June 8, 2007, the maximum committed amount of Amended Credit Facility No. 2 was reduced to \$1.0 billion and \$509.9 million was repaid on Amended Credit Facility No. 2 from the proceeds of Securitization No. 2. Borrowings under Amended Credit Facility No. 2 bear interest (a) in the case of loans with an interest rate based on the ABR plus 0.25% or (b) in the case of loans with an interest rate based on the EDR at an annual rate equal to the EDR plus 1.25% per annum. Additionally, we are subject to a 0.125% fee on any unused portion of the total committed facility. Amended Credit Facility No. 2 requires the monthly payment of interest and the monthly payment of principal, to the extent of 65% of any decrease in the net book value of the aircraft securing Amended Credit Facility No. 2. Amended Credit Facility No. 2 matures on December 15, 2008. 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. The interest rate, including margin, applicable to loans under Amended Credit Facility No. 2. at December 31, 2007 was 6.28%.

At December 31, 2007, we had borrowings of \$734.1 million related to 31 aircraft under our Amended Credit Facility No. 2. During the second quarter of 2008, we plan to refinance a majority of these aircraft, as well as 5 additional aircraft that we expect to acquire during the first half of 2008, with long-term financing using a cost effective debt structure such as a non-recourse securitization or similar bank market financing. We believe that similar bank market financing would be available in a single, diversified portfolio transaction structured like a securitization or would also be available in a series of smaller financings. In addition, we expect to extend, modify or replace Amended Credit Facility No. 2 with a similar aircraft acquisition facility before its current maturity of December 15, 2008.

In February 2005, we entered into a \$300.0 million 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 \$600.0 million. On February 24, 2006, the revolving period of our \$600.0 million Credit Facility No. 1 was extended to April 28, 2006 and the maximum amount of this credit facility was reduced to \$525.0 million. 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 \$1.8 million upon the termination of Credit Facility No. 1.

In October 2005, the Company entered into a credit facility for \$110.0 million 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, \$36.7 million 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 \$25.1 million and to extend the maturity date to March 31, 2007. The increase in the maximum committed amount was reduced by \$25.1 million with the closing of the initial public offering. 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 transfer of the related aircraft financed on Credit Facility No. 3 into Securitization No. 2. Credit Facility No. 3 was repaid in full in July 2007 with a portion 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

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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 December 31, 2007, we had three outstanding repurchase agreements totaling \$67.7 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 December 31, 2007, the weighted average interest rate on our repurchase agreements was 5.74% per annum. The repurchase agreements provide for an original term to maturity ranging from one to six 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 December 31, 2007.

**Equity Offerings**

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 approximately \$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 \$4.1 in offering expenses, were \$219.6 million, of which \$205.5 million was used to repay a portion of the outstanding balance on Amended 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, were \$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 other general corporate purposes.

On October 10, 2007, the Company completed a second 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 \$349.3 million before offering costs. The net proceeds of the offering, after our payment of \$10.5 million in underwriting discounts and commissions, and approximately \$1.0 million in offering expenses were \$337.8 million. Approximately \$230.9 million of the proceeds was used to repay borrowings under Amended Credit Facility No. 2. The remainder of the net proceeds was used for aircraft acquisitions and working capital requirements. In conjunction with the second follow-on public 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. The Company did not receive any funds from this secondary offering by the selling Fortress Shareholders.

**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 approximately \$4.66 billion at December 31, 2007 due primarily to:

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.

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The following table presents our actual contractual obligations and their maturity dates as of December 31, 2007:

Contractual Obligations	Total	Payments Due By Period as of December 31, 2007			
		Less than 1 year	2-3 years	4-5 years	More than 5 years
		(Dollars in thousands)			
Securitization No. 1 <sup>(1)</sup>	\$ 671,359	\$ 50,943	\$ 101,305	\$ 205,890	\$ 313,221
Securitization No. 2 <sup>(2)</sup>	1,561,177	119,173	217,512	261,927	962,565
747 PDP Credit Facility <sup>(3)</sup>	65,095	65,095			
Amended Credit Facility No. 2 <sup>(3)</sup>	780,670	780,670			
Repurchase agreements <sup>(3)</sup>	68,675	68,675			
Operating leases <sup>(4)</sup>	5,941	1,134	2,112	1,953	742
Purchase obligations <sup>(5)</sup>	1,450,107	368,488	641,569	440,050	
<b>Total</b>	<b>\$ 4,603,024</b>	<b>\$ 1,454,178</b>	<b>\$ 962,498</b>	<b>\$ 909,820</b>	<b>\$ 1,276,528</b>

(1) Includes interest on variable rate, LIBOR-based instruments at the December 31, 2007 rate and principal payments based on amortization schedules through October 2015 that require the securitization 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 securitization's fifth anniversary, 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.

- (2) Includes interest  
on variable rate,  
LIBOR-based  
instruments at  
the  
December 31,  
2007 rate and  
principal  
payments based  
on amortization  
schedules  
through  
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  
securitization's  
fifth  
anniversary,  
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 2012.

- (3) Includes interest on variable rate, LIBOR-based instruments at the December 31, 2007 rate.
- (4) Represents contractual payments on our office leases in Stamford, Connecticut, Dublin, Ireland and Singapore.
- (5) At December 31, 2007, we had purchase agreements or binding letters of intent to acquire 23 aircraft, comprised of eight from GAIF and fifteen from Airbus. 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.

Our hedging transactions that use 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 with high credit ratings. 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.

**Margin Calls**

Our repurchase agreements and interest rate derivative instruments are, in some cases, 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 December 31, 2007, we had margin deposits in the amount of \$4.3 million and \$35.9 million, respectively. As of February 21, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$216.5 million and we had pledged \$53.9 million in cash collateral required under certain of our interest rate swaps and our interest rate forward contracts.

**Table of Contents****Capital Expenditures**

We make capital expenditures from time to time in connection with improvements made to our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the years ended December 31, 2005, 2006 and 2007, we incurred a total of \$30.5 million, \$6.2 million and \$11.4 million, respectively, of capital expenditures related to the acquisition of aircraft.

As of December 31, 2007, the weighted average (by net book value) age of our aircraft was approximately 10.2 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Under our leases, the lessee is primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft or a lessee fails to meet its maintenance obligations under the lease agreement. At December 31, 2007, we held \$208.4 million of maintenance reserves. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. Risk Factors. 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 in the original Form 10K.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2007.

**Foreign Currency Risk and Foreign Operations**

At December 31, 2007, all of our leases are payable to us in U.S. dollars. However, we incur Euro and Singapore dollar denominated expenses in connection with our subsidiary in Ireland and branch office in Singapore. As of December 31, 2007, 11 of our 69 employees were based in Ireland and three employees were based in Singapore. For the year ended December 31, 2007, expenses denominated in currencies other than the U.S. dollar, such as payroll and office costs, aggregated approximately \$5.4 million in U.S. dollar equivalents and represented approximately 14% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us more effectively to source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the years ended December 31, 2005, 2006 and 2007, we incurred insignificant net gains and losses on foreign currency transactions.

**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, and to



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margin calls, 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 decreases. 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 cash 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.

We held the following interest rate derivative contracts as of December 31, 2007:

<b>Hedged Item</b>	<b>Current/ Starting Notional Amount</b>	<b>Effective Date</b>	<b>Mandatory Early Termination Date</b>	<b>Maturity Date</b>	<b>Future Maximum Notional Amount</b>	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Fair Value of Derivative Asset or (Liability)</b>
Securitization No. 1	\$ 527,396	Jun-06	N/A	Jun-16	\$ 527,396	1M LIBOR + 0.27%	5.78%	\$ (33,842)
Securitization No. 2	1,150,339	Jun-07	N/A	Jun-12	1,150,339	1M LIBOR	5.25% to 5.36%	(54,110)
Revolving Credit Facility	28,000	Jun-07	Dec-11	Jan-12	203,000	1M LIBOR	4.89%	(3,827)
Amended Credit Facility No. 2	440,000	Jun-07	Jun-08	Feb-13	440,000	1M LIBOR	4.88%	(15,569)
Amended Credit Facility No. 2	150,000	Jul-07	Aug-08	Dec-17	150,000	1M LIBOR	5.14%	(6,642)
Amended Credit Facility No. 2	242,000	Aug-07	Nov-08	May-13	247,000	1M LIBOR	5.33%	(10,669)

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and 747 PDP Credit Facility								
Future debt and securitization	40,000	Jan-08	Feb-09	Feb-19	360,000	1M LIBOR	5.16%	(16,454)
Future debt and securitization	5,000	May-08	Sep-09	Mar-14	55,000	1M LIBOR	5.41%	(2,885)
Future debt and securitization	46,000	Apr-10	Nov-11	Oct-15	231,000	1M LIBOR	5.17%	(3,796)
Future debt and securitization	95,000	Jan-11	May-12	Apr-16	238,000	1M LIBOR	5.23%	(3,163)
Future debt and securitization	143,000	Jul-11	Oct-12	Sep-16	238,000	1M LIBOR	5.27%	(2,798)
Repurchase Agreement	2,900	Jun-05	N/A	Mar-13	2,900	1M LIBOR	4.21%	(2)
Repurchase Agreement	5,000	Dec-05	N/A	Sep-09	5,000	3M LIBOR	4.94%	(85)
Repurchase Agreement <sup>(1)</sup>	39,000	Feb-06	N/A	Jul-10	39,000	1M LIBOR	5.02%	(546)
Total	\$ 2,913,635				\$ 3,886,635			\$ (154,388)

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- (1) In February 2008, we terminated this interest rate swap and incurred related fees and interest charges of approximately \$1.0 million.

