

Aircastle LTD
Form 424B1
February 08, 2007
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Prospectus

13,500,000 shares

Aircastle Limited

Common shares

Aircastle Limited is offering 13,500,000 common shares in this offering. After this offering, funds managed by affiliates of Fortress Investment Group LLC will beneficially own approximately 62.0% of Aircastle's common shares. These funds are not selling any shares in this offering.

Aircastle's common shares are listed on the New York Stock Exchange under the symbol "AYR". The closing sale price of our common shares on the New York Stock Exchange on February 7, 2007, was \$33.24 per share.

	Per Share	Total
Public offering price	\$ 33.00	\$ 445,500,000
Underwriting discounts and commissions	\$ 1.155	\$ 15,592,500
Proceeds to Aircastle (before expenses)	\$ 31.845	\$ 429,907,500

We have granted the underwriters a 30-day option to purchase up to 2,025,000 additional common shares at the public offering price less underwriting discounts and commissions for the purpose of covering over-allotments, if any.

Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 11.

Neither the Securities and Exchange Commission, state securities regulators, the Minister of Finance and the Registrar of Companies in Bermuda, the Bermuda Monetary Authority nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares against payment in New York, New York on February 13, 2007.

JPMorgan
Goldman, Sachs & Co.
February 7, 2007

Bear, Stearns & Co. Inc.
Morgan Stanley

Citigroup
Jefferies & Company

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We have not authorized anyone to provide you with different information or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus is only accurate on the date of this prospectus.

Consent under the Exchange Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of our common shares to and between non-residents of Bermuda for exchange control purposes, provided our shares remain listed on an appointed stock exchange, which includes the New York Stock Exchange, or NYSE. This prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for our financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus.

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the section entitled “Risk Factors” and our financial statements and the related notes included elsewhere in this prospectus, before making an investment decision to purchase common shares. Unless the context suggests otherwise, references in this prospectus to “Aircastle,” the “Company,” “we,” “us,” and “our” refer to Aircastle Ltd and its subsidiaries. References in this prospectus to “AL” refer only to Aircastle Limited. References in this prospectus to “Aircastle Bermuda” refer to Aircastle Holding Corporation Limited and its subsidiaries. References in this prospectus to “Fortress” refer to Fortress Investment Group LLC, affiliates of which manage the Fortress funds, and certain of its affiliates and references to the “Fortress funds” refer to AL shareholders which are managed by affiliates of Fortress. Throughout this prospectus, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitization. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this prospectus are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

Aircastle Limited

We are a global company that acquires and leases high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of September 30, 2006, our aircraft portfolio consisted of 65 aircraft that were leased to 32 lessees located in 23 countries and managed through our offices in the United States, Ireland and Singapore. All of 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 securities secured by commercial jet aircraft. As of January 31, 2007, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$1.9 billion and \$1.8 billion, respectively, for a total of approximately \$3.7 billion, including our commitment to acquire 38 aircraft from affiliates of Guggenheim Aviation Fund, LP, or GAIF. See “Recent Developments — Guggenheim.” Our revenues and income from continuing operations for the nine months ended September 30, 2006 were \$128.2 million and \$28.0 million, respectively.

We expect to benefit from the size and growth of the commercial aircraft market and to increase our revenues and earnings by acquiring additional aviation assets. The current worldwide commercial aircraft fleet consists of more than 17,000 aircraft with an aggregate estimated value in excess of \$360 billion and is expected to grow at a compound annual growth rate of 5.5% to a total value of \$620 billion through 2016. The market is highly fragmented, with over 1,800 owners. Operating lessors, including us, own approximately 30.9% of the global fleet. The continued growth in air traffic, driven in large part by emerging markets with strong economic growth and rising levels of per capita air travel, has increased the demand, and lease rates, for certain high-utility aircraft types.

On January 22, 2007, we entered into an Asset Purchase Agreement, which we refer to as the Acquisition Agreement, with affiliates of GAIF pursuant 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 Acquisition Agreement are scheduled to be

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delivered to us between January 2007 and February 2009, with 28 of these aircraft scheduled for delivery in 2007. Four of the aircraft are Boeing Model 747-400ERF freighter aircraft to be delivered new from the manufacturer, seven are Boeing Model 747-400 aircraft converted or to be converted from passenger to freighter specification and one is a McDonnell Douglas Model MD11SF. The remaining 26 aircraft are passenger aircraft. We refer to this acquisition in this prospectus as the Aircraft Acquisition.

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 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 2006, we closed our first securitization which we refer to as Securitization No. 1, a \$560 million transaction comprising 40 aircraft and related leases which we refer to as Portfolio No. 1.

The table below is a summary of our dividend history. These dividends may not be indicative of the amount of any future dividends.

Dividend Period	Pay Date	Dividend Per Share (\$)	Total Dividend (\$ in thousands)
Three months ended June 30, 2006	July 31, 2006	\$ 0.35	\$ 14,367
Three months ended September 30, 2006	November 15, 2006	\$ 0.35	\$ 16,395 ⁽¹⁾
Three months ended December 31, 2006	January 15, 2007	\$ 0.4375	\$ 22,584

(1) Dividends for the three months ended September 30, 2006 were paid in two installments. A dividend of \$0.156 per share was paid on August 15, 2006 for the period July 1, 2006 to August 12, 2006 for the period prior to our initial public offering. A dividend of \$0.194 per share was paid on November 15, 2006 for the period after our initial public offering.

Competitive Strengths

We believe that the following competitive strengths will allow us to capitalize on the growth opportunities in the global aviation industry:

- **Diversified portfolio of high-utility aircraft.** We have a portfolio of 65 high-utility aircraft, as of September 30, 2006, that is diversified with respect to geographic markets, lease maturities and aircraft type. Our lease expirations are well dispersed, with a weighted average remaining lease term of 3.8 years for aircraft we owned at September 30, 2006, and only 10 of these aircraft require re-deployment within the next 12 months. We believe that our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues and results in generally predictable cash flows.
- **Disciplined acquisition approach and broad sourcing network.** We evaluate the risk-adjusted return of any potential acquisition first as a discrete investment and then from a portfolio management perspective. To evaluate potential acquisitions, we employ a rigorous due diligence process focused on: (i) cash flow generation with careful consideration of macro trends, industry cyclicality and product life cycles; (ii) aircraft specifications and maintenance condition; (iii) when applicable, lessee

credit worthiness and the local jurisdiction's rules for enforcing a lessor's rights; and (iv) legal and tax implications. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, financial institutions and other aircraft owners.

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- Scaleable business platform. We operate globally through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our facilities, systems and personnel currently in place are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.
- Experienced management team with significant technical expertise. Our management team has significant experience in the acquisition, leasing, financing, technical management, restructuring/repossession and sale of aviation assets.
- Innovative long-term debt financing structure. We closed Securitization No. 1 on June 15, 2006. We structured the securitization to provide for the release to us during the first five years of the cash flows attributable to the underlying leases after payment of expenses, interest and scheduled principal payments.

Growth Strategy

We plan to grow our business and increase our dividends per share by employing the following business strategies:

- Selectively acquire commercial jet aircraft and other aviation assets. We believe the large and growing aircraft market provides significant acquisition opportunities. We plan to leverage our experience to make opportunistic acquisitions of other asset-backed aviation assets, including debt securities secured by aviation assets and other non-aircraft aviation assets. As of January 31, 2007, we had acquired or committed to acquire approximately \$3.7 billion in aviation assets in 44 separate transactions.
- Reinvest amounts approximately equal to non-cash depreciation expense in additional aviation assets. Through our strategy of reinvesting amounts approximately equal to non-cash depreciation expense, we will seek to maintain our asset base and grow our dividends.
- Maintain an efficient capital structure. We expect to finance acquisitions on a long-term basis using aircraft lease portfolio securitizations. We believe that our long-term debt structure and dividend payment strategy result in a low cost of capital and a high degree of financial flexibility, allowing us to grow our business and dividends.

Industry Trends

The following industry dynamics create a favorable environment in which to expand our business, including:

- Large and growing commercial aircraft fleet. The current worldwide commercial aircraft fleet consists of more than 17,000 aircraft with an aggregate estimated value in excess of \$360 billion. According to The Airline Monitor, the worldwide commercial aircraft fleet, excluding in-production regional jets, is expected to increase to approximately 24,600 aircraft by 2016.
- Increasing use of operating leases. The high cost of aircraft fleet renewal and expansion, and the competitive environment of the commercial airline industry have led many airlines to outsource aircraft ownership to operating lessors like us. Over the last ten years, the percentage of the global commercial aircraft fleet owned by operating lessors increased from

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18.8% to 30.9%, while the percentage owned by airlines declined from 55.1% to 48.1%. Operating leasing is an attractive alternative to ownership for airlines because leasing (i) increases fleet flexibility, (ii) requires a lower capital commitment and (iii) significantly reduces aircraft residual value risk.

- Increasing air traffic and demand for commercial aircraft. Global passenger and cargo traffic has grown rapidly in recent years, driven by factors such as strong economic growth in developing countries, globalization of supply chains, and liberalization of global aviation markets. According to the IMF World Economic Outlook September 2006, over the next five years global gross domestic product, or GDP, is expected to grow at an average rate of 4.8% per year. Since 1994, for every 1.0% increase in global GDP, passenger and freight traffic have, on average, grown by 1.4% and 1.6%, respectively.
- Improving lease rates. Following a downturn from 2001 to 2003, the global commercial aviation industry has experienced a broad based recovery of aircraft values and lease rates. The relative increase in lease rates, however, has exceeded the increase in values for certain aircraft types. As a result, lease rate factors, or the ratio between lease rates and current market values, have been increasing for popular aircraft models such as 737 classics, A320s and 767-300ERs. It is possible, however, that higher lease rates could drive demand toward other aircraft models, new aircraft orders or other financing alternatives, and away from operating leasing for one or more of these popular aircraft models.

Recent Developments

Fourth Quarter Financial Results

Revenues for the quarter ended December 31, 2006 were \$61.2 million. Of this amount, \$58.7 million were aircraft lease rental revenues and \$2.5 million was interest income on our debt investments. Fourth quarter aircraft lease rental revenues of \$58.7 million included a full quarter of revenue earned on the 65 aircraft owned as of September 30, 2006 and a partial quarter of revenue on the four aircraft purchased during the fourth quarter.

Guggenheim

On January 22, 2007, we entered into the Acquisition Agreement with affiliates of GAIF 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Dispositions”.

Fortress

Fortress is a leading global alternative investment management firm founded in 1998 with approximately \$29.7 billion of equity capital currently under management. Fortress is headquartered in New York City and has affiliates with offices in Dallas, San Diego, Toronto, London, Rome, Frankfurt, and Sydney. Fortress manages capital for a diverse group of investors, including pension funds, university endowments and foundations, financial institutions, funds-of-funds and high-net-worth individuals. To date, the Fortress funds have contributed approximately \$400.0 million in equity capital to us.

Additional Information

We are a Bermuda exempted company and were incorporated on October 29, 2004 under the provisions of Section 14 of the Companies Act 1981 of Bermuda. Our registered office is located

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at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and our principal executive offices are located at c/o Aircastle Advisor LLC, 300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902. Our subsidiaries also maintain offices at 8 Fitzwilliam Place, Dublin 2, Ireland; and 6 Battery Road, #30-00, Singapore, 049909. Our main telephone number is 203-504-1020. Our internet address is www.aircastle.com. Information on our website does not constitute part of this prospectus.

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The Offering

Common shares offered by us in this offering	13,500,000 shares
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Common shares to be issued and outstanding after this offering	65,130,379 shares
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Use of proceeds	We expect to use the net proceeds from this offering to repay approximately \$75.0 million of the amount outstanding on our \$450.0 million senior secured revolving credit facility, which we refer to as the Revolving Credit Facility, and \$315.1 million of the amount outstanding on our \$1.25 billion senior secured revolving credit facility, which we refer to as Amended Credit Facility No. 2, and for other general corporate purposes. See ‘‘Use of Proceeds.’’
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Dividend policy	On January 15, 2007, we paid a regular quarterly dividend of \$0.4375 per common share, or an aggregate of approximately \$22.6 million, for the three months ended December 31, 2006, to shareholders of record as of December 29, 2006. These dividends may not be indicative of the amount of any future dividends. We intend to continue to pay regular quarterly dividends to our shareholders. We plan to grow our dividends through the acquisition of additional aviation assets. The payment of dividends is subject to the discretion of our board of
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directors and will depend on many factors, including restrictions imposed by financing arrangements, our ability to make and finance acquisitions, our ability to negotiate favorable lease and other contractual terms, the financial condition and liquidity of our lessees, unexpected or increased expenses, the level and timing of capital expenditures, principal repayments and other capital needs, the value of our aircraft portfolio, our results of operations, financial condition and liquidity, general business conditions, legal restrictions on the payment of dividends and other factors that our board of directors deems relevant. In any quarterly period, we may pay dividends in excess of net income for such period as determined in accordance with GAAP. See “Dividend Policy.” We expect that our dividends will not be eligible for either the dividends-received deduction for corporate U.S. Holders or treatment as “qualified dividend income” (which is taxable at rates generally applicable to long-term capital gains) for U.S. Holders taxed as individuals.

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New York Stock Exchange symbol

“AYR”

Risk factors

Please read the section entitled “Risk Factors” beginning on page 11 for a discussion of some of the factors you should carefully consider before deciding to invest in our common shares.

Important tax considerations

We expect that we will be treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. In order to avoid possible deferred tax and interest charges under the U.S. Internal Revenue Code and regulations thereunder, you will need to make a “qualified electing fund,” or QEF, election, with respect to your investment in common shares and with respect to each of our PFIC subsidiaries. Investors who are U.S. persons should consult with their tax advisors as to whether or not to make such election and the related consequences and should carefully review the information set forth under “Material Tax Considerations — Material United States Federal Income Tax Considerations — Consequences to U.S. Holders — Passive Foreign Investment Company Status and Related Tax Consequences” for additional information.

