Aircastle LTD
Form 10-Q
August 14, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File number 001-32959

AIRCASTLE LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	98-0444035
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
300 First Stamford Place, 5th Floor, Stamford, CT	06902
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of ''accelerated filer and large accelerated filer'' in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares outstanding as of August 9, 2007: 67,433,451 common shares, par value $0.01 per share.

Aircastle Limited and Subsidiaries

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Part I. — Financial Information

Item 1. Financial Statements

Aircastle Limited and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2006	June 30, 2007 (unaudited)
ASSETS		
Cash and cash equivalents	$ 58,118	$ 67,714
Accounts receivable	7,696	5,474
Debt investments	121,273	122,728
Restricted cash and cash equivalents	106,069	629,506
Flight equipment held for sale	31,280	—
Flight equipment held for lease, net of accumulated depreciation of $64,111 and $113,156	1,559,364	2,672,453
Aircraft purchase deposits and progress payments	4,650	94,063
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of $694 and $993	1,506	1,466
Fair value of derivative assets	313	36,622
Other assets	28,434	41,206
Total assets	$ 1,918,703	$ 3,671,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings under credit facilities	$ 442,660	$ 339,536
Borrowings from securitizations	549,400	1,708,534
Accounts payable, accrued expenses and other liabilities	31,384	58,238
Aircraft acquisition payable	—	65,171
Dividends payable	22,584	40,467
Lease rentals received in advance	11,068	14,672
Repurchase agreements	83,694	75,163
Security deposits	39,767	57,836
Maintenance payments	82,914	132,284
Fair value of derivative liabilities	18,035	3,021
Total liabilities	1,281,506	2,494,922
Commitments and Contingencies – Note 13		
SHAREHOLDERS' EQUITY		
Preference shares, $.01 par value, 50,000,000 shares authorized, no shares issued and outstanding at December 31, 2006 and June 30, 2007	—	—
Common shares, $.01 par value, 250,000,000 shares authorized, 51,621,279 shares issued and outstanding at December 31, 2006; and 67,433,451 shares issued and outstanding at June 30, 2007	516	674
Additional paid-in capital	630,154	1,127,950
Dividends in excess of earnings	(3,382)	(17,867)
Accumulated other comprehensive income	9,909	65,553
Total shareholders' equity	637,197	1,176,310
Total liabilities and shareholders' equity	$ 1,918,703	$ 3,671,232

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Revenues				
Lease rentals	$ 38,008	$ 81,926	$ 67,760	$ 149,284
Interest income	2,460	2,728	4,101	5,316
Other revenue	—	460	—	519
Total revenues	40,468	85,114	71,861	155,119
Expenses				
Depreciation	11,162	27,764	20,238	49,398
Interest (net of interest income of $1,466 and $4,122 for the three months ended and $2,740 and $5,883 for the six months ended June 30, 2006 and 2007, respectively)	12,714	19,345	20,078	36,077
Selling, general and administrative (including non-cash share based payment expense of $5,393 and $2,789 for the three months ended and $6,685 and $4,046 for the six months ended June 30, 2006 and 2007, respectively)	9,973	10,448	15,847	18,944
Other expense (income)	277	(774)	917	(393)
Total expenses	34,126	56,783	57,080	104,026
Income from continuing operations before income taxes	6,342	28,331	14,781	51,093
Income tax provision	1,634	1,173	2,638	3,078
Income from continuing operations	4,708	27,158	12,143	48,015
Earnings from discontinued operations, net of income taxes	342	10,910	4,087	11,594
Net income	$ 5,050	$ 38,068	$ 16,230	$ 59,609
Basic earnings per share:				
Income from continuing operations	$ 0.11	$ 0.41	$ 0.28	$ 0.77
Earnings from discontinued operations, net of income taxes	0.01	0.16	0.10	0.18
Net income per share	$ 0.12	$ 0.57	$ 0.38	$ 0.95
Diluted earnings per share:				
Income from continuing operations	$ 0.10	$ 0.41	$ 0.28	$ 0.77
Earnings from discontinued operations, net of income taxes	0.01	0.16	0.10	0.18
Net income per share	$ 0.11	$ 0.57	$ 0.38	$ 0.95
Dividends declared per share	$ —	$ 0.60	$ —	$ 1.10

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

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

	Six Months Ended June 30,	
	2006	2007
Cash flows from operating activities		
Net income	$ 16,230	$ 59,609
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations)		
Depreciation	21,763	50,158
Amortization of deferred financing costs	3,435	3,166
Amortization of lease premiums and discounts, and other related lease items	(1,542)	(3,493)
Deferred income taxes	805	(3,109)
Accretion of purchase discounts on debt investments	(382)	(405)
Non-cash share based payment expense	6,685	4,046
Cash flow hedges reclassified into earnings	(172)	(2,110)
Realized gain on derivative contract	—	(1,154)
Ineffective portion of cash flow hedges	(858)	(418)
Gain on the sale of flight equipment	(2,240)	(10,219)
Changes in certain assets and liabilities:		
Accounts receivable	(3,114)	2,222
Restricted cash and cash equivalents	(21,748)	(22,872)
Other assets	(804)	(2,269)
Accounts payable, accrued expenses and other liabilities	744	5,187
Lease rentals received in advance	2,646	3,604
Security deposits and maintenance payments	37,531	67,790
Net cash provided by operating activities	58,979	149,733
Cash flows from investing activities		
Acquisition and improvement of flight equipment	(385,433)	(1,070,216)
Disposition of flight equipment held for sale	57,157	34,946
Purchase of debt investments	(92,726)	(15,251)
Margin deposits	—	3,688
Leasehold improvements, furnishings and equipment	(602)	(259)
Aircraft purchase deposits and progress payments	(29,522)	(88,413)
Principal repayments on debt investments	3,589	13,372
Net cash used in investing activities	(447,537)	(1,122,133)
Cash flows from financing activities		
Issuance of common shares	38,702	493,056
Issuance of common shares to employees	—	1,216
Repurchase of shares from employees	—	(364)
Proceeds from securitizations	560,000	1,170,000
Credit facility borrowings	294,730	1,009,779