As of December 31, 2007, we had pledged \$35.9 million in cash collateral under our interest rate swaps and our interest rate forward contracts and is included in other assets on our consolidating balance sheet.

**Related Party Transactions**

Prior to our initial public offering, substantially all of the ownership interests in Aircastle were beneficially owned by our employees and funds managed by affiliates of Fortress. In 2004, Fortress committed to invest \$400 million of equity in Aircastle, all of which was drawn as of December 31, 2005. On February 8, 2006, the Fortress funds 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 funds 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 owned approximately 38.9% of the Company's common shares. The Company did not receive any funds from this secondary offering by the Fortress Shareholders.

During part of 2005, our primary operations were managed by Fortress. Fortress, acting as manager, incurred direct operating costs on our behalf. These operating costs primarily included payroll costs, office supplies and professional fees paid to third parties. These costs are included in selling, general and administrative expenses in the consolidated statement of operations. As of December 31, 2004, Due to affiliate represented reimbursable expenditures of \$1.1 million paid by Fortress in 2004. In 2005, all amounts due to or from affiliates were settled by cash payment. During a portion of 2005, we occupied space in facilities leased by Fortress and rent of \$43 thousand, determined based on actual costs to Fortress, was reimbursed to Fortress.

**Inflation**

Inflation generally affects our costs, including SG&A expenses and other expenses. Inflation also will increase the price of the airframes and engines we purchase under the Airbus A330F Agreement, although we have agreed with the manufacturers to certain limitations on price escalation in order to reduce our exposure to inflation. Our contractual commitments described elsewhere in this report include estimates we have made concerning the impact of inflation on our acquisition cost under the Airbus A330F Agreement. 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 (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-GAAP measure is helpful in identifying trends in our performance.

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

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

outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the consolidated financial performance of our business.

**Table of Contents****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 (benefit) 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 Annual 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 Annual 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 (loss) to EBITDA for the years ended December 31, 2005, 2006 and 2007.

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(Dollars in thousands, except per share data)</b>		
Net income	\$ 228	\$ 51,206	\$ 127,344
Depreciation	11,286	53,424	126,403
Amortization of lease premiums (discounts)	734	(4,406)	(7,379)
Interest, net	6,846	49,566	92,660
Income tax provision	940	4,845	7,658
Earnings from discontinued operations, net of income taxes	(1,031)	(5,286)	(12,941)
<b>EBITDA</b>	<b>\$ 19,003</b>	<b>\$ 149,349</b>	<b>333,745</b>

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto, referred to in Item 15(A)(1) of this Form 10-K/A, are filed as part of this report and appear in this Form 10-K/A beginning on page F-1.

**Table of Contents****ITEM 9A. CONTROLS AND PROCEDURES (RESTATED)****Evaluation of Disclosure Controls and Procedures**

In connection with the restatement of our consolidated financial statements, which is more fully described in the Explanatory Note on page 1 and Note 20. Restatement and Reclassification of Previously Issued Financial Statements, located in the Consolidated Financial Statements elsewhere in this Form 10-K/A, and under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, we reevaluated our disclosure controls and procedures and identified a material weakness in our internal control over financial reporting with respect to the presentation of non-cash activities in the consolidated statement of cash flows. Solely as a result of this material weakness, as described below in Management's Annual Report on Internal Control over Financial Reporting (Restated), we concluded that our disclosure controls and procedures were not effective as of December 31, 2007.

**Management's Annual Report on Internal Control over Financial Reporting (Restated)**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007, based on the Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. In the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 28, 2008, management concluded that our internal control over financial reporting was effective as of December 31, 2007. However, in connection with the restatement discussed in the Explanatory Note on page 1 and in Note 20. Restatement and Reclassification of Previously Issued Financial Statements in the Consolidated Financial Statements contained in this Form 10-K/A, the Company's management has revised its assessment of the effectiveness of the Company's internal control over financial reporting due to a material weakness that was subsequently identified as a failure to maintain effective controls over the preparation of the consolidated statements of cash flows for each of the three years in the period ended December 31, 2007. Specifically, the Company inappropriately reported material non-cash transactions in the consolidated statement of cash flows for 2007.

Solely as a result of this material weakness, the Company's management has revised its earlier assessment and has now concluded that the Company's internal control over financial reporting was not effective as of December 31, 2007.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements, has audited the effectiveness of our internal control over financial reporting as of December 31, 2007. As stated in their report, which is included herein, they have restated their opinion and now conclude that the Company did not maintain effective internal control over financial reporting as of December 31, 2007.

**Remediation Steps to Address Material Weakness**

To remediate the material weakness in the Company's internal control over financial reporting as described above, management is enhancing its controls over the preparation and the review of the Company's consolidated statement of cash flows, specifically by adding additional review of the Company's consolidated statement of cash flows and by providing staff training on preparation of the consolidated statement of cash flows in accordance with SFAS No. 95, *Statement of Cash Flows*. The Company anticipates that the actions described above and the resulting improvements in controls will strengthen its internal control over financial reporting relating to the preparation of the consolidated statement of cash flows and will remediate the material weakness identified by December 31, 2008.

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**Changes in Internal Control over Financial Reporting**

Other than expressly noted in this Item 9A, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Aircastle Limited

We have audited Aircastle Limited's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Aircastle Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated February 27, 2008, we expressed an unqualified opinion that Aircastle Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based upon the COSO criteria. Management has subsequently determined that a deficiency in controls relating to the presentation of Aircastle Limited's consolidated statement of cash flows existed as of the previous assessment date, and has further concluded that such deficiency represented a material weakness as of December 31, 2007. As a result, management revised its assessment, as presented in the accompanying Management's Annual Report on Internal Control over Financial Reporting (Restated), to conclude that Aircastle Limited's internal control over financial reporting was not effective as of December 31, 2007. Accordingly, our present opinion on the effectiveness of Aircastle Limited's internal control over financial reporting as of December 31, 2007, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Aircastle Limited identified a material weakness related to its internal control over financial reporting resulting from the failure to maintain effective controls over the preparation of the consolidated statement of cash flows. The material weakness resulted in the restatement of Aircastle Limited's consolidated statements of cash flows for each of the three years in the period ended December 31, 2007. This material weakness was considered in determining the





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nature, timing, and extent of audit tests applied in our audits of the consolidated financial statements and this report does not affect our report dated February 27, 2008, except for Note 20 as to which the date is November 13, 2008, on those financial statements (as restated).

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Aircastle Limited has not maintained effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

New York, New York  
February 27, 2008, except for the effects of the  
material weakness described in the sixth paragraph  
above, as to which the date is November 13, 2008

/s/ Ernst & Young LLP

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(A) 1. Consolidated Financial Statements.**

The following is a list of the Consolidated Financial Statements of Aircastle Limited and its subsidiaries included in this Annual report on Form 10-K/A, which are filed herewith pursuant to Item 8:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2006 and December 31, 2007.

Consolidated Statements of Income for the years ended December 31, 2005, December 31, 2006 and December 31, 2007.

Consolidated Statements of Cash Flows for the years ended December 31, 2005, December 31, 2006 and December 31, 2007 (As Restated).

Consolidated Statements of Changes in Shareholders Equity and Comprehensive Income (Loss) for the years ended December 31, 2005, December 31, 2006 and December 31, 2007.

Notes to Consolidated Financial Statements.

**2. *Financial Statement Schedules.***

There are no Financial Statement Schedules filed as part of this annual report, since the required information is included in the Consolidated Financial Statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

**3. *Exhibits.***

The exhibits filed herewith are listed on the Exhibit Index filed as part of this report on Form 10-K/A.