The number of common shares to be issued and outstanding after this offering is based on 51,630,379 common shares issued and outstanding as of January 31, 2007, and excludes an additional 2,950,698 common shares which remain available for issuance under our equity and incentive plan. See “Management — Equity Incentive Plan.”

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their option to purchase an additional 2,025,000 common shares from us to cover over-allotments.

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Summary Consolidated Financial Information

The following tables summarize the consolidated financial information for our business. You should read these tables along with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and our consolidated historical financial statements and the related notes included elsewhere in this prospectus.

We derived the summary historical consolidated statements of operations data and consolidated statements of cash flows data for the period from inception through December 31, 2004 and the year ended December 31, 2005 and the summary historical consolidated balance sheets data as of December 31, 2004 and 2005, set forth below, from our audited consolidated financial statements included elsewhere in this prospectus. AL was incorporated and commenced operations on October 29, 2004. The statements of operations data and consolidated statements of cash flows data for the nine months ended September 30, 2005 and 2006 and the balance sheets data as of September 30, 2006 are derived from our unaudited consolidated interim financial statements included elsewhere in this prospectus. The results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

	Period from October 29, 2004 (Commencement of Operations) Through December 31, 2004	Year Ended December 31, 2005	Nine Months Ended September 30, 2005 2006	
	(Dollars in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Total revenues	\$ 78	\$ 36,026	\$ 15,337	\$ 128,154
Selling, general and administrative expenses (including non-cash share based payment expense of \$249 and \$7,729 for the nine months ended September 30, 2005 and 2006, respectively)	1,117	12,595	7,950	21,219
Depreciation	390	14,460	6,644	38,182
Interest (income) expense, net	(9)	7,739	3,217	35,058
Income (loss) from continuing operations	(1,465)	(879)	(3,856)	28,013
Discontinued operations	—	1,107	—	3,399
Net income (loss)	(1,465)	228	(3,856)	31,412
Basic income (loss) per share:				
Income (loss) from continuing operations	\$ (.04)	\$ (.02)	\$ (.10)	\$.64
Discontinued operations	\$ —	\$.03	\$ —	\$.08
Net income (loss)	\$ (.04)	\$.01	\$ (.10)	\$.72

Diluted earnings (loss) per share:

Income (loss) from continuing operations	\$ (.04)	\$ (.02)	\$ (.10)	\$.63
Discontinued operations	\$ —	\$.03	\$ —	\$.08
Net income (loss)	\$ (.04)	\$.01	\$ (.10)	\$.71

Other Operating Data:

EBITDA(1)	(1,054)	22,994	7,017	102,613
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Consolidated Statements of Cash Flows

Data:

Cash flows provided by operating activities	\$ 4,290	\$ 20,562	\$ 766	\$ 87,433
Cash flows used in investing activities	(97,405)	(742,144)	(198,566)	(820,960)
Cash flows provided by financing activities	93,115	801,525	259,886	692,554

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	As of December 31, 2004	As of December 31, 2005	As of September 30, 2006
	(Dollars in thousands)		
Consolidated Balance Sheets Data:			
Flight equipment held for lease, net of accumulated depreciation	\$ 94,430	\$ 746,124	\$ 1,509,443
Debt securities, available for sale	—	26,907	120,271
Total assets	104,981	967,532	1,808,459
Borrowings under credit facilities	—	490,588	351,226
Borrowings under securitization	—	—	554,733
Repurchase agreements	—	8,665	83,839
Shareholders' equity(2)	99,235	410,936	648,361
Other Data:			
Number of aircraft (at end of period)	3	32	65
Total debt to total capitalization	N/A	54.9%	60.4%

(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. 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 our board of directors to review the consolidated financial performance of the business.

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The table below shows the reconciliation of net income (loss) to EBITDA for the nine months ended September 30, 2005 and 2006 and the period from October 29 through December 31, 2004 and the year ended December 31, 2005.

	Period from October 29, 2004 (Commencement of Operations) Through December 31, 2004	Year Ended December 31, 2005	Nine Months Ended September 2005	September 30, 2006
	(Dollars in thousands)			
Net income (loss)	\$ (1,465)	\$ 228	\$ (3,856)	\$ 31,412
Depreciation	390	14,460	6,644	38,182
Amortization ^(a)	30	734	551	(3,093)
Interest, (income) expense, net	(9)	7,739	3,217	35,058
Income tax provision	—	940	461	4,453
Earnings from discontinued operations, net of taxes	—	(1,107)	—	(3,399)
EBITDA	\$ (1,054)	\$ 22,994	\$ 7,017	\$ 102,613

(a)Includes amortization of lease premiums and discounts and excludes amortization of deferred financing costs which are included in interest expense.

(2)The following table sets forth our capitalization at September 30, 2006 and our capitalization as of such date as adjusted to give effect to this offering, after deducting the estimated underwriting discounts and commissions and offering expenses payable by us and repayment of certain outstanding amounts under Amended Credit Facility No. 2 and the Revolving Credit Facility using a portion of the net proceeds of this offering.

	Actual	As Adjusted
Borrowings under credit facilities	\$ 351,226	\$ 73,332
Borrowings under securitization	554,733	554,733
Repurchase agreements	83,839	83,839
Common shares	515	650
Additional paid-in capital	629,238	1,057,461
Retained earnings	9,405	9,405
Accumulated other comprehensive income	9,203	9,203
Total shareholders' equity	648,361	1,076,719
Total capitalization	\$ 1,638,159	\$ 1,788,623

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Risk Factors

Investing in our common shares involves a high degree of risk. You should carefully consider the following risk factors, as well as other information contained in this prospectus, before deciding to invest in our common shares. Generally, the risks facing us fall into five categories — Risks Related to Our Business, Risks Related to the Aviation Industry, Risks Related to Our Organization and Structure, Risks Related to this Offering, and Risks Related to Taxation. The occurrence of any of the following risks could materially and adversely affect our business, prospects, financial condition, results of operations and cash flow, in which case, the trading price of our common shares would decline and you could lose all or part of your investment.

Risks Related to Our Business

Risks related to our operations

We have limited operating history and we are therefore subject to the risks generally associated with the formation of any new business.

We were incorporated in October 2004, prior to which we had no operations or assets. We are therefore subject to the risks generally associated with the formation of any new business, including the risk that we will not be able to implement our business strategies. Because of our limited operating history, it will be difficult for investors to assess the quality of our management team and our results of operations, and our financial performance to date may not be indicative of our long-term future performance. Furthermore, due to the lack of comparative annual historical financial statements, investors will find it more difficult to evaluate our performance and assess our future prospects than it would be were such information available. In addition, over our brief history we have incurred net losses of approximately \$1.5 million for the period from October 29, 2004 through December 31, 2004, net income of only \$228,000 for the year ended December 31, 2005, and net income of approximately \$31.4 million for the nine months ended September 30, 2006. We may not be able to maintain and/or increase profitability in the future. In addition, although we have grown substantially since our inception, there can be no assurance that we will be able to continue to effectively integrate acquired aircraft, including significant acquisitions such as the Aircraft Acquisition.

We have significant customer concentration and defaults by one or more of our major customers could have a material adverse effect on our cash flow and earnings and our ability to meet our debt obligations and pay dividends on our common shares.

Lease rental revenue from our four largest customers, US Airways, Inc., Hainan Airlines, Swiss International and Air Europa, accounted for 41% of our total revenue for the nine months ended September 30, 2006. The lease rental revenue, as a percent of our total revenue, for these four customers for that period was approximately 24%, 9%, 4% and 4%, respectively. These customers operate under 17 operating lease agreements that have terms ranging from five months to eight years. In addition, US Airways, Inc. reorganized under Chapter 11 in August 2002 and exited bankruptcy in March 2003. US Airways, Inc. again reorganized in September 2004 and, in September 2005, exited bankruptcy and merged with America West Airlines. The loss of one or more of these customers or their inability to make operating lease payments due to financial difficulties, bankruptcy or otherwise could have a material adverse effect on our cash flow and earnings and our ability to meet our debt obligations and pay dividends on our common shares.

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Under our current business model, we will need additional capital to finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow and compete in the aviation market.

Continued expansion of our business through the acquisition of additional aircraft and other aviation assets will require additional capital, particularly if we were to accelerate our acquisition plans. Financing may not be available to us or may be available to us only on terms that are not favorable. Furthermore, Amended Credit Facility No. 2 may be used to finance only 65% of the purchase price of the aircraft financed with proceeds from the facility. In addition, the terms of certain of our outstanding indebtedness restrict, among other things, our ability to incur additional debt. Amended Credit Facility No. 2 and the Revolving Credit Facility, subject to certain limited exceptions, each prohibit us from incurring additional recourse debt or guaranteeing the indebtedness of our subsidiaries. If we are unable to raise additional funds or obtain capital on terms acceptable to us, we may have to delay, modify or abandon some or all of our growth strategies. Further, if additional capital is raised through the issuance of additional equity securities, the interests of our then current common shareholders would be diluted. Newly issued equity securities may have rights, preferences or privileges senior to those of our common shares. See “Description of Share Capital.”

We may not be able to issue aircraft lease-backed securities on attractive terms, which may require us to seek more costly or dilutive financing for our investments or to liquidate assets.

We intend to continue to finance our aircraft portfolio on a long-term basis through the aircraft securitization market. We primarily use short-term credit facilities to finance the acquisition of aircraft until we accumulate a sufficient quantity, quality and diversity of aircraft, at which time we intend to refinance these facilities through a securitization, such as an issuance of aircraft lease-backed securities, or other long-term financing. As a result, we are subject to the risk that we will not be able to acquire, during the period that our credit facilities are available, a sufficient amount of eligible aircraft to maximize the efficiency of an issuance of aircraft lease-backed securities. We also may not be able to obtain additional credit facilities or may not be able to renew or refinance any of our existing credit facilities should we need more time to acquire aircraft necessary for a long-term securitization financing. In addition, we anticipate refinancing our securitization transactions within five years of closing each such transaction. The inability to renew or refinance our credit facilities may require us to seek more costly or dilutive financing for our aircraft or to liquidate assets. In addition, conditions in the capital markets may make the issuance of aircraft lease-backed securities more costly or otherwise less attractive to us when we do have a sufficient pool of aircraft or during the period of time when we anticipate refinancing a securitization portfolio. We also may not be able to structure any future securitizations to allow for distributions of excess securitization cash flows to us. If we are unable to access the securitization market to finance these assets, we may be required to seek other forms of more costly, dilutive or otherwise less attractive financing or otherwise to liquidate the assets.

An increase in our borrowing costs may adversely affect our earnings and cash available for distribution to our shareholders.

We enter into repurchase agreements to finance a portion of the purchase price of our debt securities. Our repurchase agreements typically have terms to maturity between 2007 and 2008. We utilize credit facilities to finance a portion of the purchase price of our aircraft. Our credit facilities have initial terms to maturity ranging from December 31, 2007, in the case of the Revolving Credit Facility, to December 31, 2008, in the case of Amended Credit Facility No. 2. As our repurchase agreements and credit facilities mature, we will be required to either refinance

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these instruments by entering into new repurchase agreements or credit facilities, which could result in higher borrowing costs, or repay them by using cash on hand or cash from the sale of our assets.

Our repurchase agreements and credit facilities are primarily LIBOR-based floating-rate obligations and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. As a result, to the extent we are not sufficiently hedged, changes in interest rates may increase our interest costs and may reduce the spread between the returns on our portfolio investments and the cost of our borrowings. An increase in interest rates would adversely affect the market value of our debt investments that are fixed-rate and/or subject them to prepayment or extension risk, which may adversely affect our earnings and cash available for distribution to our shareholders.

As of September 30, 2006, if interest rates were to increase by 1%, we would expect to incur an increase in interest expense on our repurchase agreements of approximately \$89,400 on an annualized basis, net of amounts received from our interest rate hedges. Also, as of September 30, 2006, if interest rates were to increase by 1%, we would expect to incur a decrease in annual interest expense on our credit facilities of approximately \$1.5 million on an annualized basis, net of amounts received from our interest rate hedges.

Departure of key officers could harm our business and financial results.

Our senior management's reputations and relationships with lessees and sellers of aircraft are a critical element of our business. We encounter intense competition for qualified employees from other companies in the aircraft leasing industry, and we believe there are only a limited number of available qualified executives in our industry. Our future success depends, to a significant extent, upon the continued service of our senior management personnel, particularly: Ron Wainshal, our Chief Executive Officer; Mark Zeidman, our Chief Financial Officer; and David Walton, our Chief Operating Officer and General Counsel, each of whose services are critical to the successful implementation of our growth strategies. These key officers have been with us as we have substantially grown our operations since the end of 2005 and as a result have been critical to our development. If we were to lose the services of any of these individuals, our business and financial results could be adversely affected. See "Management."

We may not be able to pay or maintain dividends and the failure to do so would adversely affect our share price.

On January 15, 2007, we paid a regular quarterly dividend of \$0.4375 per common share, or an aggregate of approximately \$22.6 million, for the three months ended December 31, 2006, to shareholders of record as of December 29, 2006. These dividends may not be indicative of the amount of any future dividends. We intend to continue to pay regular quarterly dividends to our shareholders; however, our ability to pay, maintain or expand cash dividends to our shareholders and to execute our dividend payment strategy is subject to the discretion of our board of directors and will depend on many factors, including our ability to make and finance acquisitions, our ability to negotiate favorable lease and other contractual terms, the level of demand for our aircraft, the economic condition of the commercial aviation industry generally, the financial condition and liquidity of our lessees, the lease rates we are able to charge and realize, our leasing costs, unexpected or increased expenses, the level and timing of capital expenditures, principal repayments and other capital needs, the value of our aircraft portfolio, our results of operations, financial condition and liquidity, general business conditions, restrictions imposed by our securitizations or other financing arrangements (including our credit facilities), legal restrictions on the payment of dividends and other factors that our board of directors deems relevant. Some of the factors are beyond our control and a change in any such factor could affect

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our ability to pay dividends on our common shares. In the future we may not be able to pay or maintain dividends. We also may not be able to maintain our current level of dividends or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur, and may not increase our actual cash available for dividends to our common shareholders. See “Dividend Policy.” The failure to maintain or pay dividends would adversely affect our share price.