Restricted cash and cash equivalents related to unreleased securitization borrowings	(32,865)	(500,565)
Securitization repayments	—	(10,866)
Credit facility repayments	(522,883)	(1,112,902)
Deferred financing costs	(13,872)	(11,552)
Proceeds from repurchase agreements	75,978	894
Proceeds from terminated cash flow hedges	16,142	8,936
Restricted cash from terminated cash flow hedges	(16,142)	—
Principal repayments on repurchase agreements	(199)	(9,425)
Dividends paid	—	(56,211)
Net cash provided by financing activities	399,591	981,996
Net increase in cash and cash equivalents	11,033	9,596
Cash and cash equivalents at beginning of period	79,943	58,118
Cash and cash equivalents at end of period	$ 90,976	$ 67,714

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

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

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited, (‘‘Aircastle,’’ the ‘‘Company,’’ ‘‘we,’’ ‘‘us’’ or ‘‘our’’) is a Bermuda exempted company that was incorpor
October 29, 2004 by funds managed by affiliates of Fortress Investment Group LLC and certain of its affiliates (together, the ‘‘Fortress Shareholders’’ or ‘‘Fortress’’, and such funds the ‘‘Fortress Funds’’) under the provisions of Section 1
of the Companies Act of 1981 of Bermuda. Aircastle's business is investing in aviation assets, including acquiring, managing and leasing commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments. Fortress Shareholders continue to beneficially own a majority of our outstanding common shares.

Basis of Presentation

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

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the ‘‘SEC’’) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in condensed financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC;

however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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

Principles of Consolidation

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

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 (''SFAS No. 159''). SFAS No 159, which amends SFAS No. 115, allows certain financial assets and liabilities to be recognized, at the company's election, at fair market value, with any gains or losses for the period recorded in the statement of income. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Currently, the Company records the gains or losses for the period in the statement of comprehensive income and in

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the equity section of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of SFAS No. 159 on its consolidated results of operations and financial position.

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

Note 2.   Fair Value of Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, debt investments, accounts payable, amounts borrowed under credit facilities,

borrowings from securitization, repurchase agreements and cash flow hedges. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short term nature. Borrowings under our credit facilities, 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 that, for similar financial instruments with comparable credit risks, the effective rate of these agreements approximates market rates at the balance sheet dates. Accordingly, the carrying amounts of these agreements are believed to approximate their fair values. The fair value of our debt investments and cash flow hedges is generally determined by reference to broker quotations.

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

Minimum future annual lease rentals contracted to be received under our existing operating leases at June 30, 2007 were as follows:

Year Ending December 31,	Amount
Remainder of 2007	$ 195,699
2008	374,351
2009	319,287
2010	258,822
2011	195,845
2012	129,088
Thereafter	169,231
	$ 1,642,323

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Region	2006	2007	2006	2007
Europe	45%	46%	42%	45%
Asia	22%	27%	24%	26%
North America	27%	18%	28%	20%
Latin America	4%	6%	5%	6%
Middle East and Africa	2%	3%	1%	3%
	100%	100%	100%	100%

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

For the three months ended June 30, 2006, one customer accounted for 27% of lease rental revenues and three additional customers accounted for a combined 20% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenue. For the three months ended June 30, 2007, one customer accounted for 13% of lease rental revenue and two additional customers accounted for a combined 13% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenues

For the six months ended June 30, 2006, one customer accounted for 29% of lease rental revenues and three additional customers accounted for a combined 22% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenue. For the six months ended June 30, 2007, one customer accounted for 15% of lease rental revenue and three additional customers accounted for a combined 19% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenues.

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

	December 31, 2006		June 30, 2007	
Region	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Europe	35	45%	47	45%
Asia	15	23%	29	31%
North America	11	22%	12	13%
Latin America	5	6%	6	4%
Middle East and Africa	3	4%	6	7%
	69	100%	100	100%

At December 31, 2006 and June 30, 2007, lease acquisition costs included in other assets on the consolidated balance sheets were $794 and $184, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were $830 and $417 at December 31, 2006 and June 30, 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 three months ended March 31, 2006, we completed the sale of this aircraft. In accordance with the credit facility associated with this aircraft, a portion of the proceeds was used to repay $36,666 of debt related to the aircraft plus accrued interest.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Earnings from discontinued operations				
Lease rentals	$ 1,619	$ 745	$ 5,373	$ 2,364
Depreciation	(685)	—	(1,525)	(761)
Gain on disposition	—	10,219	2,240	10,219
Interest expense	(451)	—	(1,332)	—
Other expenses	(112)	(47)	(192)	(185)
Earnings before income tax provision	371	10,917	4,564	11,637
Income tax provision	(29)	(7)	(477)	(43)
Earnings from discontinued operations	$ 342	$ 10,910	$ 4,087	$ 11,594

Note 5. Debt Investments

At June 30, 2007, debt investments with an aggregate fair value of $108,074 were U.S. corporate obligations and were classified as available-for-sale. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which $86,601 are senior tranche with an investment grade rating and $21,473 are subordinate to other debt related to such aircraft. All of our debt investments which are classified as available-for-sale had unrealized gain positions relative to their net book values, which aggregated to $14,390 and $13,561 at December 31, 2006 and June 30, 2007, respectively.