**(B) EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Aircastle Limited

We have audited the accompanying consolidated balance sheets of Aircastle Limited and subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aircastle Limited and subsidiaries at December 31, 2006 and 2007 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 20 to the consolidated financial statements, the accompanying consolidated statements of cash flows have been restated to correct the Company's accounting for non-cash items in its consolidated statements of cash flows.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aircastle Limited and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2008, except for the effects of the material weakness described in the sixth paragraph of that report, as to which the date is November 13, 2008, and expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 27, 2008, except for Note 20,  
as to which the date is November 13, 2008

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

	<b>December 31,</b>	
	<b>2006</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 58,118	\$ 13,546
Accounts receivable	7,696	4,957
Debt investments	121,273	113,015
Restricted cash and cash equivalents	106,069	161,317
Flight equipment held for sale	31,280	
Flight equipment held for lease, net of accumulated depreciation of \$64,111 and \$189,737	1,559,365	3,807,116
Aircraft purchase deposits and progress payments	4,650	245,331
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of \$694 and \$1,335	1,506	1,391
Fair value of derivative assets	313	
Other assets	28,433	80,969
<b>Total assets</b>	<b>\$ 1,918,703</b>	<b>\$ 4,427,642</b>
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings under credit facilities	\$ 442,660	\$ 798,186
Borrowings from securitizations	549,400	1,677,736
Accounts payable, accrued expenses and other liabilities	31,384	65,967
Dividends payable	22,584	55,004
Lease rentals received in advance	11,068	31,016
Repurchase agreements	83,694	67,744
Security deposits	39,767	74,661
Maintenance payments	82,914	208,363
Fair value of derivative liabilities	18,035	154,388
<b>Total liabilities</b>	<b>1,281,506</b>	<b>3,133,065</b>
 Commitments and Contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common shares, \$.01 par value, 250,000,000 shares authorized, 51,621,279 shares issued and outstanding at December 31, 2006; and 78,574,657 shares issued and outstanding at December 31, 2007	516	786
Additional paid-in capital	630,154	1,468,140
Dividends in excess of earnings	(3,382)	(48,960)

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Accumulated other comprehensive income (loss)	9,909	(125,389)
Total shareholders' equity	637,197	1,294,577
Total liabilities and shareholders' equity	\$ 1,918,703	\$ 4,427,642

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

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

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Revenues:</b>			
Lease rentals	\$ 28,590	\$ 173,605	\$ 369,876
Interest income	2,942	9,038	10,400
Other revenue	106	209	815
<b>Total revenues</b>	<b>31,638</b>	<b>182,852</b>	<b>381,091</b>
<b>Expenses:</b>			
Depreciation	11,286	53,424	126,403
Interest, net	6,846	49,566	92,660
Selling, general and administrative (including non-cash share based payment expense of \$409, \$8,895 and \$6,674, respectively)	12,493	27,836	39,040
Other expenses	876	1,261	927
<b>Total expenses</b>	<b>31,501</b>	<b>132,087</b>	<b>259,030</b>
Income from continuing operations before income taxes	137	50,765	122,061
Income tax provision	940	4,845	7,658
Income (loss) from continuing operations	(803)	45,920	114,403
Earnings from discontinued operations, net of income taxes	1,031	5,286	12,941
<b>Net income</b>	<b>\$ 228</b>	<b>\$ 51,206</b>	<b>\$ 127,344</b>
<b>Basic earnings (loss) per share:</b>			
Income (loss) from continuing operations	\$ (0.02)	\$ 1.00	\$ 1.71
Earnings from discontinued operations, net of income taxes	0.03	0.12	0.19
<b>Net income per share</b>	<b>\$ 0.01</b>	<b>\$ 1.12</b>	<b>\$ 1.90</b>
<b>Diluted earnings (loss) per share:</b>			
Income (loss) from continuing operations	\$ (0.02)	\$ 1.00	\$ 1.70
Earnings from discontinued operations, net of income taxes	0.03	0.11	0.19
<b>Net income per share</b>	<b>\$ 0.01</b>	<b>\$ 1.11</b>	<b>\$ 1.89</b>
<b>Dividends paid per share</b>	<b>\$</b>	<b>\$ 0.70</b>	<b>\$ 2.1875</b>

*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)

	Year Ended December 31,		
	2005 (Restated)	2006 (Restated)	2007 (Restated)
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 228	\$ 51,206	\$ 127,344
Adjustments to reconcile net (loss) income to net cash provided by operating activities (inclusive of amounts related to discontinued operations)			
Depreciation	14,460	56,629	127,164
Amortization of deferred financing costs	1,175	6,380	6,991
Amortization of lease premiums and discounts, and other related lease items	897	(3,705)	(7,379)
Deferred income taxes	333	2,341	(2,957)
Accretion of purchase discounts on debt investments	(787)	(756)	(849)
Non-cash share based payment expense	409	8,895	6,674
Cash flow hedges reclassified into earnings		(2,213)	(4,849)
Ineffective portion of cash flow hedges	126	(814)	171
Security deposits and maintenance payments included in earnings	(516)	196	(6,898)
Gain on the sale of flight equipment		(2,240)	(11,566)
Loss on sale of debt investments	7		
Other			(1,154)
Changes in certain assets and liabilities:			
Accounts receivable	(2,765)	(4,581)	2,739
Restricted cash and cash equivalents	(40,652)	(65,417)	(55,248)
Other assets	(535)	(634)	(4,867)
Accounts payable, accrued expenses and other liabilities	9,700	(255)	12,263
Payable to affiliates	(988)	27	68
Lease rentals received in advance	(2066)	(2,347)	12,563
Net cash (used in) provided by operating activities	(20,974)	42,712	200,210
<b>Cash flows from investing activities:</b>			
Acquisition and improvement of flight equipment	(632,816)	(820,002)	(2,207,530)
Investment in purchase of flight equipment held for sale	(54,917)		
Disposition of flight equipment held for sale		57,157	34,945
Aircraft purchase deposits and progress payments	(3,465)	(1,186)	(170,700)
Purchase of debt investments	(29,376)	(92,726)	(15,251)
Principal repayments on debt investments	10,461	3,606	20,801
Proceeds from sale of debt investments	2,688		
Margin call payments on derivatives and repurchase agreements		(4,345)	(104,121)
Margin call receipts on derivatives and repurchase agreements			72,586
Leasehold improvements, furnishings and equipment	(2,892)	(506)	(526)
Net cash used in investing activities	(710,317)	(858,002)	(2,369,796)

**Cash flows from financing activities:**

Issuance of common shares in public offerings, net	219,595	830,809	
Issuance of common shares to Fortress, directors and employees	38,703	1,218	
Repurchase of shares from Fortress, directors and employees	(36,932)	(445)	
Proceeds from securitizations	560,000	1,170,000	
Securitization repayments	(10,600)	(41,664)	
Deferred financing costs	(4,613)	(19,434)	(14,140)
Credit facility borrowings	490,588	751,736	2,059,741
Credit facility repayments		(799,664)	(1,800,141)
Proceeds from repurchase agreements	8,679	76,007	1,967
Principal repayment on repurchase agreements	(14)	(978)	(17,917)
Security deposits and maintenance payments received	9,709	34,210	85,691
Security deposits and maintenance payments returned		(4,558)	(18,547)
Proceeds from terminated cash flow hedges		16,142	8,944
Dividends paid		(30,762)	(140,502)
Capital contributions	306,885		
Net cash provided by financing activities	811,234	793,465	2,125,014
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>79,943</b>	<b>(21,825)</b>	<b>(44,572)</b>
Cash and cash equivalents at beginning of year		79,943	58,118
Cash and cash equivalents at end of year	\$ 79,943	\$ 58,118	\$ 13,546

**Supplemental Disclosures of cash flow information**

Cash paid during the year for interest, net of capitalized interest	\$ 6,695	\$ 49,012	\$ 94,677
Cash paid during the year for income taxes	\$	\$ 2,288	\$ 5,804

**Non-cash investing activities**

Security deposits and maintenance liabilities assumed in asset acquisitions	\$ 24,421	\$ 55,744	\$ 106,322
Lease rentals received in advance assumed in asset acquisitions	\$ 7,406	\$ 7,174	\$ 7,385

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

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**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders Equity and Comprehensive Income (Loss)**  
*(Dollars in thousands, except share amounts)*

	Common Shares		Additional Paid-In Capital	Dividends in Excess of Earnings	Accumulated		Total Shareholders Equity	Total Comprehensive Income (Loss)
					Other Comprehensive Income (Loss)			
	Shares	Amount						
Balance, December 31, 2004	40,000,000	\$ 400	\$ 100,300	\$ (1,465)	\$	\$	\$ 99,235	
Capital contribution			299,300				299,300	
Amortization of share based payments			409				409	
Net income				228			228	\$ 228
Net change in fair value of derivatives						1,864	1,864	1,864
Net unrealized appreciation on debt investments						9,900	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)	
			4,571				4,571	