We are subject to risks related to our indebtedness that may limit our operational flexibility, our ability to compete with our competitors and our ability to pay dividends on our common shares.

General Risks. Our indebtedness subjects us to certain risks, including:

- substantially all of our aircraft leases serve as collateral for our secured indebtedness and the terms of certain of our indebtedness require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under such indebtedness;
- we may be required to dedicate a substantial portion of our cash flows from operations, if available, to debt service payments, thereby reducing the amount of our cash flow available to pay dividends, fund working capital, make capital expenditures and satisfy other needs;
- our failure to comply with the terms of our indebtedness, including restrictive covenants contained therein, may result in additional interest being due or defaults that could result in the acceleration of the principal, and unpaid interest on, the defaulted debt, as well as the forfeiture of the aircraft pledged as collateral; and
- we are not permitted to pay dividends on our common shares to the extent a default or an event of default exists under the Revolving Credit Facility.

Risks relating to Securitization No. 1. The terms of Securitization No. 1 require us to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. Our compliance with these covenants depends substantially upon the timely receipt of lease payments from our 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.

In addition, under the terms of Securitization No. 1, certain transactions will require the consent or approval of one or more of the securitization trustees, the rating agencies that rated the Portfolio 1 certificates and the financial guaranty insurance policy issuer for the securitization, including (i) sales of aircraft at prices below certain scheduled minimum amounts or, in any calendar year, in amounts in excess of 10% of the portfolio value at the beginning of that year, (ii) the leasing of aircraft to the extent not in compliance with the lessee and geographic concentration limits, and the other operating covenants, pursuant to the terms of the securitization (iii) modifying an aircraft if the cost thereof would exceed certain amounts or (iv) entering into any transaction between us and the Securitization No. 1 entities not already contemplated in the securitization. Absent the aforementioned consent, which we may not receive, the lessee and geographic concentration limits under Securitization No. 1 will require us to re-lease the aircraft to a diverse set of

customers, and may place limits on our ability to lease

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the 40 aircraft, or Portfolio No. 1, which are the security for Securitization No. 1, to certain customers in certain jurisdictions, even if to do so would provide the best risk-adjusted returns at that time.

Risks relating to our credit facilities. The terms of our credit facilities restrict our ability to:

- create liens on assets;
- incur additional indebtedness;
- sell assets;
- make certain investments or capital expenditures;
- engage in mergers, amalgamations or consolidations;
- engage in certain transactions with affiliates;
- incur secured indebtedness; and
- receive payments or excess cash flows from subsidiaries.

Amended Credit Facility No. 2 requires us to make principal payments to the extent that amounts outstanding under the facility exceed 65% of the purchase price or, in the case of a loan that financed the acquisition of an aircraft that has been outstanding more than twelve months, 65% of 95% of the purchase price, of the aircraft financed with proceeds from the facility. In addition, our Revolving Credit Facility requires us to maintain a minimum consolidated net worth of \$550.0 million.

The restrictions described above may impair our ability to operate and compete with our direct and indirect competitors and to pay dividends on our common shares.

Failure to close the Aircraft Acquisition could negatively impact our share price and financial results.

On January 22, 2007 we entered into the 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. The aircraft we will acquire under the Acquisition Agreement are scheduled to be delivered to us between January 2007 and February 2009. If we are unable to obtain the necessary financing or various conditions to the Aircraft Acquisition are not satisfied, we will be unable to close some or all of the aircraft under the Acquisition Agreement. If the Aircraft Acquisition is not closed for these or other reasons, we will be subject to several risks, including the following:

- having to pay and expense certain significant costs relating to the Aircraft Acquisition, such as liquidated damages, legal, accounting and financial advisory, without realizing any of the benefits of having the transactions completed; and
- the focus of our management having been spent on the Aircraft Acquisition instead of on pursuing other opportunities that could have been beneficial to us, without realizing any of the benefits of having the transaction completed.

These risks could materially and adversely affect our share price and financial results.

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Risks Related to Our Aviation Assets

The variability of supply and demand for aircraft could depress lease rates for our aircraft, which would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends on our common shares.

The aircraft leasing and sales industry has experienced periods of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft in the market is likely to depress aircraft lease rates for and the value of that type of aircraft.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

- passenger and air cargo demand;
- fuel costs and general economic conditions affecting our lessees' operations;
- geopolitical events, including war, prolonged armed conflict and acts of terrorism;
- outbreaks of communicable diseases and natural disasters;
- governmental regulation;
- interest rates;
- airline restructurings and bankruptcies;
- the availability of credit;
- manufacturer production levels and technological innovation;
- retirement and obsolescence of aircraft models;
- manufacturers merging or exiting the industry or ceasing to produce aircraft types;
- reintroduction into service of aircraft previously in storage; and
- airport and air traffic control infrastructure constraints.

These factors may produce sharp decreases or increases in aircraft values and lease rates, which would impact our cost of acquiring aircraft, and may result in lease defaults and also prevent the aircraft from being re-leased or, if desired, sold on favorable terms. This would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends on our common shares.

Other factors that increase the risk of decline in aircraft value and lease rates could have an adverse affect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends on our common shares.

In addition to factors linked to the aviation industry generally, other factors that may affect the value and lease rates of our aircraft include:

- the particular maintenance and operating history of the airframe and engines;
- the number of operators using that type of aircraft;
- whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to the lessor;
- any renegotiation of a lease on less favorable terms;

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- any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and
- compatibility of our aircraft configurations or specifications with other aircraft owned by operators of that type.

Any decrease in the values of and lease rates for commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends on our common shares.

The concentration of aircraft types in our aircraft portfolio could lead to adverse effects on our business and financial results should any difficulties specific to these particular types of aircraft occur.

As of September 30, 2006, our aircraft portfolio included 15 aircraft types, the three highest concentrations of which together represented 49.9% of our aircraft by net book value:

- A310-300F constitute 1.0%;
- A319-100 constitute 4.7%;
- A320-200 constitute 19.0%;
- A330-200 constitute 3.8%;
- A330-300 constitute 16.9%;
- 737-300 constitute 2.7%;
- 737-300QC constitute 2.7%;
- 737-400 constitute 4.3%;
- 737-500 constitute 2.0%;
- 737-700 constitute 14.0%;
- 737-800 constitute 12.0%;
- 747-400PC constitute 2.1%;
- 757-200 constitute 2.6%;
- 767-200ER constitute 0.6%; and
- 767-300ER constitute 11.6%.

Should any of these aircraft types (or other types we acquire in the future) or Airbus or Boeing encounter technical, financial or other difficulties, a diminution in value of such aircraft, an inability to lease the aircraft on favorable terms or at all, or a potential grounding of such aircraft could occur. As a result, the inability to lease the affected aircraft types would likely have an adverse effect on our financial results, to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio. The composition of our aircraft portfolio may therefore adversely affect our business and financial results. In addition, the abandonment or rejection of the lease of any of the aircraft listed above by one or more carriers in reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code or comparable statutes in non-U.S. jurisdictions may diminish the value of such aircraft and will subject us to re-leasing risks.

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The advanced age of some of our aircraft may expose us to higher than anticipated maintenance related expenses, which could adversely affect our financial results and our ability to pursue additional acquisitions.

As of September 30, 2006, the average age of our aircraft portfolio calculated from the date of delivery by manufacturer, and weighted by net book value, was 8.6 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Also, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell. Variable expenses like fuel, crew size or aging aircraft corrosion control or modification programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or releasing of our aircraft. Any of these expenses or costs will have a negative impact on our financial results and our ability to pursue additional acquisitions.

We operate in a highly competitive market for investment opportunities in aviation assets and for the leasing of aircraft.

A number of entities compete with us to make the types of investments that we plan to make. We compete with public partnerships, investors and funds, commercial and investment banks and commercial finance companies with respect to our investments in debt securities. We compete with other operating lessors, airlines, aircraft manufacturers, financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices), aircraft brokers and other investors with respect to aircraft acquisitions and aircraft leasing. The aircraft leasing industry may be divided into two leasing segments: (i) leasing of new aircraft acquired directly or indirectly from manufacturers and (ii) leasing or re-leasing of aircraft in the secondary market. Currently, we compete primarily in the latter segment, and our competition is comprised of other aircraft leasing companies, including GE Commercial Aviation Services, International Lease Finance Corp., CIT Group, AerCap, Aviation Capital Group, Pegasus, Macquarie Aircraft Leasing, RBS Aviation Capital, AWAS, Babcock & Brown and Singapore Aircraft Leasing Enterprise.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships than us and bid more aggressively on aviation assets available for sale and offer lower lease rates than us. For instance, we may not be able to grant privileged rental rates to airlines in return for equity investments or debt financings in order to lease aircraft and minimize the number of aircraft off lease (unless such equity investments or debt financings are in connection with the bankruptcy, reorganization or similar process of a lessee in settlement of expected or already delinquent obligations, as permitted under the terms of certain of our indebtedness). Certain of our competitors, however, may enter into similar arrangements with troubled lessees to restructure the obligations of those lessees while maximizing the number of aircraft remaining on viable leases to such lessees and minimizing their overall cost. Such disparity could make our acquisitions more costly, impair our ability to effectively compete in the marketplace, maximize our revenues and grow our business. In addition, some competitors may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. As a result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. Additionally, we may not be able to compete effectively against present and future competitors in the aircraft leasing market. The competitive pressures we face may have a material adverse effect on our business, financial condition and results of operations.

We may not realize gains or income from our debt investments.

We seek to generate both current income and capital appreciation on our debt securities. The debt securities in which we invest may not appreciate in value, and, in fact, may decline in value and default on interest and/or principal payments. As of September 30, 2006, all of the obligors under our debt investments are U.S. airlines. During the past 15 years a number of North American passenger airlines, including US Airways, Inc, filed Chapter 11 bankruptcy proceedings and several major U.S. airlines ceased operations altogether.

As in Europe, North America has experienced the development of low-cost carriers and the resultant increased competition among such carriers and between such carriers and traditional carriers. This evolution in the North American airline industry may have a material adverse effect on the ability of North American lessees to meet their financial and other obligations under our leases. Accordingly, we may not be able to realize gains or income from our debt investments. Any gains that we do realize may not be sufficient to offset any other losses we experience. Any income that we realize may not be sufficient to offset our expenses.

Declines in the market values of our debt investments may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our shareholders.

Our debt investments are, and we believe are likely to continue to be, classified for accounting purposes as available for sale. Changes in the market values of those assets will be directly charged or credited to shareholders' equity. As a result, a decline in values may reduce the book value of our assets. Moreover, if the decline in value of an available for sale security is considered by our management to be other than temporary, such decline will reduce our earnings.

A decline in the market value of our debt investments may adversely affect us particularly in instances where we have borrowed money based on the market value of those debt investments. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan. If we were unable to post the additional collateral, we would have to sell those assets or other assets at a time when we might not otherwise choose to do so. A reduction in available credit may reduce our earnings and, in turn, cash available for distribution to shareholders.

Market values of our debt investments may decline for a number of reasons, such as causes related to changes in prevailing market rates, increases in defaults, increases in voluntary prepayments for any debt investments that we have that are subject to prepayment risk, and widening of credit spreads.

Risks related to our leases

We generally will need to re-lease or sell aircraft as current leases expire to continue to generate sufficient funds to meet our debt obligations, to finance our growth and operations and to pay dividends on our common shares, and we may not be able to re-lease or sell such aircraft on favorable terms, or at all.

Our business strategy entails the need to re-lease aircraft as our current leases expire in order to continue to generate sufficient revenues to meet our debt obligations, to finance our growth and operations and to pay dividends on our common shares. In certain cases, including the Aircraft Acquisition, we may acquire aircraft that are not leased at the time. The ability to re-lease aircraft at attractive rates will depend on general market and competitive conditions at the particular time. If we are not able to re-lease an aircraft at favorable rates, including aircraft acquired pursuant to the Aircraft Acquisition, we may need to attempt to sell the aircraft to

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provide adequate funds for debt payments and to otherwise finance our growth and operations. Further, our ability to re-lease, lease or sell aircraft on favorable terms or at all or without significant off-lease time is likely to be adversely impacted by risks affecting the airline industry.

A schedule of contractual lease expirations by year and aircraft type is presented in the table below. Leases subject to extension options are shown at the expiration of the current lease term. The table assumes that, except as indicated, no lease terminates prematurely, no substitute aircraft are delivered, no aircraft are sold and no additional aircraft are purchased, even though we acquired aircraft subsequent to September 30, 2006 and are currently committed to purchase additional aircraft as part of the Aircraft Acquisition. Contractual lease revenue earned in 2006 on leases expiring in the fourth quarter of 2006 totaled \$1.4 million. Contractual lease revenues earned in 2006 on leases expiring in 2007 and 2008 totaled \$16.4 million and \$29.7 million, respectively. More aircraft will need to be re-leased to the extent leases terminate prematurely.