At June 30, 2007, debt investments with a fair value of $44,977 and $44,887, respectively, have stated maturities in 2010 and 2011, respectively. Debt investments with an aggregate fair value of $18,210 have remaining terms to stated maturity in excess of 10 years after June 30, 2007. All of our debt investments provide for the periodic payment of both principal and interest and are subject to prepayment and/or acceleration depending on certain events, including the sale of the underlying collateral aircraft and events of default. Therefore, the actual maturity of our debt investments may be less than the stated maturities.

In 2007, we acquired a loan secured by a commercial jet aircraft with a cash purchase of $15,251 that was classified as held to maturity. The loan has a stated maturity of December 2007 and at June 30, 2007 had a net book value of $14,654, which we believe approximates its fair value as of that date.

Note 6. Securitization and Borrowings under Credit Facilities

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

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Securitization No. 2

On June 8, 2007, we completed our second securitization, a $1,170,000 transaction comprising 59 aircraft, which we refer to as ''Securitization No. 2''. In connection with Securitization No. 2, two of our subsidiaries, ACS Aircraft Finance Ireland 2 Limited (''ACS Ireland 2'') and ACS 2007-1 Limited (''ACS Bermuda 2''), to which we refer together with their subsidiaries as the ''ACS 2 Group'' issued $1,170,000 of Class A notes, or the ''ACS 2 Notes'', to a newly formed trust, the ACS 2007-1 Pass Through Trust, or the ''ACS 2 Trust.'' The ACS 2 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the ''ACS 2 Certificates'', representing undivided fractional interests in the ACS 2 Notes. Payments on the ACS 2 Notes will be passed through to the holders of the ACS 2 Certificates. The ACS 2 Notes are secured by ownership in aircraft owning subsidiaries of ACS Bermuda 2 and ACS Ireland 2 and the aircraft leases, cash, rights under service agreements and any other assets they may hold. Each of ACS Bermuda 2 and ACS Ireland 2 has fully and unconditionally guaranteed the other's obligations under the ACS 2 Notes. However, the ACS 2 Notes are neither obligations of nor guaranteed by Aircastle Limited. The ACS 2 Notes mature on June 8, 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 substantially upon the timely receipt of lease payments from their lessees. In particular, during the first five years from issuance, Securitization No. 2 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 60.6% of an assumed value of the 59 aircraft securing the ACS 2 Notes. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of Securitization No. 2, and in any month following the fifth anniversary of the closing date, all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

As of June 30, 2007, the ACS 2 Group used the proceeds from the sale of the ACS 2 Notes to acquire 39 aircraft from us and we paid certain expenses incurred in connection with the ACS 2 Certificates offering of approximately $12,620. At June 30, 2007, the ACS 2 Group held proceeds in the amount of $500,565 in restricted cash for the purchase of the remaining 20 aircraft, which is expected to occur during the third quarter of 2007. We used a portion of the proceeds from Securitization No. 2 to repay amounts owed under Amended Credit Facility No. 2. The ACS 2 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.26%, which at June 30, 2007 was 5.58%, 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 2 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 2 Certificates. The ACS 2 Certificates are rated Aaa and AAA by Moody's Investors Service and Standard & Poor's rating services, respectively. We have entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. These contracts, together with the related guarantee premium, the spread referenced

above and other costs of trust administration, result in a fixed rate cost of 6.20% per annum, after the amortization of issuance fees and expenses.

ACS Ireland 2, which had total assets of $218,705 at June 30, 2007, is a VIE which we consolidate. At June 30, 2007, the outstanding principal amount of ACS Ireland 2's notes was $190,682. The assets of ACS Ireland 2 as of June 30, 2007 include eight of nine planes to be transferred to ACS Ireland 2 in connection with Securitization No. 2, and the remaining aircraft transferred during the third quarter of 2007.

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

Securitization No. 1

In connection with Securitization No. 1, two of our subsidiaries, ACS Aircraft Finance Ireland plc (''ACS Ireland 1'') and ACS Aircraft Finance Bermuda Limited (''ACS Bermuda 1''), 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''. As of June 30, 2007, $538,534 of this securitization remains outstanding. The ACS 1 Notes mature on June 20, 2031. The ACS 1 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, which at June 30, 2007 was 5.59%, and scheduled payments of principal. We entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. These contracts, together with the related guarantee premium, the spread referenced above and other costs of trust administration, result in a fixed rate cost of 6.60% per annum, after the amortization of issuance fees and expenses.

ACS Ireland 1, which had total assets of $145,293 at June 30, 2007, is a VIE which we consolidate. At June 30, 2007, the outstanding principal amount of ACS Ireland 1's notes was $104,296.

Amended Credit Facility No. 2

We are currently utilizing a senior secured credit facility, which we refer to as Amended Credit Facility No. 2, to finance up to 65% of the purchase price of certain aircraft not included in our two securitizations. As of June 30, 2007, we had outstanding borrowings of $266,204 under Amended Credit Facility No. 2 and the interest rate was 6.57%. 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. Borrowings under Amended Credit Facility No. 2 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%, 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 eurodollar rate (the ''EDR''), which is one-month LIBOR, 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 No. 2. Amended Credit Facility No. 2 matures on December 15, 2008.