Amortization of share based payments								
Dividends declared				(53,351)		(53,351)		
Net income				51,206		51,206	\$	51,206
Net change in fair value of derivatives					(4,132)	(4,132)		(4,132)
Derivative gain reclassified into earnings					(2,213)	(2,213)		(2,213)
Net unrealized appreciation on debt investments					4,490	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		
Issuance of common shares								
Follow-on public offerings, net of offering expenses	26,525,000	265	830,544			830,809		
Issuance of common shares to directors and employees	458,918	5	1,213			1,218		
Repurchase of common shares from directors and employees	(30,540)		(445)			(445)		
Amortization of share based payments			6,674			6,674		
Dividends declared				(172,922)		(172,922)		
Net income				127,344		127,344	\$	127,344
Net change in fair value of derivatives, net of \$1,928 tax benefit					(126,892)	(126,892)		(126,892)
Derivative gain reclassified into earnings					(4,849)	(4,849)		(4,849)
Net unrealized depreciation on					(3,557)	(3,557)		(3,557)

debt investments

Total  
comprehensive  
loss

\$ (7,954)

Balance,  
December 31,  
2007

78,574,657 \$ 786 \$ 1,468,140 \$ (48,960) \$ (125,389) \$ 1,294,577

*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 ( 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.

Pursuant to a Shareholders Agreement executed November 24, 2004, 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. In conjunction with the second follow-on public offering (see Note 8 Shareholders' Equity and Share Based Payments), certain Fortress Shareholders sold 11,000,000 secondary common shares in the public offering.

**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 ).

**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.

**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 investments, 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 investments, repurchase agreements, credit facilities and securitization agreements. The Company believes that the carrying values of its investments and derivatives 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.

**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.

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

**Debt Investments**

Aircastle accounts for debt investments in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ( SFAS No. 115 ). As of December 31, 2007, the majority of our debt investments 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 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.

**Flight Equipment Held for Lease**

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

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

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

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

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.

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

Determining the fair value of attached leases requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value





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**Aircastle Limited and Subsidiaries**  
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the estimated amount below or above fair value range over the remaining term of the lease. The resulting lease premiums or discounts are amortized into lease rental income over the remaining term of the lease.

**Impairment of Flight Equipment**

In accordance with SFAS No. 144, Aircastle evaluates its flight equipment for potential impairment loss on a periodic basis and when indicators of impairment exist. Impairment exists when the carrying value of an aircraft exceeds the sum of the undiscounted expected future cash flows, or its fair value. 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.

Any excess of the carrying value over the undiscounted expected future cash flows would result in an impairment charge that would be recorded within our consolidated statement of income in the period the determination is made. The impairment charge would be measured as the excess of the carrying value over the present value of estimated undiscounted expected future cash flows using a discount rate commensurate with the risks involved.

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. Our review for impairment includes a consideration of the existence of impairment indicators including third party appraisals of our aircraft, published values for similar aircraft, recent transactions for similar 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.

**Capitalization of Interest**

We capitalize interest related to progress payments made in respect of flight equipment on forward order and add such amount to prepayments on flight equipment. We capitalize interest related to flight equipment that is in a freighter conversion program and add such amount to the flight equipment. The amount of interest capitalized is the actual interest costs incurred on funding specific assets or the amount of interest costs which could have been avoided in the absence of such payments for the related assets.

**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, 2006 and 2007, security deposits represent cash received from the lessee that is held on deposit until lease expiry.

**Maintenance Payments**

Typically, under an operating lease, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the 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 in performing scheduled maintenance.



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**Aircastle Limited and Subsidiaries**  
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**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.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* ( FIN 48 ), effective 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.

**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, 2007, 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 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) affect earnings.

Certain interest rate swaps and interest rate forward contracts require cash collateral ( Margin Calls ) to be paid to the counterparty when the fair value of the contract decreases due to changes in interest rates. We record the Margin Calls in other assets separate from the related fair value of derivative liabilities.

**Repurchase Agreements**

Debt investments 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 investments sold continuing to be classified as debt investments available-for-sale. Liabilities recorded under these agreements are accounted for on an accrual basis with interest reported in interest expense.



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**Aircastle Limited and Subsidiaries**  
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**Lease Rentals**

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven 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 London Interbank Offered Rate ( 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 (Loss)**

Comprehensive income (loss) consists of net income and other gains and losses, net of income taxes, if any, affecting shareholders' equity that under GAAP are excluded from net income. At December 31, 2007, 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 investments 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 terms, which range between three and five years.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued statement No. 157, *Fair Value Measurements*, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company is subject to the provisions of SFAS 157 beginning January 1, 2008. The Company has not yet determined whether SFAS 157 will have a material impact on its financial condition, results of operations, or cash flow. However, the Company believes it will likely be required to provide additional disclosures as part of future financial statements, beginning with first quarter 2008.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). Statement 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe Statement 159 will result in a material adverse effect on its financial condition, results of operations, or cash flow.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*, or SFAS No. 141(R). SFAS No. 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain



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**Aircastle Limited and Subsidiaries**  
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**(Dollars in thousands, except per share amounts)**

specific items in a business combination, and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*, or SFAS No. 160. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company has currently not determined the potential effects, if any, on the consolidated financial statements.

**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, 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 or quarterly to a market benchmark rate plus a credit spread. We believe, for similar credit facilities and repurchase agreements with comparable credit risks, the effective rate of the credit facilities and repurchase agreements approximates market rates at the balance sheet dates. The fair value of our debt investments and cash flow hedges is generally determined by reference to broker quotations.

The fair values of our securitizations are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at December 31, 2006 and 2007 are as follows:

	2006		2007	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Debt investments	\$ 121,273	\$ 121,273	\$ 113,015	\$ 113,015
Derivative assets	313	313		
Credit facilities	(442,660)	(442,660)	(798,186)	(798,186)
Securitizations	(549,400)	(549,400)	(1,677,736)	(1,623,522)
Repurchase agreements	(83,694)	(83,694)	(67,744)	(67,744)
Derivative liabilities	(18,035)	(18,035)	(154,388)	(154,388)

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

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at December 31, 2007 were as follows:

Year Ending December 31,	Amount
2008	\$ 500,023
2009	448,134
2010	386,348
2011	319,315
2012	260,565
Thereafter	464,613
Total	\$ 2,378,998



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

<b>Region</b>	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Europe	46%	45%	44%
Asia	21%	20%	27%
North America	22%	28%	16%

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<b>Region</b>	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Latin America	11%	5%	6%
Middle East and Africa		2%	7%
Total	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 year ended December 31, 2005, three customers accounted for 48% 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 for 24% of lease rental revenue and three additional customers accounted for 20% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the year ended December 31, 2007, one customer accounted for 12% of lease rental revenues and two additional customers accounted for a combined 11% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

Amortization of lease premiums and discounts related to certain acquired operating leases was \$734 of premium amortization and \$4,406 and \$7,379 of net discount amortization for 2005, 2006 and 2007, respectively.

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

<b>Region</b>	<b>December 31, 2006</b>		<b>December 31, 2007</b>	
	<b>Number of Aircraft</b>	<b>Net Book Value %</b>	<b>Number of Aircraft</b>	<b>Net Book Value %</b>
Europe <sup>(1)</sup>	35	46%	65	47%
Asia	14	21%	35	27%
North America <sup>(1)</sup>	11	23%	13	10%
Latin America	5	6%	12	7%
Middle East and Africa	3	4%	8	9%
Total	68	100%	133	100%

(1) Includes one Boeing Model 747-400 aircraft being converted to freighter configuration for which we have an executed lease post-conversion with a carrier in this geographic region.

At December 31, 2006 and 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 \$586 at December 31, 2006 and 2007, 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.

In March 2007, one of our aircraft was classified as flight equipment held for sale and the sale was completed in May 2007. The specifically identified operating activities of this aircraft have been reflected in discontinued operations for all periods presented and the aircraft is presented as flight equipment held for sale at December 31, 2006.