Lease Expiration by Year, for aircraft we owned at September 30, 2006

	2006	2007	2008	2009	2010	2011	2012	2013	2014
A310-300F	0	0	1	0	0	0	0	0	0
A319-100	0	3	0	0	0	0	0	0	0
A320-200	1	0	3	2	2	0	3	0	0
A330-200	0	0	0	0	1	0	0	0	0
A330-300	0	0	0	0	0	1	4	0	0
737-300	0	0	5	0	0	0	0	0	0
737-300QC	0	0	2	2	0	0	0	0	0
737-400	0	2	0	2	1	0	1	0	0
737-500	0	0	0	1	3	0	0	0	0
737-700	0	0	0	0	1	7	0	0	0
737-800	0	1	1	0	0	2	0	0	2
747-400PC	0	0	1	0	0	0	0	0	0
757-200	0	3	0	0	0	0	0	0	0
767-200ER	0	0	1	0	0	0	0	0	0
767-300ER	0	0	0	3	1	1	0	1	0
Total	1	9	14	10	9	11	8	1	2

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.

The standards of maintenance observed by the various lessees and the condition of the aircraft at the time of sale or lease may affect the future values and rental rates for our aircraft.

Under our leases, the relevant lessee is generally responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft, including, without limitation, operational, maintenance, and registration requirements and airworthiness directives (although in certain cases we have agreed to share the cost of complying with certain airworthiness directives). Failure of a lessee to perform required maintenance with respect to an aircraft during the term of a lease could result in a diminution in value of such aircraft, an inability to lease the aircraft at favorable rates or at all, or a potential grounding of such aircraft, and will likely require us to incur maintenance and modification costs upon the expiration or earlier termination of the applicable lease, which

could be substantial, to restore such aircraft to an acceptable condition prior to sale or re-leasing.

As of September 30, 2006, 37 of our leases provide that the lessee is required to make periodic payments to us during the lease term in order to provide cash reserves for the payment of

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maintenance tied to the usage of the aircraft. In these leases there is an associated liability for us to reimburse the lessee for such scheduled maintenance performed on the related aircraft, based on formulas tied to the extent of any of the lessee's maintenance reserve payments. In some cases, we are obligated and in the future may incur additional obligations pursuant to the terms of the leases to contribute to the cost of maintenance work performed by the lessee in addition to maintenance reserve payments.

Our operational cash flow and available liquidity may not be sufficient to fund our maintenance requirements, particularly as our aircraft age. Actual rental and maintenance payments by lessees and other cash that we receive may be significantly less than projected as a result of numerous factors, including defaults by lessees and our potential inability to obtain satisfactory maintenance terms in leases. At September 30, 2006, 26 of our leases do not provide for any periodic maintenance reserve payments to be made by lessees to us in respect of their maintenance obligations, and it is possible that future leases will not contain such requirements. Two of our leases require that the lessee make both a monthly maintenance payment and an additional maintenance payment to us at the end of the lease term in certain circumstances. Even if we are entitled to maintenance reserve payments, they may not cover the entire expense of the scheduled maintenance they are intended to fund. In addition, maintenance reserves typically cover only certain scheduled maintenance requirements and do not cover all required maintenance and all scheduled maintenance. Furthermore, lessees may not meet their obligations to pay maintenance reserves or perform required scheduled maintenance. Any significant variations in such factors may materially adversely affect our business and particularly our cash position, which would make it difficult for us to meet our debt obligations or to pay dividends on our common shares.

Failure to pay certain potential additional operating costs could result in the grounding or arrest of our aircraft and prevent the re-lease, sale or other use of our aircraft, which would negatively affect our financial condition and results of operations.

As in the case of maintenance costs, we may incur other operational costs upon a lessee default or where the terms of the lease require us to pay a portion of those costs. Such costs include:

- the costs of casualty, liability and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required or is insufficient in amount or scope;
- the costs of licensing, exporting or importing an aircraft, airport taxes, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions, which can be substantial; and
- penalties and costs associated with the failure of lessees to keep the aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals.

The failure to pay certain of these costs can result in liens on the aircraft and the failure to register the aircraft can result in a loss of insurance. These matters could result in the grounding or arrest of the aircraft and prevent the

re-lease, sale or other use of the aircraft until the problem is cured, which would negatively affect our financial condition and results of operations.

Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us and may negatively affect our business, financial condition and results of operations.

While we do not directly control the operation of any of our aircraft, by virtue of holding title to the aircraft (directly or through a securitization related special purpose entity), in certain

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jurisdictions around the world, aircraft lessors are held strictly liable for losses resulting from the operation of aircraft or may be held liable for those losses on other legal theories.

The lessees are required under our leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risks and hull war risks insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. The hull insurance is typically subject to standard market hull deductibles based on aircraft type that generally range from \$250,000 to \$1,000,000. These deductibles may be higher in some leases, and lessees usually have fleet-wide deductibles for liability insurance and occurrence or fleet limits on war risk insurance. Any hull insurance proceeds in respect of such claims shall be paid first to us as lessor in the event of loss of the aircraft or, in the absence of an event of loss of the aircraft, to the lessee to effect repairs or, in the case of liability insurance, for indemnification of third-party liabilities. Subject to the terms of the applicable lease, the balance of any hull insurance proceeds after deduction for all amounts due and payable by the lessee to the lessor under such lease must be paid to the lessee.

Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is commercially available at any time may be below the amount stipulated in our leases and required by the market in general.

Our lessees' insurance, including any available governmental supplemental coverage, may not be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations or the lack of political risk, hull, war or third-party war risk and terrorism liability insurance will reduce the proceeds that would be received by us upon an event of loss under the respective leases or upon a claim under the relevant liability insurance, which could negatively affect our business, financial condition and results of operations.

Failure to obtain certain required licenses and approvals could negatively affect our ability to re-lease or sell aircraft, which would negatively affect our financial condition and results of operations.

A number of leases require specific licenses, consents or approvals for different aspects of the leases. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase such requirements. In addition, a governmental consent, once given, might be withdrawn. Furthermore, consents needed in connection with future re-leasing or sale of an aircraft may not be forthcoming. Any of these events could adversely affect our ability to re-lease or sell aircraft, which would negatively affect our financial condition and results of operations.

Due to the fact that many of our lessees operate in emerging markets, we are indirectly subject to many of the economic and political risks associated with competing in such markets.

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments.

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The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the nine months ended September 30, 2006, 14 of our lessees which operated 27 aircraft and generated lease rental revenue representing 38.0% of our total revenue are domiciled or habitually based in emerging markets.

Risks related to our lessees

Lessee defaults and other credit problems could materially adversely affect our business, financial condition and results of operations.

We operate as a supplier to airlines and are indirectly impacted by all the risks facing airlines today. Our ability to succeed is dependent upon (i) the financial strength of our lessees, (ii) the ability to diligently and appropriately assess the credit risk of our lessees and (iii) the ability of lessees to perform their contractual obligations to us. The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

- competition;
- fare levels;
- air cargo rates;
- passenger and air cargo demand;
- geopolitical and other events, including war, acts of terrorism, outbreaks of epidemic diseases and natural disasters;
- operating costs (including the price and availability of jet fuel and labor costs);
- labor difficulties;
- economic conditions and currency fluctuations in the countries and regions in which the lessee operates; and

- governmental regulation of or affecting the air transportation business.

As a general matter, airlines with weak capital structures are more likely than well-capitalized airlines to seek operating leases, and, at any point in time, investors should expect a varying number of lessees and sublessees to experience payment difficulties. As a result of their weak financial condition, a large portion of lessees over time may be significantly in arrears in their rental or maintenance payments. Many of our existing lessees are in a weak financial condition and suffer liquidity problems, and this is likely to be the case in the future and with other lessees and sublessees of our aircraft as well. In addition, many of our lessees are exposed to currency risk due to the fact that they earn revenues in their local currencies and certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to us. Given the size of our aircraft portfolio, we expect that some lessees from time to time, and possibly in the near future, will be slow in making or will fail to make their payments in full under the leases.

We may not correctly assess the credit risk of each lessee or charge risk-adjusted lease rates, and lessees may not be able to continue to perform their financial and other obligations under our leases in the future. A delayed, missed or reduced rental payment from a lessee decreases our revenues and cash flow and may adversely affect our ability to make payments on our

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indebtedness and to pay dividends on our common shares. While we may experience some level of delinquency under our leases, default levels may increase over time, particularly as our aircraft portfolio ages and if economic conditions deteriorate. A lessee may experience periodic difficulties that are not financial in nature, which could impair its performance of its maintenance obligations under the leases. These difficulties may include the failure to perform under the required aircraft maintenance program in a sufficient manner and labor-management disagreements or disputes.

We will typically not be in possession of any aircraft while the aircraft are on-lease to the lessees. Consequently, our ability to determine the condition of the aircraft or whether the lessees are properly maintaining the aircraft will be limited to periodic inspections we perform or that are performed on our behalf by third-party service providers or aircraft inspectors. A continuous failure by a lessee to meet its maintenance obligations under the relevant lease could:

- result in a grounding of the aircraft;
- in the event of a re-lease of the aircraft, cause us to incur costs, which may be substantial, in restoring the aircraft to an acceptable maintenance condition in order to induce a subsequent lessee to lease the aircraft;
- result in us not being able to re-lease the aircraft promptly or result in a lower rental rate or a shorter term lease following repossession of the aircraft; and
- adversely affect the value of the aircraft.

In the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee may not be sufficient to cover the lessee's outstanding or unpaid lease obligations and required maintenance expenses.

If our lessees encounter financial difficulties and we decide to restructure our leases with those lessees, this would result in less favorable leases and could result in significant reductions in our cash flow and affect our ability to meet our debt obligations and to pay dividends on our common shares.

When a lessee (i) is late in making payments, (ii) fails to make payments in full or in part under the lease or (iii) has otherwise advised us that it will in the future fail to make payments in full or in part under the lease, we may elect to or be required to restructure the lease. Restructuring may involve anything from a simple rescheduling of payments to the termination of a lease without receiving all or any of the past due amounts. Since our formation in October 2004, none of our lessees have been granted reductions in or deferrals of rental payments due under the leases, although some have been late in making the required lease payments. If any future requests are made and granted, we expect that the reduced or deferred rental payments would be payable over all or some part of the remaining term of the lease although the terms of any revised payment schedules may be unfavorable and such payments may not be made. We may be unable to agree upon acceptable terms for some or all of the requested restructurings and as a result may be forced to exercise our remedies under those leases. If we, in the exercise of our remedies, repossess the aircraft, we may not be able to re-lease the aircraft promptly at favorable rates, or at all. You should expect that restructurings and/or repossessions with some lessees might occur.

The terms and conditions of possible lease restructurings may result in significant reductions of rental payments, which may adversely affect our cash flows and our ability to meet our debt obligations and to pay dividends on our common shares.

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Significant costs resulting from lease defaults could have an adverse effect on our business.

Although we have the right to repossess the aircraft and to exercise other remedies upon a lessee default, repossession of an aircraft after a lessee default would result in us incurring costs in excess of those incurred with respect to an aircraft returned at the end of the lease. Those costs include legal and other expenses of court or other governmental proceedings (including the cost of posting surety bonds or letters of credit necessary to effect repossession of aircraft), particularly if the lessee is contesting the proceedings or is in bankruptcy, to obtain possession and/or de-registration of the aircraft and flight and export permissions. Delays resulting from any of these proceedings would also increase the period of time during which the relevant aircraft is not generating revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to pay and that are necessary to put the aircraft in suitable condition for re-lease or sale and we may need to pay off liens, taxes and other governmental charges on the aircraft to obtain clear possession and to remarket the aircraft effectively. We may also incur other costs in connection with the physical possession of the aircraft.

We may also suffer other adverse consequences as a result of a lessee default and the related termination of the lease and the repossession of the related aircraft. Our rights upon a lessee default vary significantly depending upon the jurisdiction and the applicable law, including the need to obtain a court order for repossession of the aircraft and/or consents for de-registration or re-export of the aircraft. When a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions will give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or will entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or performing all or some of the obligations under the relevant lease. Certain of our lessees are owned in whole or in part by government-related entities, which could complicate our efforts to repossess our aircraft in that government's jurisdiction. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

If we repossess an aircraft, we will not necessarily be able to export or de-register and profitably redeploy the aircraft. For instance, where a lessee or other operator flies only domestic routes in the jurisdiction in which the aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist de-registration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft.

If our lessees fail to appropriately discharge aircraft liens, we might find it necessary to pay such claims, which could have a negative effect on our cash position and our business.

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens, or "Aircraft Liens," are likely, depending on the jurisdiction in question, to attach to the aircraft. The Aircraft Liens may secure substantial sums that may, in certain jurisdictions or for limited types of Aircraft Liens (particularly fleet liens), exceed the value of the particular aircraft to which the Aircraft Liens have attached. Although the financial obligations relating to these Aircraft Liens are the responsibilities of our lessees, if they fail to fulfill their obligations, Aircraft Liens may attach to our aircraft and ultimately become our responsibility. In some jurisdictions, Aircraft Liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft.

Until they are discharged, Aircraft Liens could impair our ability to repossess, re-lease or resell our aircraft. Our lessees may not comply with their obligations under their respective leases to

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discharge Aircraft Liens arising during the terms of their leases, whether or not due to financial difficulties. If they do not, we may, in some cases, find it necessary to pay the claims secured by such Aircraft Liens in order to repossess the aircraft. Such payments would adversely affect our cash position and our business generally.

Failure to register aircraft in certain jurisdictions could result in adverse effects and penalties which could materially affect our business.

Pursuant to our existing leases, all of our aircraft are required to be duly registered at all times with the appropriate governmental civil aviation authority. Generally, in jurisdictions outside the United States, failure to maintain the registration of any aircraft that is on-lease would be a default under the applicable lease, entitling us to exercise our rights and remedies thereunder if enforceable under applicable law. If an aircraft were to be operated without a valid registration, the lessee operator or, in some cases, the owner or lessor might be subject to penalties, which could constitute or result in an Aircraft Lien being placed on such aircraft. Lack of registration could have other adverse effects, including the inability to operate the aircraft and loss of insurance coverage, which in turn could have a material adverse effect on our business.