Revolving Credit Facility

Our $250,000 revolving credit facility, which we refer to as the Revolving Credit Facility, provides loans for working capital and other general corporate purposes, and also provides for issuance of letters of credit with an aggregate stated amount not exceeding $125,000. The aggregate amount of borrowings together with the aggregate stated amount of all letters of credit under the Revolving Credit Facility may not exceed $250,000. Borrowings under the Revolving Credit Facility bear interest (a) in the case of loans with an interest rate based on ABR, at the ABR plus 0.50% per annum, or (b) in the case of loans with an interest rate based on the EDR, at 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 $125,000. 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 $750,000 plus

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

The Revolving Credit Facility matures on December 15, 2007. At June 30, 2007, there were no outstanding loans and $32,273 of letters of credit outstanding under the Revolving Credit Facility.

Credit Facility No. 3

As of June 30, 2007, we had a secured credit facility to finance the acquisition of two aircraft, which we refer to as Credit Facility No. 3. We had outstanding borrowings of $73,332 under Credit Facility No. 3 as of June 30, 2007, and the interest rate was 6.82%. Credit Facility No. 3 was repaid in full in July of 2007 out of the proceeds of Securitization No. 2. The interest rate on Credit Facility No. 3 was one-month LIBOR plus 1.50%. 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.

The weighted average interest rate of Amended Credit Facility No. 2, the Revolving Credit Facility and Credit Facility No. 3 at December 31, 2006 and June 30, 2007 was 6.64%, and 6.62%, respectively.

Note 7. Repurchase Agreements

We enter into repurchase agreements to fund a portion of the purchase price of certain of our senior tranche investment grade debt investments. At December 31, 2006 and June 30, 2007 the repurchase agreements are secured by liens on the debt investments with a fair value of $105,550 and $93,593, respectively. The repurchase agreements provide for the payment of interest at LIBOR based rates plus spreads ranging from 0.50% to 0.75%. At June 30, 2007

the rate for LIBOR plus 0.50% was 5.82% and the rate for LIBOR plus 0.75% was 6.11%. The repurchase agreements are substantially all with parties other than those from whom we originally purchased the debt investments. At June 30, 2007, the repurchase agreements are scheduled to mature between September 2007 and June 2008. Upon maturity, we plan to refinance the repurchase agreements on similar terms and conditions. The weighted average interest rate of these repurchase agreements at December 31, 2006 and June 30, 2007 was 5.88% and 5.84%, respectively.

Note 8. Shareholders’ Equity and Share Based Payments

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

On February 8, 2006, Fortress purchased 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.

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

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

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

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

Nonvested Shares	Shares (in 000’s)	Weighted Average Grant Date	Fair Value of Nonvested

		Fair Value	Shares at Grant Date
Nonvested at January 1, 2007	901.3	$ 18.05	$ 16,266
Granted	254.5	34.01	8,655
Cancelled	(1.2)	(28.89)	(34)
Vested	(238.1)	(18.85)	(4,487)
Nonvested at June 30, 2007	916.5	$ 22.26	$ 20,400

The fair value of the restricted shares granted in 2007 was determined based upon the market price of the shares at the grant date. We anticipate that the current requisite service periods will be obtained for employees with awards. The total unrecognized compensation cost as of June 30, 2007 in the amount of $17,488 is expected to be recognized over a weighted average period of four years.

Note 9. Dividends

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

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

On June 14, 2007, the Board declared a second quarter dividend of $0.60 per Common Share, or an aggregate of $40,460 which was paid on July 13, 2007 to the shareholders of record as of June 29, 2007.

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Note 10. Earnings Per Share

The following table shows how we computed basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Numerator				
Income from continuing operations	$ 4,708	$ 27,158	$ 12,143	$ 48,015
Earnings from discontinued operations, net of income taxes	342	10,910	4,087	11,594
Net income	$ 5,050	$ 38,068	$ 16,230	$ 59,609
Denominator				
	43,922,711	66,554,222	42,610,193	62,730,381

Weighted-average shares used to compute basic earnings per share				
Effect of dilutive restricted shares	204,556	269,235	245,298	227,490
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	44,127,267	66,823,457	42,855,491	62,957,871

Note 11. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
U.S. operations	$ 238	$ 931	$ 406	$ 1,376
Non-U.S. operations	6,104	27,400	14,375	49,717
Total	$ 6,342	$ 28,331	$ 14,781	$ 51,093

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Notional U.S. federal income tax expense at the statutory rate:	$ 2,575	$ 9,622	$ 5,650	$ 17,589
U.S. state and local income tax, net	90	56	108	106
Non-U.S. operations	(1,723)	(8,514)	(3,997)	(14,649)
Non-deductible expenses in the U.S.	368	59	372	73
Other	324	(50)	505	(41)
Provision for income taxes	$ 1,634	$ 1,173	$ 2,638	$ 3,078

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109 (''FIN 48''), on January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return

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should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. We did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

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

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

Note 12. Comprehensive Income

Comprehensive income includes net income, the changes in the fair value and the reclassification into earnings of amounts previously deferred relating to our derivative financial instruments which qualify for hedge accounting in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, and the change in unrealized appreciation of debt investments classified as available-for-sale. Comprehensive income was $18,127 and $105,753 for the three months ended June 30, 2006 and 2007 and $44,767 and $115, 253 for the six months ended June 30, 2006 and 2007, respectively.