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Earnings from discontinued operations for the two aircraft held for sale were as follows:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Earnings from discontinued operations:			
Lease rentals	\$ 6,014	\$ 8,610	\$ 2,364
Gain on disposition		2,240	11,566
Depreciation and other expenses	(3,469)	(3,532)	(761)
Other expenses	(102)	(30)	(185)
Interest expense, net	(1,297)	(1,439)	
Earnings from discontinued operations before income tax provision	1,146	5,849	12,984
Income tax provision	(115)	(563)	(43)
Earnings from discontinued operations, net of income taxes	\$ 1,031	\$ 5,286	\$ 12,941

**Note 5. Debt Investments**

As of December 31, 2006 and 2007, all of our debt investments classified as available-for-sale were U.S. corporate obligations. The aggregate fair value of these debt investments at December 31, 2007 was \$99,118. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which \$78,737 are senior tranches and \$20,381 are subordinated to other debt related to such aircraft. Our debt investments had net unrealized gain positions relative to their net book values, which aggregated to \$14,390 and \$10,833 at December 31, 2006 and 2007, respectively.

One of our debt investments, with a fair value of \$6,436 at December 31, 2007 has a stated maturity in 2010. Three of our debt investments, with a fair value of \$75,372, have a stated maturity in 2011. Our other two debt investments with an aggregate fair value of \$17,310 have remaining terms to stated maturity in excess of 10 years after December 31, 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 price of \$15,251 that is classified as held to maturity. The loan matured on December 17, 2007, and has an outstanding balance of \$13,897 at December 31, 2007, which we believe approximates its fair value. The borrower elected not to repay the loan at maturity and, accordingly, we expect to take ownership of this aircraft during the first quarter of 2008. The borrower continues to make principal and interest payments and the loan will continue to accrue interest at a rate of 9.88% per annum until such time as we are able to take possession of the aircraft.

**Note 6. Securitizations and Borrowings under Credit Facilities**

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

	<b>At December 31, 2006</b>		<b>At December 31, 2007</b>	<b>Final Stated Maturity</b>
	<b>Outstanding Borrowings</b>	<b>Outstanding Borrowings</b>	<b>Interest Rate<sup>(1)</sup></b>	
<b>Debt Obligation</b>				

**Securitizations:**

Securitization No. 1	\$ 549,400	\$ 527,397	1 M LIBOR + .27% = 5.30%	6/20/31
Securitization No. 2		1,150,339	1 M LIBOR + .26% = 5.50%	6/14/37
Total Securitizations	549,400	1,677,736		

**Credit Facilities:**

747 PDP Credit Facility		64,127	1 M LIBOR + 1.00% = 6.03%	4/15/08
Revolving Credit Facility			1 M LIBOR + 1.50% = 6.53%	6/15/08
Amended Credit Facility No. 2	369,328	734,059	1 M LIBOR + 1.25% = 6.28%	12/15/08
Credit Facility No. 3	73,332		1 M LIBOR + 1.50% N/A	N/A
Total Credit Facilities	442,660	798,186		
Total	\$ 992,060	\$ 2,475,922		

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- (1) LIBOR in effect  
at the applicable  
reset date.

*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 1 Group", issued \$560,000 of Class A-1 notes, or the "ACS 1 Notes" to the ACS 2006-1 Pass Through Trust, or the "ACS 1 Trust". The ACS 1 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the "ACS 1 Certificates", representing undivided fractional interests in the notes. Payments on the ACS 1 Notes will be passed through to holders of the ACS 1 certificates. The ACS 1 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 ACS 1 Notes are neither obligations of, nor guaranteed by, Aircastle Limited. The ACS 1 Notes mature on June 20, 2031.

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 ACS 1 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, which at December 31, 2007 was 5.30%, and scheduled payments of principal. Financial Guaranty Insurance Company (FGIC) issued a financial guaranty insurance policy to support the payment of interest when due on the ACS 1 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 1 Certificates. A downgrade in the rating of FGIC will not result in a change in any of the rights or obligations of the parties to Securitization No. 1. 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. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 1 Notes and, accordingly, the ACS 1 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging 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 \$140,431 at December 31, 2007, is a VIE which we consolidate. At December 31, 2007, the outstanding principal amount of ACS Ireland notes was \$102,327. The assets of ACS Ireland, as of December 31, 2007, include four aircraft transferred to ACS Ireland in connection with Securitization No. 1.

*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 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.

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

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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.

We used a portion of Securitization No. 2 to repay amounts owed on Amended Credit Facility No. 2 and to repay Credit Facility No. 3 in full in July 2007. The remainder of the proceeds was used for the acquisition of aircraft and working capital purposes.

The ACS 2 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.26%, which at December 31, 2007 was 5.50%, and scheduled payments of principal. FGIC 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. A downgrade in the rating of FGIC will not result in any change in the rights or obligations of the parties to Securitization No. 2. 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. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 2 Notes and, accordingly, the ACS 2 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging 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 \$250,603 at December 31, 2007, is a VIE which we consolidate. At December 31, 2007, the outstanding principal amount of the ACS2 notes issued by ACS Ireland 2 was \$187,253. The assets of ACS Ireland 2 as of December 31, 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 three 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, which at December 31, 2007 was 6.03%, 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 December 15, 2006, the Company entered into a \$250,000 revolving credit facility with a group of banks which we refer to as the Revolving Credit Facility . 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. 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 (i) the prime rate and (ii) the federal funds rate plus 0.50% per annum or (b) in the case of loans with an interest rate based on the euro dollar rate (the EDR ), which is one-month LIBOR, at an annual rate equal to 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 \$125,000, and 0.125% per annum when the average outstanding loans are equal to or greater than \$125,000. 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.

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

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public 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 proceeds of any future equity capital we raise, which, as of December 31, 2007, resulted in a minimum net worth covenant equal to \$918,877. 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 December 31, 2007, there were no outstanding loans and \$5,954 of letters of credit outstanding under the Revolving Credit Facility. We expect to extend, modify or replace the maturity of our Revolving Credit Facility before its current maturity of June 15, 2008.

*Amended 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 plus 1.25%. Additionally, we are subject to a 0.125% 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. 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.

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

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%, at 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, at an annual rate equal to the EDR plus 1.25% per annum. Additionally, we are subject to a 0.125% fee on any unused portion of the total committed facility. Amended Credit Facility No. 2 requires the monthly payment of interest and principal, to the extent of 65% of any decrease in the net book value of the aircraft securing Amended Credit Facility No. 2. Amended Credit Facility No. 2 matures on December 15, 2008.

At December 31, 2007, we had borrowings of \$734,059 related to 31 aircraft under our Amended Credit Facility No. 2. During the second quarter of 2008, we plan to refinance a majority of these aircraft, as well as 5 additional aircraft that we expect to acquire during the first half of 2008, with long-term financing using a cost effective debt structure such as a non-recourse securitization or similar bank market financing. We believe that similar bank market financing would be available in a single, diversified portfolio transaction structured like a securitization or would also be available in a series of smaller financings. In addition, we expect to extend, modify or replace Amended Credit Facility No. 2 with a similar aircraft acquisition facility before its current maturity of December 15, 2008.

*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*

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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. 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 transfer of the related aircraft financed on Credit Facility No. 3 into Securitization No. 2. Credit Facility No. 3 was repaid in full in July 2007 out of the proceeds of Securitization No. 2.

The weighted average interest of these credit facilities at December 31, 2005, 2006 and 2007 were 5.87%, 6.64% and 6.26%, respectively.

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

2008	\$ 877,291
2009	65,640
2010	84,287
2011	116,848
2012	204,157
Thereafter	1,127,699
Total	\$ 2,475,922

**Note 7. Repurchase Agreements**

The outstanding amounts of our repurchase agreements were as follows:

<b>Debt Obligation</b>	<b>At December 31, 2006</b>		<b>At December 31, 2007</b>	
	<b>Outstanding Borrowing</b>	<b>Outstanding Borrowing</b>	<b>Interest Rate <sup>(1)</sup></b>	<b>Final Stated Maturity</b>
Repurchase Agreement <sup>(2)</sup>	\$ 75,055	\$ 60,282	1 M LIBOR + .50% = 5.75%	3/1/08
Repurchase Agreement	2,759	2,490	1 M LIBOR + .50% = 5.36%	6/28/08
Repurchase Agreement <sup>(3)</sup>	5,880	4,972	1 M LIBOR + .75% = 5.85%	1/15/08
Total Repurchase Agreements	\$ 83,694	\$ 67,744		

(1) LIBOR in effect at the applicable reset date.

(2) In February 2008, we sold the underlying debt investments and paid the outstanding amount under this repurchase agreement.

(3) Refinanced for one month in

both January  
and  
February 2008.

We intend to  
continue to  
refinance this  
repurchase  
agreement on a  
monthly basis.

We enter into repurchase agreements to fund a portion of the purchase price of certain of our debt investments. At December 31, 2006 and 2007, the repurchase agreements are secured by liens on the debt investments with a fair value of \$105,550 and \$85,173, 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.

The weighted average interest rate of these repurchase agreements was 5.09%, 5.88% and 5.74% in 2005, 2006 and 2007, respectively.