If our lessees fail to comply with government regulations regarding aircraft maintenance, we could be subject to costs that could adversely affect our cash position and our business.

In addition to the general aviation authority regulations and requirements regarding maintenance of aircraft, our aircraft may be subject to further maintenance requirements imposed by airworthiness directives, or "Airworthiness Directives", issued by aviation authorities. Airworthiness Directives typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

Each lessee generally is responsible for complying with all of the Airworthiness Directives with respect to the leased aircraft and is required to maintain the aircraft's airworthiness. However, if a lessee fails to satisfy its obligations, or we have undertaken some obligations as to airworthiness under a lease, we may be required to bear (or, to the extent required under the relevant lease, to share) the cost of any Airworthiness Directives compliance. If any of our aircraft are not subject to a lease, we would be required to bear the entire cost of compliance. Such payments would adversely affect our cash position and our business generally.

Risks associated with the concentration of our lessees in certain geographical regions could harm our business.

Our business is exposed to local economic and political conditions that can influence the performance of lessees located in a particular region. Such adverse economic and political conditions include additional regulation or, in extreme cases, requisition. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions. For the nine months ended September 30, 2006, lease rental revenues, as a percentage of total revenues, from lessees in the following regions, were 41.0% in Europe, 21.4% in Asia (including 12.9% in China), 26.0% in North America, and 4.6% in Latin America.

European Concentration

Lease rental revenues from 20 lessees based in Europe accounted for 41.0% of our total revenues for the nine months ended September 30, 2006. Commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures, in part as a result of the deregulation of the airline industry by the European Union and the resultant development of low-cost carriers.

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European countries generally have relatively strict environmental regulations and traffic constraints that can restrict operational flexibility and decrease aircraft productivity, which could significantly increase aircraft operating costs of all aircraft, including our aircraft, thereby adversely affecting lessees. The airline industry in European countries, as in the rest of the world generally, is highly sensitive to general economic conditions. A recession or other worsening of economic conditions or a terrorist attack in one or more of these countries, particularly if combined with either or both high fuel prices and a weak euro or other local currency, may have a material adverse effect on the ability of European lessees to meet their financial and other obligations under our leases.

Asian Concentration

Lease rental revenues from six lessees based in Asia accounted for 21.4% of our total revenues for the nine months ended September 30, 2006. The outbreak of SARS in 2003 had the largest negative impact on Asia, particularly China, Hong Kong and Taiwan. More recently, the Asian airline industry is demonstrating signs of recovery; however, a recurrence of SARS or the outbreak of another epidemic disease, such as avian influenza, which many experts think would originate in Asia, would likely adversely affect the Asian airline industry.

Lease rental revenues from two lessees based in China accounted for 12.9% of our total revenues for the nine months ended September 30, 2006, with one lessee, Hainan Airlines, accounting for 8.9% of our total revenues. Major obstacles to the Chinese airline industry's development exist, including the continuing government control and regulation over the industry. If such control and regulation persists or expands, the Chinese airline industry would likely experience a significant decrease in growth or restrictions on future growth, and it is conceivable that our

interests in aircraft on-lease to or our ability to lease to Chinese carriers could be adversely affected.

North American Concentration

Lease rental revenues from three lessees based in North America accounted for 26.0% of our total revenues for the nine months ended September 30, 2006. During the past 15 years a number of North American passenger airlines, including US Airways, Inc, filed Chapter 11 bankruptcy proceedings and several major U.S. airlines ceased operations altogether. The outbreak of SARS, the war and prolonged conflict in Iraq and the September 11, 2001 terrorist attacks in the United States have imposed additional financial burdens on most U.S. airlines through tightened security measures and reduced demand for air travel.

Risks Related to the Aviation Industry

As high fuel prices continue to impact the profitability of the airline industry, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.

Fuel costs represent a major expense to companies operating within the airline industry. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency/exchange rates. As a result, fuel costs are not within the control of lessees and significant changes would materially affect their operating results.

Factors such as natural disasters can significantly affect fuel availability and prices. In August and September 2005, Hurricanes Katrina and Rita inflicted widespread damage along the Gulf Coast of the United States, causing significant disruptions to oil production, refinery operations and pipeline capacity in the region and to oil production in the Gulf of Mexico. These disruptions have resulted in decreased fuel availability and higher fuel prices.

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Fuel prices currently remain at historically high levels. The continuing high cost of fuel has had, and sustained high costs in the future may continue to have, a material adverse impact on airlines' profitability (including our lessees). Due to the competitive nature of the airline industry, airlines have been and may continue to be unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully off-set the costs incurred. In addition, airlines may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. If fuel prices remain at historically high levels or increase further due to future terrorist attacks, acts of war, armed hostilities, natural disasters or for any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Consequently, these conditions may (i) affect our lessees' ability to make rental and other lease payments, (ii) result in lease restructurings and/or aircraft repossessions, (iii) increase our costs of servicing and marketing our aircraft, (iv) impair our ability to re-lease the aircraft or re-lease or otherwise dispose of the aircraft on a timely basis at favorable rates or terms, or at all, and (v) reduce the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects.

If the effects of terrorist attacks and geopolitical conditions continue to adversely impact the financial condition of the airlines, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent terrorist attacks abroad, notably in the Middle East, Southeast Asia and Europe, increased security restrictions were implemented on air travel, airline costs for aircraft insurance and enhanced security measures have increased, passenger demand for air travel has decreased and airlines have faced and continue to face increased difficulties in acquiring war risk and other insurance, at reasonable costs. In addition, war or armed hostilities in the Middle East, North Korea or elsewhere, or the fear of such events, could further exacerbate many of the problems experienced as a result of terrorist attacks. The situation in Iraq continues to be uncertain and tension over Iran's nuclear program continues, and either or both may lead to further instability in the Middle East. Future terrorist attacks, war or armed hostilities, or the fear of such events, could further negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results and growth prospects.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry and concerns about geopolitical conditions and further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future depending upon various factors, including: (i) higher costs to the airlines due to the increased security measures; (ii) decreased passenger demand and revenue due to the inconvenience of additional security measures; (iii) the price and availability of jet fuel and the cost and practicability of obtaining fuel hedges under current market conditions; (iv) higher financing costs and difficulty in raising the desired amount of proceeds on favorable terms, or at all; (v) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available; (vi) the ability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of terrorist attacks and geopolitical conditions, including those referred to above; and (vii) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the grounding of aircraft as a result of terrorist attacks, the economic slowdown and airline reorganizations.

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Future terrorist attacks, acts of war or armed hostilities may further increase airline costs, depress air travel demand, depress aircraft values and rental rates or cause certain aviation insurance to become available only at significantly increased premiums (which may be for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage currently required by aircraft lenders and lessors or by applicable government regulations) or not be available at all.

Although the Aircraft Transportation Safety and System Stabilization Act adopted in the United States and similar programs instituted by the governments of some other countries provide for limited government coverage for certain aviation insurance, these programs may not continue nor is there any guarantee such government will pay under these programs in a timely fashion.

If the current industry conditions should continue or become exacerbated due to future terrorist attacks, acts of war or armed hostilities, they are likely to cause our lessees to incur higher costs and to generate lower revenues, resulting in an adverse effect on their financial condition and liquidity. Consequently, these conditions may affect their ability to make rental and other lease payments to us or obtain the types and amounts of insurance required by the applicable leases (which may in turn lead to aircraft groundings), may result in additional lease restructurings and aircraft repossessions, may increase our cost of re-leasing or selling the aircraft and may impair our ability to re-lease or otherwise dispose of the aircraft on a timely basis at favorable rates or on favorable terms, or at all, and may reduce

the proceeds received for the aircraft upon any disposition. These results could have an adverse effect on our financial results and growth prospects.

The effects of SARS or other epidemic diseases may negatively impact the airline industry in the future, which might cause our lessees to not be able to meet their lease payment obligations to us, which would have an adverse effect on our financial results and growth prospects.

The spread of SARS in 2003 was linked to air travel early in its development and negatively impacted passenger demand for air travel at that time. While the World Health Organization's travel bans related to SARS have been lifted, SARS had a severe impact on the aviation industry, which was evidenced by a sharp reduction in passenger bookings and cancellation of many flights and employee layoffs. While these effects were felt most acutely in Asia, SARS did spread to other areas, including North America. Since 2003, there have been several outbreaks of avian influenza, beginning in Asia and, most recently, spreading to certain parts of Africa and Europe. Although human cases of avian influenza so far have been limited in number, the World Health Organization has expressed serious concern that a human influenza pandemic could develop from the avian influenza virus. In such an event, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Additional outbreaks of SARS or other epidemic diseases such as avian influenza, or the fear of such events, could negatively impact passenger demand for air travel and the aviation industry, which could result in our lessees' inability to satisfy their lease payment obligations to us, which in turn would have an adverse effect on our financial results and growth prospects.

If recent industry economic losses and airline reorganizations continue, our lessees might not be able to meet their lease payment obligations to us, which would have an adverse effect on our financial results and growth prospects.

As a result of reduced fares, international economic conditions, a significant increase in oil prices, the September 11, 2001 terrorist attacks in the United States, the war and prolonged conflict in Iraq and outbreaks of epidemic diseases such as SARS and avian influenza, the aviation industry as a whole suffered significant losses since 2001 and such losses are expected to continue for the foreseeable future for certain parts of the industry. Many airlines, including a significant number of our lessees, have announced or implemented reductions in capacity, service and workforce in

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response to industry-wide reductions in passenger demands and fares. In addition, since September 11, 2001, several U.S. airlines have sought to reorganize (and, in certain instances, have reorganized) under Chapter 11 of the U.S. Bankruptcy Code, including United Air Lines, Inc., Delta Air Lines Inc., Northwest Airlines Corp., US Airways, Inc. (one of our largest customers), Hawaiian Airlines, ATA Airlines, Inc., Atlas Air Worldwide Holdings, Inc. and Aloha Airlines, and further U.S. airline reorganizations are possible. Certain European and Latin American airlines, including Sabena Air Lines, Swiss Air Transport Company Limited, Volare Airlines S.p.A., Varig Brazilian Airlines and Avianca, have also filed for protection under applicable bankruptcy laws. In addition, Air Canada (the largest Canadian airline) filed for protection under Canada's Companies' Creditors Arrangement Act. Historically, airlines involved in reorganizations have undertaken substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting has led to lower profitability for all airlines, including certain of our lessees. The bankruptcies and reduced demand generally have led to the grounding of significant numbers of aircraft and negotiated reductions in aircraft lease rental rates, with the effect of depressing aircraft market values. In addition, requests for additional labor concessions may result in significant labor disputes which could lead to strikes or slowdowns or may otherwise adversely affect labor relations, thereby worsening the financial condition of the airline industry and placing downward pressure on lease rates and aircraft values. Additional reorganizations or liquidations

by airlines under Chapter 11 or Chapter 7 of the U.S. Bankruptcy Code or other bankruptcy or reorganization laws in other countries or further rejection of aircraft leases or abandonment of aircraft by airlines in a Chapter 11 proceeding under the U.S. Bankruptcy Code or equivalent laws in other countries may have already exacerbated and would be expected to further exacerbate such depressed aircraft values and lease rates. Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft on favorable terms, or at all, or re-lease other aircraft at favorable rates comparable to the then current market conditions, which collectively would have an adverse effect on our financial results and growth prospects.

Risks Related to Our Organization and Structure

If the ownership of our common shares continues to be highly concentrated, it may prevent you and other minority shareholders from influencing significant corporate decisions and may result in conflicts of interest.

Following the completion of this offering, entities affiliated with Fortress funds will beneficially own 40,375,000 shares, or approximately 62.0% of our common shares. As a result, Fortress will be able to control fundamental corporate matters and transactions, including: the election of directors; mergers, amalgamations (subject to prior board approval), consolidations or acquisitions; the sale of all or substantially all of our assets; in certain circumstances, the amendment of our bye-laws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other shareholders. The interests of the Fortress funds may not always coincide with our interests or the interests of our other shareholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company. Also, the Fortress funds may seek to cause us to take courses of action that, in their judgment, could enhance their investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders, including investors in this offering. In addition, under our Shareholders Agreement between us and the Fortress funds, an affiliate of Fortress is entitled to designate up to four directors for election to our board of directors, depending upon the level of ownership of the Fortress funds in us. See “Certain Relationships and Related Party Transactions — Shareholders Agreement.” As a result, the market price of our common shares could decline or shareholders

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might not receive a premium over the then-current market price of our common shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder. See “Description of Share Capital — Anti-Takeover Provisions.”

We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our common shares. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

We are a Bermuda company and it may be difficult for you to enforce judgments against us or our directors and executive officers.

We are a Bermuda exempted company and, as such, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. Some of the named experts referred to in this prospectus are not residents of the United States, and a substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

Our bye-laws restrict shareholders from bringing legal action against our officers and directors.

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

We have anti-takeover provisions in our bye-laws that may discourage a change of control.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These provisions provide for:

- a classified board of directors with staggered three-year terms;
- provisions in our bye-laws regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;

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- provisions in our bye-laws dealing with the removal of directors and corporate opportunity to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 80% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
- the removal of directors by a resolution, including the affirmative votes of at least 80% of all votes attaching to all shares in issue entitling the holder to vote on such resolution;
- our board of directors to determine the powers, preferences and rights of our preference shares and to issue such preference shares without shareholder approval;
- advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and
- no provision for cumulative voting in the election of directors; all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 50% of all votes attaching to all shares in issue entitling the

holder to vote at the meeting.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by Fortress, our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium. See “Description of Share Capital — Anti-Takeover Provisions.”

There are provisions in our bye-laws that may require certain of our non-U.S. shareholders to sell their shares to us or to a third party.