Note 13. Commitments and Contingencies

On June 20, 2007, Aircastle entered into an acquisition agreement (the ''Airbus A330F Agreement'') with Airbus SAS (''Airbus'') under which we agreed to acquire 15 new Airbus Model A330-200F freighter aircraft (the ''New A330F Aircraft''). Five of the aircraft we will acquire under the Airbus A330F Agreement are scheduled to be delivered in 2010 with the remainder to be delivered in 2011.

On January 22, 2007, Aircastle entered into an acquisition agreement (the ''GAIF Acquisition Agreement'' and together with the Airbus A330F Agreement, the ''Aircraft Acquisition Agreements'') with Guggenheim Aviation Fund LP (''GAIF'') under which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately $1,595,000, subject to certain agreed adjustments. The aircraft we will acquire under the GAIF Acquisition Agreement are scheduled to be delivered to us through February 2009. For certain of the aircraft, we have agreed to make an accelerated payment to the relevant seller and acquire its right to obligations under the seller's purchase acquisition or freighter conversion agreement, with final payment and delivery of the aircraft to us being made upon delivery by the manufacturer or seller, or completion of the conversion process. As of June 30, 2007, we completed the acquisition of 24 of the aircraft to be delivered under the GAIF Acquisition Agreement, for approximately $780,373.

At June 30, 2007, we had letters of intent or purchase agreements to acquire 40 aircraft for an estimated purchase price of $2,352,263, including the 15 New A330F Aircraft and the balance of the

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

Committed amounts for the purchase of aircraft and related flight equipment, including the aircraft purchases discussed above, together with estimated amounts for pre-delivery deposits and, based on estimates for engine acquisition cost, contractual price escalation and other adjustments, are approximately $672,595 in 2007, $633,207 in 2008, $237,093 in 2009, $397,431 in 2010 and $420,893 in 2011.

Note 14. Related Party Transactions

Fortress provides certain support services to Aircastle. Fortress requires Aircastle to reimburse it for costs incurred on behalf of Aircastle. These costs consist primarily of professional services and office supplies purchased from third parties. These expenses are charged to Aircastle at cost and are included in selling, general and administrative expenses in our consolidated statements of income. Total costs of direct operating services for the three and six months ended June 30, 2006 and 2007 were $0 and $4 and $0 and $26, respectively.

During 2006, Aircastle employees participated in various benefit plans sponsored by Fortress including a voluntary savings plan (the ‘‘401(k) plan’’) and other health and benefit plans. For the three and six months ended June 30, 2006, Aircastle reimbursed Fortress $109 and $381, respectively, for its costs under the 401(k) Plan and the health and benefit plans. Aircastle also reimburses Fortress for matching contributions up to 3% of eligible earnings. At December 31, 2006, Aircastle accrued $113 in annual contributions for the 2006 plan year for our employees' participation in the 401(k) Plan sponsored by Fortress, which was paid to Fortress in March 2007. In January 2007, Aircastle established a separate 401(k) plan and other health and benefit plans.

As of December 31, 2006 and June 30, 2007, $132 and $118, respectively, were payable to Fortress.

In May 2006, two of our operating subsidiaries entered into service agreements to provide certain leasing, remarketing, administrative and technical services to a Fortress entity, with respect to four aircraft owned by the Fortress entity and leased to third parties. Total fees paid to us for the three and six months ended June 30, 2007 were $57 and $115, 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. At June 30, 2007, we had a $22 receivable 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.

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For the three and six months ended June 30, 2006 and 2007, Aircastle paid $356 and $22 and $519 and $143, respectively for legal fees related to the establishment and financing activities of our Bermuda subsidiaries. For the three and six months ended June 30, 2006 and 2007, Aircastle paid $10 and $27 and $95 and $105, respectively, 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' boards of directors. The Bermuda resident director serves as an outside director of these subsidiaries.

Note 15. Derivatives

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

Hedged Item	Notional Amount	Effective Date	Maturity Date	Floating Rate	Fixed Rate	Fair Value of Derivative Asset or (Liability)
Securitization No. 1	$ 538,534	Jun-06	Jun-16	1 Month LIBOR + 0.27%	5.78%	$ (3,021)
Securitization No. 2	1,170,000	Jun-07	Jun-12	1 Month LIBOR	5.25% to 5.36%	3,520
Future debt and securitization	90,000	Jul-07	Dec-17	1 Month LIBOR	5.14%	3,151
Future debt and securitization	40,000	Jan-08	Feb-19	1 Month LIBOR	5.16%	8,333
Amended Credit Facility No. 2	70,000	Jun-07	Feb-13	1 Month LIBOR	4.88%	9,091
Revolving Credit Facility	28,000	Jun-07	Jan-12	1 Month LIBOR	4.89%	1,751
Future debt and securitization	46,000	Apr-10	Oct-15	1 Month LIBOR	5.17%	3,640
Future debt and securitization	95,000	Jan-11	Apr-16	1 Month LIBOR	5.23%	3,410
Future debt and securitization	143,000	Jul-11	Sep-16		5.27%	3,235

				1 Month LIBOR		
Repurchase Agreement	48,000	Feb-06	Jul-10	1 Month LIBOR	5.02%	256
Repurchase Agreement	5,000	Dec-05	Sep-09	3 Month LIBOR	4.94%	45
Repurchase Agreement	2,900	Jun-05	Mar-13	1 Month LIBOR	4.21%	190
Total	$2,276,434					$33,601

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

In 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, 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. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes.

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 are $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. These interest rate swap contracts have a mandatory early termination date of August 15, 2007, August 15, 2008 and February 15, 2009, respectively. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes.