**Note 8. Shareholders Equity and Share Based Payment**

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.

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

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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.

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.

On April 30, 2007, the Board 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.

A summary of the fair value of nonvested shares for the years ended December 31, 2006 and 2007 is as follows:

<b>Nonvested Shares</b>	<b>Shares (in 000 s)</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Fair Value of Nonvested Shares at Grant Date</b>
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)
Nonvested at December 31, 2006	901.3	18.05	16,266
Granted	436.5	30.72	13,410
Cancelled	(17.3)	23.52	(407)
Vested	(259.9)	19.20	(4,988)
Nonvested at December 31, 2007	1,060.6	\$ 22.89	\$ 24,281

The fair value of the restricted shares granted in 2007 was determined based upon the market price of the shares at the grant date.

The total unrecognized compensation cost, adjusted for estimated forfeitures, related to all nonvested shares as of December 31, 2007, in the amount of \$18,620, is expected to be recognized over a weighted average period of 3.7 years.

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 April 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.

The fair value of the restricted shares granted in 2006 prior to the initial public offering 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.

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 IPO, 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 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 this offering, after our payment of

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\$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 October 10, 2007, the Company completed a second 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 this offering, after our payment of \$10,478 in underwriting discounts and commissions and approximately \$1,019 in other offering expenses, were \$337,753. Approximately \$230,889 of the net proceeds was used to repay borrowings under Amended Credit Facility No. 2. The remainder of the net proceeds was used for aircraft acquisitions and working capital requirements.

In conjunction with the second follow-on public offering, certain Fortress Shareholders sold 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. The Company did not receive any funds from this secondary offering by the selling Fortress Shareholders.

**Note 9. Dividends**

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

<b>Declaration Date</b>	<b>Dividend per Common Share</b>	<b>Aggregate Dividend Amount</b>	<b>Record Date</b>	<b>Payment Date</b>
July 20, 2006	\$ 0.35	\$14,367	July 26, 2006	July 31, 2006
August 2, 2006	\$ 0.156 <sup>(1)</sup>	6,403	August 1, 2006	August 15, 2006
October 9, 2006	\$ 0.194 <sup>(1)</sup>	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
December 11, 2007	\$ 0.70	55,004	December 31, 2007	January 15, 2008

(1) Total dividend  
for quarter of  
\$0.35

**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.

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The calculations of both basic and diluted earnings (loss) per share for the years ended December 31, 2005, 2006 and 2007 are as follows:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Numerator</b>			
Income (loss) from continuing operations	\$ (803)	\$ 45,920	\$ 114,403
Earnings from discontinued operations, net of income taxes	1,031	5,286	12,941
Net income	\$ 228	\$ 51,206	\$ 127,344
 <b>Denominator</b>			
Weighted-average shares used to compute basic earnings per share	40,000,000	45,758,242	67,177,528
Effect of dilutive restricted shares	(a)	293,757	240,274
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	40,000,000	46,051,999	67,417,802
 <b>Basic earnings per share:</b>			
Income (loss) from continuing operations	\$ (0.02)	\$ 1.00	\$ 1.71
Earnings from discontinued operations, net of income taxes	0.03	0.12	0.19
Net income per share	\$ 0.01	\$ 1.12	\$ 1.90
 <b>Diluted earnings per share:</b>			
Income (loss) from continuing operations	\$ (0.02)	\$ 1.00	\$ 1.70
Earnings from discontinued operations, net of income taxes	0.03	0.11	0.19
Net income per share	\$ 0.01	\$ 1.11	\$ 1.89

(a) Anti-dilutive

**Note 11. Income Taxes**

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

The sources of income from continuing operations before income taxes for the years ended December 31, 2005, 2006 and 2007 were as follows:

**Year Ended December 31,**

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	<b>2005</b>	<b>2006</b>	<b>2007</b>
U.S. operations	\$ 676	\$ 1,566	\$ 2,352
Non-U.S. operations	(539)	49,199	119,709
Total	\$ 137	\$ 50,765	\$ 122,061

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The components of the income tax provision from continuing operations for the year ended December 31, 2005, 2006 and 2007 consisted of the following:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Current:			
United States:			
Federal	\$ 373	\$ 1,924	\$ 4,365
State	184	463	749
Non-U.S	50	118	5,501
Current income tax provision	607	2,505	10,615
Deferred:			
United States:			
Federal	96	(331)	(1,216)
State	(26)	(66)	(244)
Non-U.S	263	2,737	(1,497)
Deferred income tax provision (benefit)	333	2,340	(2,957)
Total	\$ 940	\$ 4,845	\$ 7,658

Significant components of the Company's deferred tax assets and liabilities at December 31, 2005, 2006 and 2007 consisted of the following:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Deferred tax assets:			
Non-cash share based payments	\$ 152	\$ 1,051	\$ 1,666
Hedge gain			537
Net operating loss carry forwards	49	1,176	1,622
Other comprehensive income			1,928
Other	6	246	173
Total deferred tax assets	207	2,473	5,926
Deferred tax liabilities:			
Accelerated depreciation	(333)	(4,971)	(2,963)
Other		(176)	(119)
U.S. federal withholding tax on unremitted earnings	(207)		
Total deferred tax liabilities	(540)	(5,147)	(3,082)
Net deferred tax (liabilities) assets	\$ (333)	\$ (2,674)	\$ 2,844

The Company had net operating loss carry forwards of \$12,972 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, 2007, we have elected to permanently reinvest our accumulated undistributed U.S. earnings of \$4,326. Accordingly, no U.S. withholding taxes have been provided. Withholding tax of \$1,298 would be due if such earnings were remitted.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries own aircraft that operate to, from or within the U.S. and therefore may be subject to federal, state and local income taxes. We also have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes.

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Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations at December 31, 2005, 2006 and 2007 consisted of the following:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Notional U.S. federal income tax expense at the statutory rate:	\$ 48	\$ 17,768	\$ 42,721
U.S. state and local income tax, net	103	186	164
Non-U.S. operations	531	(13,641)	(35,434)
Non-deductible expenses in the U.S.	13	644	199
Other	245	(112)	8
Provision for income taxes	\$ 940	\$ 4,845	\$ 7,658

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an *Interpretation of FASB Statement No. 109* ( FIN 48 ), effective 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. 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 the adoption of 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 and local 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 year.

**Note 12. Interest, Net**

The following table shows the components of interest, net for the years ended December 31, 2005, 2006 and 2007:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Interest expense	\$ 8,172	\$ 55,766	\$ 112,166
Less interest income	(1,326)	(6,200)	(12,239)
Less capitalized interest			(7,267)
Interest, net	\$ 6,846	\$ 49,566	\$ 92,660

**Note 13. Commitments and Contingencies**

Rent expense, primarily for the corporate office and sales and marketing facilities, was approximately \$293, \$777 and \$961 for the years ended December 31, 2005, 2006 and 2007, respectively. Amounts in 2005 include \$43 of rent expense paid to Fortress for occupancy of shared space.

As of December 31, 2007, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut, Dublin, Ireland, and Singapore for future minimum lease payments as follows:



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	<b>Amount</b>
December 31,	
2008	\$ 1,134
2009	1,130
2010	982
2011	993
2012	960
Thereafter	742
 Total	 \$ 5,941

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. 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. 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 agreed to make accelerated payments to the relevant sellers and acquire their rights and 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 December 31, 2007, we have completed the acquisition of 28 of the aircraft for \$1,072,048.

On June 20, 2007, Aircastle entered into an acquisition agreement (the "Airbus A330F Agreement") with Airbus SAS ("Airbus") under which we agreed to acquire fifteen 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. Pre-delivery payments for each aircraft are payable to Airbus and are refundable to us only in limited circumstances. We agreed to separate arrangements with Rolls-Royce PLC (Rolls-Royce) and Pratt & Whitney (P&W) pursuant to which we committed to acquire aircraft engines for the New A330F Aircraft. As of December 31, 2007, we have made \$56,029 in deposits and progress payments to Airbus. Under limited circumstances, we have the right to change certain delivery positions from A300-200F freighter configuration aircraft to A330-200 passenger configuration aircraft.

On July 26, 2007, we made an accelerated payment to the relevant seller under the GAIF Acquisition Agreement for three Boeing Model 747-400ERF aircraft in the amount of \$106,668 and assumed the 747 PDP Credit Facility. One of the Boeing Model 747-400ERF aircraft was delivered to us during the third quarter of 2007. On October 16, 2007, we made an accelerated payment in the amount of \$20,778 to a second relevant GAIF seller and assumed a purchase agreement to acquire six Airbus Model A320-200 aircraft. In connection with this 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 aircraft's unadjusted purchase price plus accrued interest or \$5,954. These aircraft are scheduled to be delivered to us through February 2009. On November 16, 2007, we made an accelerated payment in the amount of \$51,168 to a third relevant GAIF seller for one Boeing Model 747-400 aircraft in freighter conversion, with a scheduled delivery date of February 2008.