Our bye-laws provide that if our board of directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of any bilateral income tax treaty with the U.S. applicable to us, and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have the right, but not the obligation, to repurchase, at fair market value (as determined pursuant to the method set forth in our bye-laws), common shares from any shareholder who beneficially owns more than 5% of our issued and outstanding common shares and who fails to demonstrate to our satisfaction that such shareholder is either (i) a U.S. citizen or (ii) a qualified resident of the U.S. or the other contracting state of any applicable tax treaty with the U.S. (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty).

We will have the option, but not the obligation, to purchase all or a part of the shares held by such shareholder (to the extent the board of directors, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure such adverse consequences); provided that the board of directors will use its reasonable efforts to exercise this option equitably among similarly situated shareholders (to the extent feasible under the circumstances).

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty) of the

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number of issued and outstanding common shares beneficially owned by any shareholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our board of directors). See “Description of Share Capital — Bye-Laws — Acquisition of Common Shares by Aircastle.”

Risks Related to This Offering

The market price and trading volume of our common shares may be volatile or may decline regardless of our operating performance, which could result in rapid and substantial losses for our shareholders.

Our common shares have been publicly traded for only a few months and we cannot predict the extent to which a trading market for our common shares will further develop or be sustained. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. If the market price of our common

shares declines significantly, you may be unable to resell your shares at or above your purchase price.

The market price or trading volume of our common shares could be highly volatile and may decline significantly in the future in response to various factors, many of which are beyond our control, including:

- variations in our quarterly or annual operating results;
- failure to meet our earnings estimates;
- actual or anticipated accounting issues;
- publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares after this offering;
- additions or departures of key management personnel;
- adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;
- changes in our dividend payment policy or failure to execute our existing policy;
- actions by shareholders;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- speculation in the press or investment community;
- increases in market interest rates that may lead purchasers of our common shares to demand a higher dividend yield;
- changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market, political and economic conditions and local conditions in the markets in which our lessees are located.

In addition, the equity markets in general have frequently experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. Changes in economic conditions in the U.S.,

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Europe or globally could also impact our ability to grow profitably. These broad market and industry factors may materially affect the market price of our common shares, regardless of our business or operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

We have broad discretion in the use of the proceeds from this offering and our use of the offering proceeds may not yield a favorable return on your investment.

We expect to use the proceeds of this offering to repay certain indebtedness outstanding under our Revolving Credit Facility and Amended Credit Facility No. 2 and for general corporate purposes. However, our Board has broad discretion over how these proceeds are used and could spend the proceeds in other ways, including ways with which you may not agree. We can not assure you that we will invest the proceeds of this offering effectively or in a manner

that yields a favorable or any return, and consequently, this could result in financial losses that could have a material adverse effect on our business and results of operations or cause the market price of our common shares to decline.

Future debt, which would be senior to our common shares upon liquidation, and additional equity securities, which would dilute the percentage ownership of our then current common shareholders and may be senior to our common shares for the purposes of dividends and liquidation distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by incurring debt or issuing additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or loans and series of preference shares or common shares. Upon liquidation, holders of our debt securities and preference shares and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings would dilute the holdings of our then current common shareholders and could reduce the market price of our common shares, or both. Preference shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments. Restrictive provisions in our debt and/or preference shares could limit our ability to make a distribution to the holders of our common shares. Because our decision to incur more debt or issue additional equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising activities. Thus, holders of our common shares bear the risk of our future debt and equity issuances reducing the market price of our common shares and diluting their percentage ownership in us. See “Description of Share Capital.”

The market price of our common shares could be negatively affected by sales of substantial amounts of our common shares in the public markets.

After this offering, there will be 65,130,379 common shares outstanding. There will be 67,155,379 shares issued and outstanding if the underwriters exercise their over-allotment option in full. All the common shares sold in this offering and our initial public offering will be freely transferable, except for any shares held by our “affiliates,” as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. The remaining outstanding common shares will be deemed “restricted securities” as that term is defined in Rule 144 under the Securities Act. See “Shares Eligible For Future Sale.”

Pursuant to our Amended and Restated Shareholders Agreement, the Fortress funds and certain Fortress affiliates and permitted third-party transferees have the right, in certain circumstances,

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to require us to register their 40,375,000 common shares under the Securities Act for sale into the public markets. Upon the effectiveness of such a registration statement, all shares covered by the registration statement will be freely transferable. See “Certain Relationships and Related Party Transactions — Shareholders Agreement.”

We and our executive officers, directors, participants in our directed share program and Fortress have agreed with the underwriters that, subject to certain exceptions, for a period of 60 days after the date of this prospectus, we and they will not directly or indirectly offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer, dispose of or hedge, directly or indirectly, our common shares or any securities convertible into or exercisable or exchangeable for our common shares, or enter into any swap or other agreement that transfers, in whole

or in part, any of the economic consequences associated with the ownership of common shares, or cause a registration statement covering our common shares to be filed, without the prior written consent of the representatives. The 60-day restricted period described above is subject to an automatic extension under certain circumstances. See “Underwriting.” The representatives may waive these restrictions at their discretion.

In addition, following the completion of our initial public offering in August 2006, we filed a registration statement on Form S-8 under the Securities Act to register an aggregate of 4,000,000 of our common shares reserved for issuance under our equity incentive plan, subject to annual increases of 100,000 common shares per year, beginning in 2007 and continuing through and including 2016. Subject to any restrictions imposed on the shares and options granted under our equity incentive plan, shares registered under the registration statement on Form S-8 are available for sale into the public markets subject to the 60-day lock-up agreements referred to above.

The issuance of additional common shares in connection with acquisitions or otherwise will dilute all other shareholdings.

After this offering, assuming the exercise in full by the underwriters of their over-allotment option, we will have an aggregate of 179,893,923 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, the exercise of outstanding share options or otherwise would dilute the percentage ownership held by the investors who purchase common shares in this offering.

Market interest rates may have an effect on the value of our common shares.

One of the factors that investors may consider in deciding whether to buy or sell our common shares is our dividend rate as a percentage of our share price relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend yield on our common shares or seek securities paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common shares. For instance, if interest rates rise, it is likely that the market price of our common shares will decrease, because potential investors may demand a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise.

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Risks Related to Taxation

If AL were treated as engaged in a trade or business in the United States, it would be subject to U.S. federal income taxation on a net income basis, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

If, contrary to expectations, AL were treated as engaged in a trade or business in the United States, the portion of AL’s net income, if any, that was “effectively connected” with such trade or business would be subject to U.S. federal income taxation at a maximum rate of 35%. In addition, AL would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

If substantially all of the U.S. source rental income of Aircastle Bermuda is attributable to activities of Aircastle personnel based in the United States, Aircastle Bermuda could be subject to U.S. federal income taxation on a net income basis rather than at a rate of 4% of its U.S. source gross rental income, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

We have adopted certain operating procedures designed to limit the amount of income generated by Aircastle Bermuda that is treated as effectively connected with a U.S. trade or business. Accordingly, it is generally expected that Aircastle Bermuda's U.S. source rental income will be subject to U.S. federal taxation, on a gross income basis, at a rate not in excess of 4%. If, contrary to expectations, we do not comply with certain administrative guidelines of the Internal Revenue Service, or the IRS, such that 90% or more of Aircastle Bermuda's U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda's U.S. source rental income could be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda's U.S. source rental income would be subject to U.S. federal income taxation at a maximum rate of 35%. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

One or more of our Irish subsidiaries could fail to qualify for treaty benefits, which would subject certain of their income to U.S. federal income taxation, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

Our Irish subsidiaries do not expect to have any U.S. federal income tax liability with respect to (i) rental income attributable to aircraft used in international traffic or (ii) gain from the sale of aircraft used in international traffic. For this purpose, "international traffic" includes all flights other than those that are conducted from one point in the United States to another point in the United States. In order for each of our Irish subsidiaries to avoid U.S. federal income taxation of such income, it may be necessary for such subsidiary to qualify for the benefits of the income tax treaty between the United States and Ireland, or the Irish Treaty. Qualification for the benefits of the Irish Treaty depends on many factors, including being able to establish the identity of the ultimate beneficial owners of our common shares. Each of the Irish subsidiaries may not satisfy all the requirements of the Irish Treaty and thereby may not qualify each year for the benefits of the Irish Treaty. Moreover, the provisions of the Irish Treaty may change. Failure to so qualify could result in the rental income from aircraft used for flights to, from or within the United States being subject to U.S. federal income taxation at a maximum rate of 35% (plus the 30% U.S. federal branch profits tax on effectively connected earnings and profits). The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

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We may become subject to an increased rate of Irish taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

Our Irish subsidiaries and affiliates are expected to be subject to corporation tax on their income from leasing, managing and servicing aircraft at the 12.5% tax rate applicable to trading income. This expectation is based on certain assumptions, including that we will maintain at least the current level of our business operations in Ireland. If we are not successful in achieving trading status in Ireland the income of our Irish subsidiaries and affiliates will be subject to corporation tax at the 25% rate applicable to non-trading activities which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

We may become subject to income or other taxes in the non-U.S. jurisdictions in which our aircraft operate, where our lessees are located or where we perform certain services which would adversely affect our business and result in decreased cash available for distributions to shareholders.

Certain Aircastle entities are expected to be subject to the income tax laws of Ireland and/or the United States. In addition, we may be subject to income or other taxes in other jurisdictions by reason of our activities and operations, where our aircraft operate or where the lessees of our aircraft (or others in possession of our aircraft) are located. Although we have adopted operating procedures to reduce the exposure to such taxation, we may be subject to such taxes in the future and such taxes may be substantial. In addition, if AL does not follow separate operating guidelines relating to managing a portion of its aircraft portfolio through offices in Ireland and Singapore, income from aircraft not owned in such jurisdictions would be subject to local tax. The imposition of such taxes would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

AL expects to be a PFIC and a controlled foreign corporation, or CFC, for U.S. federal income tax purposes.

We expect to be treated as a PFIC and a CFC for U.S. federal income tax purposes. If you are a U.S. person and own less than 10% of our voting shares and do not make a qualified electing fund, or QEF, election with respect to us and each of our PFIC subsidiaries, you would be subject to special deferred tax and interest charges with respect to certain distributions on our common shares, any gain realized on a disposition of our common shares and certain other events. The effect of these deferred tax and interest charges could be materially adverse to you. Alternatively, if you are such a shareholder and make a QEF election for us and our subsidiaries, or you own 10% or more of our voting shares, you will not be subject to those charges, but could recognize taxable income in a taxable year with respect to our common shares in excess of any distributions that we make to you in that year, thus giving rise to so-called “phantom income” and to a potential out-of-pocket tax liability. See “Material Tax Considerations — Material United States Federal Income Tax Considerations.”

Distributions made to you if you are a U.S. person that is an individual will not be eligible for taxation at reduced tax rates generally applicable to dividends paid by certain United States corporations and “qualified foreign corporations” on or after January 1, 2003. The more favorable rates applicable to regular corporate dividends could cause individuals to perceive investment in our shares to be relatively less attractive than investment in the shares of other corporations, which could adversely affect the value of our shares.

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Special Note Regarding Forward-Looking Statements

Some of the statements under “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this prospectus may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “anticipates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us, the underwriters or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties. Accordingly,

there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, a decrease in the overall demand for commercial aircraft and aircraft leasing, the economic condition of the global airline industry and the ability of our lessees and potential lessees to make operating lease payments to us, acquisition risks, competitive pressures within the industry, risks related to the geographic markets in which we and our lessees operate and other factors described in the section entitled “Risk Factors” beginning on page 11 of this prospectus. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have projected. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. You should specifically consider the factors identified in this prospectus that could cause actual results to differ before making an investment decision to purchase our common shares.

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Market and Industry Data and Forecasts

This prospectus includes market share and industry data and forecasts that we have developed from independent consultant reports, publicly available information, various industry publications, other published industry sources and our internal data and estimates. This includes information relating to the aviation industry and operating leasing industry from several independent outside sources including BACK Aviation Solutions or BACK, an aviation consulting firm and aviation market analysis firm; Simat Helliesen & Eichner, Inc, or SH&E, an aviation consulting firm and aviation market analysis firm; International Bureau of Aviation or IBA, an aviation consulting firm; Aviation Specialists Group or ASG, provider of aircraft appraisals, market analysis and aviation industry insight; and ESG Aviation Services and The Airline Monitor, an aviation market analysis firm. Independent consultant reports, industry publications and other published industry sources generally indicate that the information contained therein was obtained from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information.

Our internal data, estimates and forecasts are based upon information obtained from our customers, partners, trade and business organizations and other contacts in the markets in which we operate and our management’s understanding of industry conditions.

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Use of Proceeds

The net proceeds to us from the sale of the 13,500,000 common shares offered hereby will be approximately \$428.4 million, after deducting the estimated underwriting discounts and commissions and offering expenses payable by us. Our net proceeds will increase by approximately \$64.5 million if the underwriters' over-allotment option is exercised in full.

We expect to use the net proceeds to repay approximately \$75.0 million under our Revolving Credit Facility and \$315.1 under our Amended Credit Facility No. 2, and for other general corporate purposes. Pending these uses, we intend to invest the net proceeds in short-term interest-bearing instruments or money market accounts.

As of January 31, 2007, we had \$75.0 million in loans outstanding under the Revolving Credit Facility and, in addition, a letter of credit in the amount of \$58.1 million is outstanding, reducing our borrowing capacity under this facility, which is scheduled to mature on December 15, 2007. Borrowings currently outstanding under the Revolving Credit Facility bear interest at the one-month LIBOR rate plus 1.50% which, at January 31, 2007, was 6.82% per annum.

As of January 31, 2007, we had \$560.8 million outstanding under Amended Credit Facility No. 2, which is scheduled to mature on December 15, 2008. Borrowings under Amended Credit Facility No. 2 bear interest at the one-month LIBOR rate plus 1.25% which, at January 31, 2007 was 6.57% per annum.