In June, 2007 we terminated three swaps resulting in a net deferred gain of $7,656, which will be amortized into income using the interest rate method over the life of Securitization No. 2 (the anticipated financing) which will occur over the next five years. It is expected that approximately $1,548 of this gain will be reclassified to earnings in the next twelve months. For the three and six months ended June 30, 2007, $96 was reclassified into earnings and is included in interest expense on the consolidated statement of income.

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 $1,170,000 at June 30, 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. We have designated these interest rate swap contracts as cash flow hedges for accounting purposes.

In June, 2006 we terminated two swaps resulting in a net deferred gain of $15,938 ,which will be amortized into income using the interest method over the life of Securitization No. 1 (the anticipated financing), which is expected to be five years. It is expected that approximately $3,879 of this gain will be reclassified into earnings in the next twelve months. For the three and six months ended June 30, 2007, gains of $997 and $2,003, respectively, were reclassified into earnings and are included in interest expense on the consolidated statements of income.

For the three months ended June 30, 2006 and 2007and for the six months ended June 30, 2006 and 2007, we recognized ineffectiveness gains of $605, $459, $858 and $417, respectively, related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of income.

Note 16. Segment Reporting

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

Aircraft Leasing

The Aircraft Leasing segment consists of amounts earned from our commercial aircraft leasing operations. All of 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 three months ended June 30, 2006 and 2007 is as follows:

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2007		
	Aircraft Leasing	Debt Investments	Total	Aircraft Leasing	Debt Investments	Total
Revenues						
Lease rentals	$ 38,008	$ —	$ 38,008	$ 81,926	$ —	$ 81,926
Interest income	—	2,460	2,460	—	2,728	2,728
Other revenue	—	—	—	460	—	460
Total revenues	38,008	2,460	40,468	82,386	2,728	85,114
Expenses						
Depreciation	11,035	—	11,035	27,614	—	27,614
Interest	13,121	1,059	14,180	22,452	1,015	23,467
Other expense (income)	277	—	277	(774)	—	(774)
Total expenses	24,433	1,059	25,492	49,292	1,015	50,307
Contribution Margin	$ 13,575	$ 1,401	$ 14,976	$ 33,094	$ 1,713	$ 34,807

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

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2007		
	Aircraft Leasing	Debt Investments	Total	Aircraft Leasing	Debt Investments	Total
Revenues						
Lease rentals	$ 67,760	$ —	$ 67,760	$ 149,284	$ —	$ 149,284
Interest income	—	4,101	4,101	—	5,316	5,316
Other revenue	—	—	—	519	—	519
Total revenues	67,760	4,101	71,861	149,803	5,316	155,119
Expenses						
Depreciation	19,998	—	19,998	49,099	—	49,099
Interest	20,889	1,929	22,818	40,012	1,948	41,960
Other expense (income)	917	—	917	(393)	—	(393)
Total expenses	41,804	1,929	43,733	88,718	1,948	90,666
Contribution Margin	$ 25,956	$ 2,172	$ 28,128	$ 61,085	$ 3,368	$ 64,453
Segment Assets	$ 1,265,518	$ 124,467	$ 1,389,985	$ 3,468,292	$ 125,279	$ 3,593,571

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2007	2006	2007
Contribution Margin	$ 14,976	$ 34,807	$ 28,128	$ 64,453
Selling, general and administrative expenses	(9,973)	(10,448)	(15,847)	(18,944)
Depreciation and other expenses	(127)	(150)	(240)	(299)
Interest income on cash balances	1,466	4,122	2,740	5,883
Income from continuing operations before income taxes	$ 6,342	$ 28,331	$ 14,781	$ 51,093

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

Total segment assets are reconciled to total assets as follows:

	December 31, 2006	June 30, 2007
Segment Assets	$ 1,823,572	$ 3,593,571
Operating cash accounts	58,118	67,714
Flight equipment held for sale	31,280	—
All other	5,733	9,947
	$ 1,918,703	$ 3,671,232

Note 17. Subsequent Events

Aviation Asset Acquisitions

From July 1, 2007 through August 9, 2007, we acquired additional aviation assets for an aggregate purchase price of approximately $187,516. The acquisitions were funded with cash on hand and borrowings under our credit facilities. At August 9, 2007, all of the purchased aircraft are subject to operating leases or commitments to lease.

Financing

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 17, 2008 and September 15, 2009, respectively. We

have designated these interest rate swaps as cash flow hedges for accounting purposes.

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For certain of the aircraft that we will purchase under the GAIF Acquisition Agreement, we agreed to make an accelerated payment to the relevant seller and acquire its 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. On July 26, 2007, we made an accelerated payment to the relevant GAIF seller for 3 Boeing Model 747-400ERF aircraft in the amount of $106,668 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 and was used to finance progress payments made to Boeing during the manufacturing of the aircraft. Borrowings under the 747 PDP Credit Facility bear interest at one-month LIBOR plus 1.00% per annum and will mature upon delivery of the final aircraft scheduled for April 2008. On July 30, 2007, we took delivery of the first Accelerated ERF Aircraft and paid down $31,799 under the 747 PDP Credit Facility.

From July 1, 2007 through August 9, 2007, ACS 2 Group purchased 14 aircraft and released $410,484 in restricted cash related to the acquisitions of the aircraft. The purchase of the remaining aircraft is expected occur during the third quarter of 2007.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under ''Risk Factors'' and included in our Annual Report on Form 10-K filed with the SEC.