At December 31, 2007, we had letters of intent or purchase agreements to acquire 23 aircraft for an estimated purchase price of \$1,526,232, comprised of the fifteen 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 escalations.



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, net of amounts already paid, are as follows:

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December 31,	<b>Amount</b>
2008	\$ 368,488
2009	233,056
2010	408,513
2011	440,050
<b>Total</b>	<b>\$ 1,450,107</b>

**Note 14. Related Party Transactions**

Fortress provides certain support services to Aircastle and requires us to reimburse it for costs incurred on its behalf. 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 \$311 in 2005, \$228 in 2006 and \$32 in 2007.

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. Aircastle reimbursed Fortress \$155, \$627 and \$113 in 2005, 2006 and 2007, 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 had 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. Total costs under the Aircastle 401(k) plan and other health and benefit plans were \$990.

As of December 31, 2005 and 2006, \$105 and \$132, respectively, were payable to Fortress. As of December 31, 2007, a deposit of \$200 related to the sale of the two aircraft discussed below was 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. As of December 31, 2006 and 2007, we had earned \$209 and \$596, respectively, in fees due from the Fortress entity. Total fees paid to us for the years ended December 31, 2006 and 2007 were \$156 and \$632, 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 2007, we had a \$53 and \$17 receivable, respectively, from Fortress.

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.

For the years ended December 31, 2005, 2006 and 2007, Aircastle paid \$235, \$1,124 and \$560, respectively, for legal fees related to the establishment and financing activities of our Bermuda subsidiaries, and, for the years ended December 31, 2005, 2006, and 2007, Aircastle paid \$155, \$120 and \$162 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 cash 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

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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. We held the following interest rate derivative contracts as of December 31, 2007:

Hedged Item	Current/ Starting Notional Amount	Effective Date	Mandatory Early Termination Date	Maturity Date	Future Maximum Notional Amount	Floating Rate	Fixed Rate	Fair Value of Derivative Asset or (Liability)
Securitization No. 1	\$ 527,396	Jun-06	N/A	Jun-16	\$ 527,396	1M LIBOR + 0.27%	5.78%	\$ (33,842)
Securitization No. 2	1,150,339	Jun-07	N/A	Jun-12	1,150,339	1M LIBOR	5.25% to 5.36%	(54,110)
Revolving Credit Facility	28,000	Jun-07	Dec-11	Jan-12	203,000	1M LIBOR	4.89%	(3,827)
Amended Credit Facility No. 2	440,000	Jun-07	Jun-08	Feb-13	440,000	1M LIBOR	4.88%	(15,569)
Amended Credit Facility No. 2	150,000	Jul-07	Aug-08	Dec-17	150,000	1M LIBOR	5.14%	(6,642)
Amended Credit Facility No. 2 and 747	242,000	Aug-07	Nov-08	May-13	247,000	1M LIBOR	5.33%	(10,669)
PDP Credit Facility	40,000	Jan-08	Feb-09	Feb-19	360,000	1M LIBOR	5.16%	(16,454)
Future debt and securitization	5,000	May-08	Sep-09	Mar-14	55,000	1M LIBOR	5.41%	(2,885)
Future debt and securitization	46,000	Apr-10	Nov-11	Oct-15	231,000	1M LIBOR	5.17%	(3,796)
Future debt and securitization	95,000	Jan-11	May-12	Apr-16	238,000	1M LIBOR	5.23%	(3,163)
Future debt and securitization	143,000	Jul-11	Oct-12	Sep-16	238,000	1M LIBOR	5.27%	(2,798)
Repurchase Agreement	2,900	Jun-05	N/A	Mar-13	2,900	3M LIBOR	4.21%	(2)
Repurchase Agreement	5,000	Dec-05	N/A	Sep-09	5,000	1M LIBOR	4.94%	(85)
Repurchase Agreement (1)	39,000	Feb-06	N/A	Jul-10	39,000	1M LIBOR	5.02%	(546)
<b>Total</b>	<b>\$ 2,913,635</b>				<b>\$ 3,886,635</b>			<b>\$ (154,388)</b>

- (1) In February 2008, we terminated this interest rate swap and incurred related fees and interest charges of approximately \$1,040.

The counterparties to these agreements are highly rated financial institutions. At December 31, 2007, counterparties to these agreements were rated A2 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, which is expected to be five years. It is expected that approximately \$3,793 of these existing gains will be reclassified into earnings in the next twelve months. For the years ended December 31, 2006 and 2007, gains of \$2,214 and \$3,971, respectively, were reclassified into earnings and are included in interest expense on the consolidated statements of income.

On January 23, 2007, we entered into three interest rate swap contracts to hedge the variable interest payments on debt we expect to incur to finance aircraft acquisitions over the next several years. The notional amounts of the initial contracts were \$360,000, \$90,000 and \$40,000 and will increase to a maximum of \$410,000, \$150,000 and \$360,000 respectively, and will amortize down as we repay the debt. In June 2007, we terminated one of these interest rate swaps. The two remaining interest rate swap contracts have mandatory early termination dates of August 15, 2008 and February 15, 2009, respectively. The aggregate fair value of the swaps at December 31, 2007 was a payable of \$23,096. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

In April 2007, we entered into five interest rate swap contracts with initial notional amounts of \$70,000, \$28,000, \$46,000, \$95,000 and \$143,000 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 \$440,000, \$203,000, \$231,000, \$238,000 and \$238,000, respectively and will amortize down as we repay debt. The terms of the interest rate swap contracts provide for payment of a fixed rate of 4.88%, 4.89%, 5.17%, 5.23% and 5.27%, respectively, and receipt of one-month LIBOR on the notional amount. These swaps have a start date of June 15, 2007, June 15, 2007,

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April 15, 2010, January 15, 2011 and July 15, 2011, respectively, a termination date of February 15, 2013, January 15, 2012, October 15, 2015, April 15, 2016 and September 15, 2016, respectively, and a mandatory early termination date of June 15, 2008, December 15, 2011, November 15, 2011, May 15, 2012 and October 15, 2012, respectively. The aggregate fair value of the swaps at December 31, 2007 was a payable of \$29,153. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

In June 2007, we entered into four interest rate swap contracts to hedge variable interest rate payments on the ACS 2 Notes issued in connection with Securitization No. 2. These four interest rate swaps mature in June 2012. The aggregate notional amount of these four interest rate swap contracts was \$1,150,339 at December 31, 2007 and such notional amount is scheduled to decrease on a monthly basis, reflecting scheduled principal payments on the ACS 2 Notes. The terms of the interest rate swap contracts provide for payment of a fixed rate between 5.25% to 5.36% per annum and receipt of one-month LIBOR on the notional amount. The aggregate fair value of the swaps at December 31, 2007 was a payable of \$54,110. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

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, which will occur over the next five years. It is expected that approximately \$1,518 of this gain will be reclassified to earnings in the next twelve months. For the year ended December 31, 2007, \$878 was reclassified into earnings and is 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. The aggregate fair value of the swaps at December 31, 2007 was a payable of \$13,554. We have designated these interest rate swaps as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

For the years ended December 31, 2005, 2006 and 2007, we recognized ineffectiveness gains (losses) of (\$126), \$814 and \$(172) related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of operations.

As of December 31, 2007, we pledged \$35,880 in cash collateral under our interest rate swaps and our interest rate forward contracts which is included in other assets on our consolidated balance sheet.

**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.

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**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.

Information on reportable segments for the years ended December 31, 2005, 2006 and 2007 is as follows:

	Year Ended December 31, 2005			Year Ended December 31, 2006			Year Ended December 31, 2007		
	Aircraft Leasing	Debt Invest- ments	Total	Aircraft Leasing	Debt Invest- ments	Total	Aircraft Leasing	Debt Invest- ments	Total
Revenues:									
Lease rentals	\$ 28,590	\$	\$ 28,590	\$ 173,605	\$	\$ 173,605	\$ 369,876	\$	369,876
Interest income		2,942	2,942		9,038	9,038		10,400	10,400
Other revenue	2	104	106	209		209	815		815
Total revenues	28,592	3,046	31,638	173,814	9,038	182,852	370,691	10,400	381,091
Expenses:									
Depreciation	11,121		11,121	52,895		52,895	125,762		125,762
Interest, net <sup>(1)</sup>	7,999	173	8,172	51,194	4,572	55,766	100,882	4,017	104,899
Other expense (income)	783		783	1,261		1,261	927		927
Total expenses	19,903	173	20,076	105,350	4,572	109,922	227,571	4,017	231,588
Contribution Margin	\$ 8,689	\$ 2,873	\$ 11,562	\$ 68,464	\$ 4,466	\$ 72,930	\$ 143,120	\$ 6,383	\$ 149,503
Segment Assets	\$ 768,934	\$ 27,447	\$ 796,381	\$ 1,694,485	\$ 129,087	\$ 1,823,572	\$ 4,252,428	\$ 152,754	\$ 4,405,182

(1) Net of capitalized interest of \$7,267 related to our aircraft leasing segment for the year



ended  
 December 31,  
 2007 (See Note  
 12 Interest, net ,  
 and Note 13  
 Commitments  
 and  
 Contingencies ).