Borrowings currently outstanding under the Revolving Credit Facility and the Amended Credit Facility No. 2 were used to finance a portion of the purchase price of certain of our aircraft. Amounts repaid under the Revolving Credit Facility and the Amended Credit Facility No. 2 may be reborrowed from time to time, subject to compliance with borrowing conditions.

Certain of the underwriters or their affiliates are lenders under Amended Credit Facility No. 2 and the Revolving Credit Facility and will receive their pro rata share of amounts repaid thereunder with the net proceeds of this offering. See "Underwriting."

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Price Range of our Common Shares and Dividends

Our common shares are listed for trading on the New York Stock Exchange under the symbol "AYR". The following table sets forth the quarterly high and low prices of our common shares on the New York Stock Exchange for the periods indicated since our initial public offering and dividends during such periods:

	High	Low	Dividends Per Share (\$)
Year Ending December 31, 2006			
Third Quarter (from August 8, 2006)	\$ 30.00	\$ 25.75	\$ 0.35 ⁽¹⁾
Fourth Quarter	\$ 33.45	\$ 28.70	\$ 0.4375
Year Ending December 31, 2007			
First Quarter (through February 7, 2007)	\$ 34.19	\$ 28.11	— ⁽²⁾

(1) Dividends for the three months ended September 30, 2006 were paid in two installments. A dividend of \$0.156 per share was paid on August 15, 2006 for the period July 1, 2006 to August 12, 2006 for the period prior to our initial public offering. A dividend of \$0.194 per share was paid on November 15, 2006 for the period after our initial public offering.

(2) Our board of directors has not yet declared a dividend for the first quarter of 2007.

On February 7, 2007, the closing sale price of our common shares as reported on the New York Stock Exchange was \$33.24 per share. As of February 7, 2007, there were 78 record holders of our common shares.

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Dividend Policy

On January 15, 2007, we paid a regular quarterly dividend of \$0.4375 per common share, or an aggregate of approximately \$22.6 million, for the three months ended December 31, 2006, to shareholders of record as of December 29, 2006.

We intend to continue to pay regular quarterly dividends to our shareholders. We plan to grow our dividends through the acquisition of additional aviation assets. Through our strategy of reinvesting amounts approximately equal to non-cash depreciation expense, we will seek to maintain our asset base and grow our revenues, earnings and dividends.

The payment of dividends is subject to the discretion of our board of directors and will depend on many factors, including our ability to make and finance acquisitions, our ability to negotiate favorable lease and other contractual terms, the level of demand for our aircraft, the economic condition of the commercial aviation industry generally, the financial condition and liquidity of our lessees, the lease rates we charge and realize, our leasing costs, unexpected or increased expenses, the level and timing of capital expenditures, principal repayments and other capital needs, the value of our aircraft portfolio, our results of operations, financial condition and liquidity, general business conditions, restrictions imposed by financing arrangements (including our credit facilities), legal restrictions on the payment of dividends and other factors that our board of directors deems relevant. We are not permitted to pay dividends on our common shares to the extent a default or an event of default exists under the Revolving Credit Facility. Based upon our forward-looking results of operations and expected cash flows, we currently expect to be in compliance with all of the debt covenants, a default under which would prevent us from paying dividends. However, our forward-looking results and expected cash flows are subject to risks and uncertainties described under “Risk Factors” and “Special Note Regarding Forward-Looking Statements.” In addition, we are a holding company with no direct operations and depend on loans, dividends and other payments from our subsidiaries to generate the funds necessary to pay dividends, and our subsidiaries may be prohibited or restricted from paying dividends to us or otherwise making funds available to us under certain conditions. See “Description of Indebtedness.” We expect that in certain quarters we may pay dividends in excess of our net income for such period as determined in accordance with GAAP.

Our dividend policy has certain risks and limitations. While we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended dividends, or if our financial performance does not achieve expected results. To the extent that we do not have cash on hand sufficient to pay dividends, we do not intend to borrow funds to pay any dividends. By paying cash dividends rather than investing that cash in future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should

the need arise.

We expect that our dividends will not be eligible for either the dividends-received deduction for corporate U.S. Holders or treatment as “qualified dividend income” (which is taxable at the rates generally applicable to long-term capital gains) for U.S. Holders taxed as individuals.

Pursuant to Bermuda law, we are restricted from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) we are, or would after the payment be, unable to pay our liabilities as they become due, or (ii) the realizable value of our assets would thereby be less than the aggregate of our liabilities, our issued share capital (par value) and our share premium account (share premium being the amount of consideration paid for the subscription of shares in excess of the par value of those shares). As a result, in future years, if the realizable value of our assets decreases, our ability to make or maintain dividend payments may depend on our shareholders’ approval of resolutions reducing our share premium account by transferring funds to our contributed surplus account.

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Capitalization

The following table sets forth our capitalization as of September 30, 2006:

- on an actual basis; and
- as adjusted to give effect to the sale of the 13,500,000 common shares in this offering, after deducting the underwriters’ discounts and commissions and estimated offering expenses payable by us and the repayment of the certain amounts outstanding under Amended Credit Facility No. 2 and the Revolving Credit Facility using a portion of the net proceeds from this offering.

This table contains unaudited information and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our historical and pro forma consolidated financial statements and the accompanying notes that appear elsewhere in this prospectus.

	Actual	As Adjusted
Borrowings under credit facilities:		
Amended Credit Facility No. 2(1)	\$ 277,894	\$ —
Credit Facility No. 3	73,332	73,332
Revolving Credit Facility(1)	—	—
Securitization No. 1	554,733	554,733
Repurchase agreements	83,839	83,839
Shareholders’ equity:		
Common shares, \$0.01 par value: 250,000,000 shares authorized, 51,507,252 shares issued and outstanding, actual, 65,007,252 shares issued and outstanding, as adjusted	515	650
Preference shares, \$0.01 par value, 50,000,000 shares authorized no shares issued and outstanding, actual and as adjusted	—	—

Additional paid-in capital	629,238	1,057,461
Retained earnings	9,405	9,405
Accumulated other comprehensive income	9,203	9,203
Total shareholders' equity	648,361	1,076,719
Total capitalization	\$ 1,638,159	\$ 1,788,623

(1)As of January 31, 2007, we had \$560.8 million outstanding under Amended Credit Facility No. 2 and \$75.0 million in loans outstanding under the Revolving Credit Facility, and in addition, a letter of credit in the amount of \$58.1 million is outstanding, reducing our borrowing capacity under this facility. We expect to repay approximately \$315.1 of the outstanding amount under Amended Credit Facility No. 2 and \$75.0 of the outstanding amount under the Revolving Credit Facility using the net proceeds of this offering.

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Selected Historical Consolidated Financial Data

The following tables set forth our selected historical consolidated financial data as of December 31, 2004 and 2005 and for the period from our inception to December 31, 2004 and the year ended December 31, 2005 and selected historical consolidated financial data as of and for the nine months ended September 30, 2005 and 2006. We commenced operations in October 2004 and therefore the information presented for the year ended December 31, 2004 reflects our results of operations for the period from October 29, 2004 through December 31, 2004 only. You should read this information in conjunction with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our historical consolidated financial statements and the related notes thereto included elsewhere in this prospectus. Our historical consolidated statements of operations data and consolidated balance sheets data as of December 31, 2004 and 2005 and for the period from our inception through December 31, 2004 and the year ended December 31, 2005 have been derived from our audited consolidated financial statements and are included elsewhere in this prospectus. The statement of operations data and consolidated balance sheets data as of and for the nine months ended September 30, 2005 and 2006 have been derived from our unaudited consolidated interim financial statements included elsewhere in this prospectus. The results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

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	Period From October 29, 2004 (Commencement of Operations) Through December 31, 2004	Year Ended December 31, 2005	Nine months ended September 30, 2005	2006
Statements of Operations Data (Dollars in thousands, except per share data):				
Lease rentals	\$ 78	\$32,978	\$13,047	\$121,413

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Interest income	—	2,942	2,225	6,588
Other revenue	—	106	65	153
Total Revenues	78	36,026	15,337	128,154
Depreciation	390	\$14,460	6,644	38,182
Interest, net of interest income	(9)	7,739	3,217	35,058
Selling, general and administrative expenses	1,117	12,595	7,950	21,219
Other expenses	45	1,171	921	1,229
Total expenses	1,543	35,965	18,732	95,688
Income (loss) from continuing operations before income taxes	(1,465)	61	(3,395)	32,466
Income tax provision	—	940	461	4,453
Income (loss) from continuing operations	(1,465)	(879)	(3,856)	28,013
Earnings from discontinued operations, net of income taxes	—	1,107	—	3,399
Net income (loss)	\$(1,465)	\$ 228	\$(3,856)	\$ 31,412
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.04)	\$ (.02)	\$ (.10)	\$.64
Earnings from discontinued operations, net of income taxes	—	.03	—	.08
Net income (loss)	\$ (.04)	\$.01	\$ (.10)	\$.72
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.04)	\$ (.02)	\$ (.10)	\$.63
Earnings from discontinued operations, net of income taxes	—	.03	—	.08
Net income (loss)	\$ (.04)	\$.01	\$ (.10)	\$.71
Cash dividends declared per share	—	—	—	\$ 0.506

As of December 31, 2004 As of December 31, 2005 As of September 30, 2006

Consolidated Balance Sheets Data (Dollars in thousands, except per share data):

Cash and cash equivalents	\$	—	\$ 79,943	\$ 38,970
Debt securities, available for sale		—	26,907	120,271
Restricted cash and cash equivalents		—	40,652	106,714
Flight equipment held for lease, net of accumulated depreciation		94,430	746,124	1,509,443
Total assets		104,981	967,532	1,808,459
Borrowings under credit facilities		—	490,588	351,226
Borrowings under securitization		—	—	554,733
Repurchase agreements		—	8,665	83,839
Security deposits and maintenance payments		3,474	37,089	111,190
Total liabilities		5,746	556,596	1,160,098
Total shareholders' equity		99,235	410,936	648,361
Total liabilities and shareholders' equity		\$104,981	\$967,532	\$1,808,459

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Recent Developments

Fourth Quarter Financial Results

Revenues for the quarter ended December 31, 2006 were \$61.2 million. Of this amount, \$58.7 million were aircraft lease rental revenues and \$2.5 million was interest income on our debt investments. Fourth quarter aircraft lease rental revenues of \$58.7 million included a full quarter of revenue earned on the 65 aircraft owned as of September 30, 2006 and a partial quarter of revenue on the four aircraft purchased during the fourth quarter.

Guggenheim

On January 22, 2007, we entered into the Acquisition Agreement, with affiliates of GAIF 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. The aircraft we will acquire under the Acquisition Agreement are scheduled to be delivered to us between January 2007 and February 2009, with 28 of these aircraft scheduled for delivery in 2007. Four of the aircraft are Boeing Model 747-400ERF freighter aircraft to be delivered new from the manufacturer, seven are Boeing Model 747-400 aircraft converted or to be converted from passenger to freighter specification and one is a McDonnell Douglas Model MD11SF. The remaining 26 aircraft are passenger aircraft. In this prospectus, we refer to the acquisition of these aircraft as the Aircraft Acquisition.

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 and uncertainties. Please see "Special Note Regarding Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this prospectus, including "Capitalization," "Summary Consolidated Financial Information" and "Selected Historical Consolidated Financial and Operating Data." 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 listed under "Risk Factors" and included elsewhere in this prospectus.

OVERVIEW

We are a global company that acquires and leases high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of September 30, 2006, our aircraft portfolio consisted of 65 aircraft that were leased to 32 lessees located in 23 countries and managed through our offices in the United States, Ireland and Singapore. All of 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 securities secured by commercial jet aircraft. As of January 31, 2007, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$1.9 billion and \$1.8 billion, respectively, for a total of approximately \$3.7 billion, including our commitment to acquire 38 aircraft from affiliates of

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Guggenheim Aviation Fund, LP, or GAIF. See “Recent Developments — Guggenheim.” Our revenues and income from continuing operations for the nine months ended September 30, 2006 were \$128.2 million and \$28.0 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 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 2006, we closed our first securitization, a \$560 million transaction comprising 40 aircraft, which we refer to as Securitization No. 1. On January 15, 2007, we paid a regular quarterly dividend of \$0.4375 per common share for the three months ended December 31, 2006, to shareholders of record as of December 29, 2006. 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

All of our aircraft are currently subject to net operating leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational and insurance costs. In many of our leases we are obligated to bear a portion of maintenance costs or costs associated with modifications required by manufacturers or regulators. We retain the benefit, and bear the risk, of re-leasing and the residual value of the aircraft upon expiry or early termination of the lease. As of September 30, 2006, our portfolio consisted of 65 aircraft on-lease to 32 lessees in 23 countries with a net book value of \$1.5 billion. The weighted average (by net book value) age of the aircraft in the portfolio from the date of delivery by manufacturer to September 30, 2006, was 8.6 years. The weighted average (by net book value) remaining lease term for aircraft we owned at September 30, 2006 is 3.8 years.

Debt Investments

We also invest in debt securities 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 as defined in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. As of December 31, 2005, we owned debt securities secured by aircraft with a fair value of \$26.9 million. From January 1, 2006 through September 30, 2006 we made two additional investments in debt securities secured by aviation assets. At September 30, 2006, our debt investment portfolio

consisted of six such debt securities with a fair value of \$120.3 million.

Revenues

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

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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 nine months ended September 30, 2006 were \$121.6 million as compared to \$33.0 million for the full year ended December 31, 2005. Our revenues increased significantly from 2005 to 2006 as a result of aircraft acquisitions in late 2005 as well as throughout 2006.

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 nine months ended September 30, 2006 were \$6.6 million as compared to \$3.0 million for the full year ended December 31, 2005.