Certain items in this Quarterly Report on Form 10-Q, and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not necessarily limited to, statements relating to our ability to acquire, sell and lease aircraft, issue aircraft lease-backed securities on attractive terms, anticipate, manage and address industry trends and their effect on

our business, pay and grow dividends, realize gains or income from our debt investments, obtain required licenses and governmental approvals, obtain favorable tax treatment, secure financing and increase revenues, earnings, and EBITDA. Words such as ''anticipate(s),'' ''expect(s),'' ''intend(s),'' ''plan(s),'' ''target(s),'' ''project(s),'' ''believe(s),'' ''wi ''seek(s),'' ''estimate(s)'' and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle Limited can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from Aircastle Limited's expectations include, but are not limited to, our significant customer concentration; our continued ability to obtain additional capital to finance our growth; our continued ability to acquire aircraft at attractive prices; our continued ability to obtain favorable tax treatment in Bermuda and other jurisdictions; our ability to pay or maintain dividends; our ability to lease aircraft at favorable rates and maintain the value of our aircraft; the possibility that conditions to closing of certain transactions will not be satisfied; our ability to realize gains or income from our debt investments; general economic conditions and economic conditions in the markets in which we operate; competitive pressures within the industry and/or markets in which we operate; the creditworthiness of our airline customers; interest rate fluctuations; our ability to obtain certain required licenses and approvals; the impact of future terrorist attacks or wars on the airline industry; our concentration of leases in certain geographical regions; and other risks detailed from time to time in Aircastle's filings with the SEC, including ''Risk Factors'' included elsewhere in this Quarterly Report on Form 10-Q and as previously disclosed in Aircastle's 2006 Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this Quarterly Report. Aircastle Limited expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

OVERVIEW

We are a global company that acquires and leases high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of June 30, 2007, our aircraft portfolio consisted of 100 aircraft with 45 lessees located in 28 countries and managed through our offices in the United States, Ireland and Singapore. Typically, our aircraft are subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational and insurance costs although, in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. We also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. As of August 9 2007, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to $3.1 billion and $2.4 billion, respectively, for a total of approximately $5.5 billion. Our revenues and income from continuing

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operations for the three and six months ended June 30, 2007 were $85.1 million and $27.2 million and $155.1 million and $48.0 million, respectively.

We intend to pay regular quarterly dividends to our shareholders. We plan to grow our dividends per share through the acquisition of additional aviation assets using cash on hand, cash generated from operating activities and available credit facilities. We expect to finance our acquisitions on a long-term basis using low-cost, non-recourse securitizations. Securitizations allow us to raise long-term capital by pledging cash flows of an asset pool, such as aircraft leases. In June 2007, we closed our second securitization, a $1,170 million transaction comprising 59 aircraft,

which we refer to as Securitization No. 2. On June 14, 2007, our board of directors declared a regular quarterly dividend of $0.60 per common share, or an aggregate of $40.5 million, for the three months ended June 30, 2007, which was paid on July 13, 2007 to holders of record on June 29, 2007. These dividends may not be indicative of the amount of any future dividends.

Segments

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

Aircraft Leasing

Typically, our aircraft are currently subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational and insurance costs. In many of our leases we are obligated to bear a portion of maintenance costs or costs associated with modifications required by manufacturers or regulators. We retain the benefit, and bear the risk, of re-leasing and the residual value of the aircraft upon expiry or early termination of the lease. As of June 30, 2007, our portfolio consisted of 100 aircraft with 45 lessees in 28 countries with a net book value of $2.67 billion. The weighted average (by net book value) age of the aircraft in the portfolio from the date of delivery by manufacturer to June 30, 2007, was 9.74 years. The weighted average (by net book value) remaining lease term for aircraft we owned at June 30, 2007 was 4.50 years.

Debt Investments

We also invest in debt investments secured by commercial jet aircraft, including enhanced equipment trust certificates, and other forms of collateralized debt. We believe our experience in the aircraft leasing business, coupled with knowledge of structured finance, enables us to make opportunistic investments in this market sector. Our intent is not to actively trade debt investments, and accordingly we have classified debt investments purchased to date as available-for-sale or held to maturity as defined in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. As of December 31, 2006, we owned debt securities secured by aircraft with a fair value of $121.3 million. During the six months ended June 30, 2007 we made one additional investment in debt investments secured by aviation assets. At June 30, 2007, our debt investment portfolio consisted of seven such debt investments with a fair value of $122.7 million.

Revenues

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

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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.

Excluding the three off lease Boeing 747-400 aircraft discussed below, as of June 30, 2007, we have executed or extended twelve leases on owned aircraft which had leases which were schedule to expire in 2007. Overall, these renewals or leases have a weighted average lease term of 4.8 years at monthly lease rates that are 14% higher than the previous rentals.

During the first half of 2007, we acquired three aircraft that were off lease at the time of purchase and subsequently executed leases for all of these aircraft with a weighted average lease term of 5.0 years. For the balance of 2007 we have commitments to acquire six additional off lease aircraft. For the balance of 2007, we have commitments to acquire seven additional off lease aircraft. In addition, we own one debt instrument which matures in late 2007 and is secured by an aircraft. We expect the borrower to elect not to repay the debt at maturity and, accordingly, we expect that in satisfaction of this debt instrument we will take ownership of one additional off-lease aircraft in 2007. Of these eight off-lease aircraft which we expect to acquire during the balance of 2007, we have executed leases for five of aircraft and have a commitment to lease one other aircraft.