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 years ended December 31, 2005, 2006 and 2007, as follows:

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Contribution Margin	\$ 11,562	\$ 72,930	\$ 149,503
Selling, general and administrative expenses	(12,493)	(27,836)	(39,040)
Depreciation and other expenses	(258)	(529)	(641)
Interest income on cash balances	1,326	6,200	12,239
Income from continuing operations before income taxes	\$ 137	\$ 50,765	\$ 122,061

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:

	<b>December 31, 2006</b>	<b>December 31, 2007</b>
Segment Assets	\$ 1,823,572	\$ 4,405,182
Operating cash accounts	58,118	13,546
Flight equipment held for sale	31,280	
All other	5,733	8,914
Total Assets	\$ 1,918,703	\$ 4,427,642

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**Note 17. Quarterly Financial Data (Unaudited)**

Quarterly results of our operations for the years ended December 31, 2006 and 2007 are summarized below (in thousands, except per share amounts):

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2006<sup>(1)</sup></b>				
Revenues	\$ 31,393	\$ 40,468	\$ 51,437	\$ 59,554
Income from continuing operations	\$ 7,435	\$ 4,708	\$ 14,712	\$ 19,065
Earnings from discontinued operations, net of income taxes	3,745	342	470	729
Net Income	\$ 11,180	\$ 5,050	\$ 15,182	\$ 19,794
Basic earnings per share:				
Income from continuing operations	\$ 0.18	\$ 0.11	\$ 0.31	\$ 0.38
Earnings from discontinued operations, net of income taxes	0.09	0.01	0.01	0.01
Net income	\$ 0.27	\$ 0.12	\$ 0.32	\$ 0.39
Diluted earnings per share:				
Income from continuing operations	\$ 0.18	\$ 0.10	\$ 0.31	\$ 0.38
Earnings from discontinued operations, net of income taxes	0.09	0.01	0.01	0.01
Net income	\$ 0.27	\$ 0.11	\$ 0.32	\$ 0.39
<b>2007</b>				
Revenues	\$ 70,004	\$ 85,115	\$ 105,264	\$ 120,708
Income from continuing operations	\$ 20,857	\$ 27,158	\$ 32,470	\$ 33,918
Earnings from discontinued operations, net of income taxes	684	10,910		1,347
Net Income	\$ 21,541	\$ 38,068	\$ 32,470	\$ 35,265
Basic earnings per share:				
Income from continuing operations	\$ 0.35	\$ 0.41	\$ 0.49	\$ 0.44
Earnings from discontinued operations, net of income taxes	0.01	0.16		0.02
Net income	\$ 0.36	\$ 0.57	\$ 0.49	\$ 0.46

Diluted earnings per share:								
Income from continuing operations	\$	0.35	\$	0.41	\$	0.49	\$	0.44
Earnings from discontinued operations, net of income taxes		0.01		0.16				0.02
Net income	\$	0.36	\$	0.57	\$	0.49	\$	0.46

(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.

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**Note 18. Accumulated Other Comprehensive Income (Loss)**

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

	Fair Value of Derivatives	Unrealized Appreciation  Debt Securities	Accumulated Other Comprehensive Income (Loss)
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
Net change in fair value of derivatives, net of tax benefit of \$1,928	(126,892)		(126,892)
Derivative gain reclassified into earnings	(4,849)		(4,849)
Net change in unrealized depreciation of debt securities		(3,557)	(3,557)
December 31, 2007	\$ (136,222)	\$ 10,833	\$ (125,389)

**Note 19. Subsequent Events***Investing*

In February 2008, we sold two of our debt investments for \$65,335, plus accrued interest. We repaid the outstanding balance of \$52,303, plus accrued interest, under the related repurchase agreement. Additionally, we terminated the related interest rate swap and paid breakage fees and accrued interest of approximately \$1,040.

*Financing*

On February 5, 2008, we entered into a senior secured credit agreement with two banks (the 2008-A Credit Agreement). The 2008-A Credit Agreement provides for loans in an aggregate amount of up to \$300,000, with borrowings under this credit facility being used to finance a portion of the purchase price of certain aircraft.

Loans under the 2008-A Credit Agreement mature on August 4, 2008 or, if the borrower exercises its extension option, which we refer to as the Extension Option, then the maturity date will be February 3, 2009. We refer to the period from August 4, 2008 to February 3, 2009 as the Extension Period. In addition, the 2008-A Credit Agreement provides for an accelerated maturity date which would occur on the date falling 180 days after the initial closing of a future long-term debt financing by Aircastle or one of its subsidiaries of \$300,000 or more (in a single transaction or series of related transactions).

We expect that interest on loans under the 2008-A Credit Agreement will generally be based on the one-month LIBOR rate plus an applicable margin. The applicable margin for LIBOR-based borrowings is 1.50% per annum, increasing to 2.50% per annum during the Extension Period. Additionally, we are subject to a 0.25% per annum fee, increasing to 0.375% per annum during the Extension Period, on any unused portion of the total committed facility.

*Fair Value of Derivatives and Margin Calls*

As of February 21, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$216,473 and we had pledged \$53,919 in cash collateral required under certain of our interest rate swaps and our interest rate forward contracts.

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**Note 20. Restatement and Reclassification of Previously Issued Financial Statements**

The Company identified a misstatement in its consolidated statements of cash flows with regards to the presentation of non-cash activities related to security deposits, maintenance payments and lease rentals received in advance that were assumed from sellers when aircraft were acquired. In certain cases, the amount of these assumed liabilities were offset against the cash paid for the aircraft. However, in preparing the consolidated statements of cash flows, the Company included these assumed liabilities in the amount presented as cash paid for the acquisition and improvement of flight equipment in the investing section of its consolidated statements of cash flows. In addition, the Company included these assumed liabilities in the amounts presented as changes in security deposits and maintenance payments and lease rentals received in advance in the operating section of its consolidated statements of cash flows. After a re-evaluation, management concluded that it would be more appropriate to disclose security deposits, maintenance liabilities and lease rentals received in advance assumed in asset acquisitions as non-cash activities and to present the actual cash paid for the aircraft as cash outflows for the acquisition and improvement of flight equipment in the investing section of the consolidated statements of cash flows.

In addition, the Company is reclassifying certain security deposits and maintenance payments collected from and returned to its lessees from operating activities to financing activities to better reflect the nature of the security deposits and maintenance payment activities.

The misstatement and reclassification had no impact on the Company's previously reported consolidated balance sheets, consolidated statements of income, including net income and earnings per share, consolidated statements of changes in shareholders' equity or cash balances for any period.

The effects of these changes on the consolidated statements of cash flows for the years ended December 31, 2005, 2006 and 2007 are summarized as follows:

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Cash flows from Operations</b>			
As previously reported	\$ 20,562	\$ 135,282	\$ 381,061
Correction of misstatement	(31,827)	(62,918)	(113,707)
Reclassification	(9,709)	(29,652)	(67,144)
Restated	\$ (20,974)	\$ 42,712	\$ 200,210
<b>Cash flows from Investing</b>			
As previously reported	\$(742,144)	\$(920,920)	\$(2,483,503)
Correction of misstatement	31,827	62,918	113,707
Restated	\$(710,317)	\$(858,002)	\$(2,369,796)
<b>Cash flows from Financing</b>			
As previously reported	\$ 801,525	\$ 763,813	\$ 2,057,870
Reclassification	9,709	29,652	67,144
Restated	\$ 811,234	\$ 793,465	\$ 2,125,014

**Net change in cash and cash equivalents**

As previously reported	\$ 79,943	\$ (21,825)	\$ (44,572)
Restated	79,943	(21,825)	(44,572)
Change	\$	\$	\$

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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 November 17, 2008

**Aircastle Limited**

By: /s/ Michael Inglese  
Michael Inglese  
Chief Financial Officer  
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