During the first six months of 2007, we purchased or are committed to acquire three off lease Boeing 747-400 aircraft. In June 2007, we entered in a passenger to freighter conversion agreement for these aircraft. One aircraft purchased in June is currently subject to a short-term interim lease until its scheduled freighter conversion process begins during the second quarter of 2008. For the second aircraft, which is scheduled to be purchased in August 2007, we anticipate placing it on a short-term lease as a passenger aircraft until its scheduled freighter conversion process begins in late 2008. We anticipate purchasing the third aircraft during the third quarter of 2007, and it is scheduled to begin its freighter conversion process during the fourth quarter of 2007.

Revenues in our Aircraft Leasing segment for the three and six months ended June 30, 2006 were $38.0 million and $67.8 million, respectively as compared to $82.4 million and $149.8 million, respectively for the three and six months ended June 30, 2007. Our revenues increased significantly from 2006 to 2007 as a result of continued aircraft acquisitions during the balance of 2006 and the first six months of 2007 which caused our aircraft fleet to grow from 51 aircraft at June 30, 2006 to 100 aircraft at June 30, 2007, all of which were on lease.

Revenues in our Debt Investments segment are recognized using the effective interest method. Certain investments which represent residual interests are accounted for using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest. Revenues in our Debt Investments segment for the three and six months ended June 30, 2006 were $2.5 million and $4.1 million, respectively as compared to $2.7 million and $5.3 million, respectively for the three and six months ended June 30, 2007.

Operating Expenses

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

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

Income Tax Provision

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda 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.

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

Acquisitions and Dispositions

Our financial results are impacted by the timing and size of acquisitions and dispositions we complete. As of August 9, 2007 we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to $3.0 billion and $2.4 billion, respectively, or a total of approximately $5.4 billion. To date, we have sold two aircraft and one debt security.

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

On June 20, 2007, we entered into the Airbus A330F Agreement with Airbus under which we agreed to acquire the 15 New A330F Aircraft. Pre-delivery payments for each Aircraft are payable to Airbus by us on an agreed upon schedule, and are refundable to us only in limited circumstances. We will negotiate separate purchase arrangements with one or more engine manufacturers in advance of an engine selection being made for each aircraft. The aircraft we will acquire under the Airbus A330F Agreement are scheduled to be delivered between June 2010 and November 2011, with five scheduled for delivery in 2010.

On January 22, 2007, we and GAIF entered into the GAIF Acquisition Agreement under which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately $1.595 billion, subject to certain agreed adjustments. The aircraft we will acquire under the GAIF Acquisition Agreement are scheduled to be delivered to us through February 2009. For certain of the aircraft, we have agreed to make an accelerated payment to the relevant seller and

acquire its right and obligations under the seller's purchase or freighter conversion agreement, with final payment and delivery of the aircraft to us being made upon delivery by the manufacturer or seller, or completion of the conversion process. On July 26, 2007, we made an accelerated payment under the GAIF Acquisition Agreement with respect to three Boeing Model 747-400ERF aircraft in the amount of $106.7 million and assumed a pre-delivery payment credit facility with an outstanding principal balance of $95.9 million. As of June 30, 2007, we completed the acquisition of 24 of the GAIF aircraft for approximately $780.4 million. We expect to take delivery of 4 aircraft during the remainder of 2007, 9 aircraft in 2008 and 1 aircraft in 2009, for an additional aggregate purchase price, before adjustment, of approximately $806.2 million. Two of the aircraft scheduled for delivery in the second half of 2007 were purchased in July 2007.

The closing of the transactions contemplated by the Aircraft Acquisition Agreements, which we sometimes refer to as the ''Aircraft Acquisitions,'' are subject to certain customary closing conditions

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for transactions of these types. There can be no assurance that these conditions will be satisfied or that we will complete the acquisition of all the aircraft contemplated by the Aircraft Acquisition Agreements. Failure to close on the purchase price of some or all the aircraft under the Aircraft Acquisition Agreements could negatively impact our stock price and financial results.

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

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

AIRCASTLE AIRCRAFT INFORMATION (Dollars in thousands)

	Net Book Value as of June 30, 2007	Base Purchase Price of Aircraft Committed to be Acquired as of June 30, 2007[1][4]	Total
Flight Equipment Held for Lease	$ 2,672	$ 1,219	$ 3,891
Number of Aircraft	100	25	125
Number of Lessees	45	11	52
Number of Countries	28	11	30
Weighted Average Age – Passenger (years)[2]	9.44	9.41	9.43

Weighted Average Age – Freighter (years)(2)	11.26	5.80	8.00
Weighted Average Age – Combined (years)(2)	9.74	7.72	9.14
Weighted Average Remaining Passenger Lease Term (years)(3)	3.85	5.63	4.11
Weighted Average Remaining Cargo Lease Term (years)(3)	7.74	9.64	8.89
Weighted Average Remaining Combined Lease Term (years)(3)	4.50	8.30	5.63

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

(2) Weighted average age (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of June 30, 2007.

(3) Weighted average age (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of June 30, 2007. Excludes two Boeing Model 747-400s we are committed to acquire that will be inducted into freighter conversion during 2007 and 2008.

(4) Base purchase price represents the purchase price subject to certain agreed upon adjustments.

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Portfolio Diversification

	Owned Aircraft as of June 30, 2007		Aircraft Committed to be Acquired as of June 30, 2007(1)		Total	
	Number of Aircraft	% of Net Book Value	Number of Aircraft	% of Base Purchase Price(3)	Number of Aircraft	% of Net Book Value plus Base Purchase Price
Aircraft Type						
Passenger						
Narrowbody	72	54%	13	21%	85	44%
Midbody	16	24%	2	12%	18	20%
Widebody	2					