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 operations has been nominal.

History

We were formed in October 2004 with a capital commitment of \$400 million from funds managed by Fortress for the purpose of investing in aviation assets. This commitment was fully contributed by the end of 2005.

We are incorporated under Bermuda law and 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 is payable by us in respect of real property owned or leased by us in Bermuda. All of our aircraft-owning subsidiaries are non-U.S. corporations that, depending upon the flight activities of the leased aircraft, generally earn income from sources outside the United States that are not subject to U.S. federal income tax. Income earned by our non-U.S. subsidiaries that is attributable to leased aircraft used for flights to or from places within the United States may be subject to U.S. federal income tax. In addition, certain of our

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non-U.S. subsidiaries may be subject to state and local income taxes on a portion of their income as a result of aircraft used for flights to or from particular states or localities. We own our debt securities in a Bermuda corporation. Earnings of this corporation are not subject to U.S. federal income tax because we qualify for the portfolio interest exception. 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 January 31, 2007, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$1.9 billion and \$1.8 billion, respectively, or a total of \$3.7 billion. To date, we have sold one 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 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 from time to time. 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, Aircastle entered into the Acquisition Agreement with GAIF 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 Acquisition Agreement are scheduled to be delivered to us between January 2007 and February 2009.

Four of the aircraft are Boeing Model 747-400ERF freighter aircraft, scheduled for delivery from the manufacturer between January 2007 and April 2008. Our purchase of each of the new freighters would close on its delivery date from the manufacturer; however, subject to satisfaction of certain conditions, we have agreed to make an accelerated payment to the relevant seller and acquire its rights and obligations under the manufacturer's purchase agreement for the new freighters. Signed leases are in place for all of the new freighters, with delivery under each lease scheduled to be made upon completion of the manufacturing process for the relevant new freighter, provided that the executed lease for the new freighter scheduled for delivery in April 2008 is being held in escrow pending satisfaction of certain conditions.

Seven of the aircraft are Boeing Model 747-400 aircraft which have been, or will be converted into freighter aircraft. One of the converted freighters completed its passenger-to-cargo conversion process in November 2006 and was delivered to a lessee; the remaining converted freighters are scheduled to complete the conversion process between February 2007 and June 2008. Our purchase of each of the converted freighters would close on the date it completes the conversion process; however, subject to satisfaction of certain conditions, we have agreed to make an accelerated payment to the relevant seller and acquire the converted freighters, and the rights and obligations of the relevant seller under the passenger-to-freighter conversion contract, prior to completion of the conversion process. Signed leases are in place for all of the converted freighters, with delivery under each lease having been made, or being scheduled to be made, upon completion of the conversion process for the relevant converted freighter.

Six of the aircraft are Airbus Model A320-200 aircraft, which are under contract for purchase from an airline during the period from December 2007 to February 2009. Our purchase of the Airbus

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Model A320-200 aircraft would close upon delivery from the airline to the relevant seller; however, subject to satisfaction of certain conditions, we have agreed to make an accelerated payment to the relevant seller and acquire the rights and obligations of the relevant seller under its contract with the airline seller. Currently there are no leases signed for the Airbus Model A320-200 aircraft.

The purchase of each of the remaining 21 aircraft under the Acquisition Agreement will close upon satisfaction of agreed conditions precedent, with scheduled closing dates ranging from January 2007 to May 2007. All but three of these aircraft are currently subject to lease. The three off-lease aircraft are Boeing Model 737-400s. Five of the remaining 21 aircraft are passenger-configured Boeing Model 757-200 aircraft, on lease to two lessees. Upon our purchase of these aircraft we expect to succeed to the rights and obligations of the relevant seller under a sale agreement with a third party, under which we would sell the aircraft upon expiry of the existing leases, which are currently scheduled to expire on dates between June 2008 and October 2011.

The weighted average age of the aircraft is 9.38 years. The weighted average remaining lease term for the aircraft, excluding the aircraft not currently subject to lease, is 8.28 years. The top five lessees of the aircraft are Martinair, Emirates, Volga-Dnepr, KLM and Cargo 360, all of which are leasing freighter aircraft, and the aircraft operated or to be operated by these five lessees represent approximately 64% of the aggregate purchase price for the aircraft.

Our purchase of the aircraft is generally on an "as-is, where-is" basis, in some cases subject to a pre-delivery inspection and to such aircraft being in an expected delivery condition. If an aircraft suffers a total loss or significant damage prior to our purchase, or if delivery of an aircraft is delayed beyond an agreed deadline, then we may terminate our obligation to purchase that aircraft (without affecting our rights and obligations in relation to the other aircraft). If we have made an accelerated payment with respect to an aircraft, then upon any such termination affecting that aircraft any accelerated payment we have made with respect to that aircraft must be returned to us with interest at 6% per annum from the date the accelerated payment was made.

The Company will guarantee the obligations of its affiliates under the Acquisition Agreement. In order to secure the obligations of our affiliates, we will post a letter of credit. If we were to default on our obligation to purchase an aircraft when all conditions to closing had been met by the relevant seller, then following notice and an opportunity to cure such default the sellers would have the right to terminate the Acquisition Agreement as a whole and draw down the then-current stated amount of the letter of credit, and retain the proceeds as liquidated damages for our failure to

perform.

The obligations of the sellers will be guaranteed by Guggenheim Aviation Investment Fund, LP. If any seller were to knowingly default in any material respect on a material obligation, then following notice and an opportunity to cure such default, we would have the right to terminate the Acquisition Agreement and seek damages, subject to agreed limitations. If we make any accelerated payments for any aircraft, the obligations of the seller to return such accelerated payments following a termination of the Acquisition Agreement with respect to the relevant aircraft will be secured by a letter of credit.

We and the sellers have rights of indemnification against one another for losses suffered as a consequence of a breach of the Acquisition Agreement or for operational risks relating to the aircraft during agreed time periods, subject to customary limitations.

Closing of the transactions contemplated by the Acquisition Agreement is subject to certain customary closing conditions for transactions of this type. There can be no assurance that these conditions will be satisfied or that we will complete the acquisition of all the aircraft

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contemplated by the Acquisition Agreement. See “Risk Factors—Failure to close the Aircraft Acquisition could negatively impact our stock price and financial results”.

Of the total base purchase price for the 38 aircraft of approximately \$1.595 billion, 28 aircraft with an aggregate base purchase price of approximately \$1.040 billion are scheduled to be acquired in 2007. The remaining ten aircraft have an aggregate purchase price of \$554.5 million, nine of which will be delivered in 2008 and one will be delivered in 2009. Of the 38 aircraft that are to be acquired, 29 are to be acquired subject to lease and nine are to be acquired not subject to lease. The 29 aircraft subject to lease have an aggregate base purchase price of approximately \$1.467 billion, contractual monthly rents totaling approximately \$14.0 million and a weighted average remaining lease term of 8.28 years. The nine aircraft that are not subject to lease have an aggregate base purchase price of approximately \$127.5 million.

The aircraft to be acquired include 26 passenger aircraft with a weighted average age of 12.3 years and a total base purchase price of \$500.5 million and 12 freighters with a weighted average age of 8.0 years and a total base purchase price of \$1.094 billion. For accounting purposes, we calculate aircraft depreciation expense based on the estimated useful life of each aircraft and the estimated residual value of each aircraft at the end of its useful life. Generally, we estimate that passenger aircraft have a useful life of 25 years and freighters have a useful life of between 30 and 35 years from the date of manufacture. We estimate that the residual value of our passenger aircraft is 15% of the manufacturer’s original sales price when new and the residual value of freighters ranges between 10% and 15% of the manufacturer’s original sales price when new, or, in the case of converted freighters, of our purchase price.

We initially expect to pay for substantially all of the purchase price of the aircraft 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 “Description of Indebtedness.” We expect to fund our aircraft on a long-term basis by securitizing their future cash flows using a structure similar to Securitization No. 1. Therefore, we expect to incur additional interest expense as a result of the Aircraft Acquisition.

The following table sets forth certain information with respect to the aircraft acquired or to be acquired by us, including the aircraft to be acquired pursuant to the Acquisition Agreement.

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AIRCATTLE AIRCRAFT INFORMATION

(\$ in thousands)

	Owned Aircraft as of September 30, 2006 (1)	Aircraft Acquired Subsequent to September 30, 2006 and Committed to be Acquired (5)	Aircraft to be Acquired from GAIF			
SUMMARY STATISTICS						
Asset Net Book Value	\$1,509,443	\$383,443	\$1,594,950			
No. of Aircraft	65	12	38			
Number of Lessees	32	10	14			
Number of Countries	23	9	10			
Weighted Average Age (years) (2)	9.87	8.53	9.38			
Weighted Average Remaining Lease Term (years) (3) (4)	3.83	3.88	8.28			
Weighted Average Remaining Cargo Lease Term (years) (4)	1.92	—	9.84			
PORTFOLIO DIVERSIFICATION						
	# Aircraft	% of Net Book Value	# Aircraft	% of Net Book Value	# Aircraft	% of Net Book Value
Aircraft Type						
Passenger						
Narrowbody	46	61%	10	59%	24	28%
Midbody	13	33%	1	18%	2	3%
Widebody	0	0%	1	23%	0	0%
Total Passenger	59	94%	12	100%	26	31%
Freighter	6	6%	0	0%	12	69%
Total	65	100%	12	100%	38	100%
Lessee Diversification						
Top Five Lessees (4)	28	49%	6	65%	11	64%
Regional Diversification						
Europe (4)	34	46%	5	28%	11	44%

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Asia	14	23%	3	47%	12	20%
North America	11	24%	—	—	3	8%
Latin America	4	4%	1	7%	1	2%
Middle East and Africa	2	3%	2	10%	2	18%
Off Lease (6)	—	—	1	8%	9	8%
	65	100%	12	100%	38	100%

(1)Includes aircraft owned as of September 30, 2006, and excludes aircraft we were committed to acquire as of that date.

(2)Weighted average age (years) is as of January 31, 2007.

(3)Excludes one Boeing Model 737-800 scheduled for delivery to us in February 2007 which is not subject to lease, but which is subject to a letter of intent with a potential lessee, and also excludes three Boeing Model 737-400 aircraft scheduled for delivery to us in February 2007 and six Airbus Model A320-200 aircraft scheduled for delivery to us between December 2007 and February 2009 which are not currently subject to lease.

(4)Includes one Boeing Model 747-400ERF scheduled for delivery in April 2008 for which a lease has been executed but is being held in escrow pending satisfaction of certain conditions.

(5)Excludes aircraft to be acquired from GAIF.

(6)Includes one Boeing Model 737-800 scheduled for delivery to us in February 2007 which is not subject to lease, but which is subject to a letter of intent with a potential lessee, and also excludes three Boeing Model 737-400 aircraft scheduled for delivery to us in February 2007 and six Airbus Model A320-200 aircraft scheduled for delivery to us between December 2007 and February 2009 which are not currently subject to lease.

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Finance

A key aspect of our growth strategy is our capital management approach, which supports the financing of our acquisitions of aircraft and other aviation assets. We typically finance the initial purchase of aircraft and other aviation assets using flexible, committed short-term credit arrangements and cash on hand. We believe our ability to execute acquisitions expeditiously and without financing contingencies has benefited us in competitive bidding situations. Our short-term borrowed funds for our aircraft acquisitions and repurchase obligations for our securities are provided by secured term credit facilities from banks. See “— Liquidity and Capital Resources — Credit Facilities.”

We intend to access the securitization market or other cost effective markets to provide long-term financing for our aircraft portfolio. On June 15, 2006, we closed our first securitization of 40 aircraft, which we refer to as Securitization No. 1. The ACS 2006-1 Pass Through Trust, a newly formed trust, issued a single class of G-1 pass through trust certificates, which we refer to as the certificates, representing undivided interests in \$560 million of floating rate asset-backed notes, which we refer to as notes, issued by our wholly owned subsidiaries and supported by 40 aircraft which we refer to as Portfolio No. 1. The principal balance of the notes is equal to 54.8% of the Initial Appraised Value of Portfolio No. 1 of \$1.022 billion. Initial Appraised Value is the lesser of the mean and the median of base value appraisals obtained from three internationally recognized appraisal firms during the period October 2005 through December 2005. 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. Almost 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. 1 for previously unreimbursed advances.

The notes bear interest at one-month LIBOR plus 0.27%. Financial Guaranty Insurance Company, or FGIC, issued a financial guaranty insurance policy to support the payment of interest when due on the certificates and the payment, on the final distribution date, of the outstanding principal amount of the certificates. The certificates are rated Aaa and AAA by Moody's Investor Service and Standard & Poor's rating services, respectively. We are parties to a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. These contracts, together with the guarantee premium, the spread referenced above and other costs of trust administration, result in a fixed rate cost of 6.6% per annum, including the amortization of issuance fees and expenses.

We are currently utilizing a \$1.25 billion senior secured credit facility to finance up to 65% of the purchase price of certain aircraft not included in Securitization No. 1. For a detailed description of this credit facility, see "Description of Indebtedness — Amended Credit Facility No. 2." We expect to continue to purchase aircraft using our credit facilities plus cash on hand and, once a portfolio of 30 to 50 aircraft has been acquired, finance the portfolio on a long-term basis using a securitization structure similar to Securitization No. 1.

Based on our expected aircraft acquisition plan, we anticipate completing one or two portfolio securitizations per year and one or two additional equity offerings per year. Our ability to successfully complete these securitizations and equity offerings on favorable terms will have a significant impact on our results of operations and financial condition.

On August 11, 2006, we completed our initial public offering of 10,454,535 common shares at a price of \$23 per share, raising \$240.5 million before offering costs. The net proceeds of our initial public offering, after our payment of \$16.8 million in underwriting discounts and commission expense, and \$4.0 million in offering expenses were \$219.7 million, \$205.5 million of which were

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used to repay a portion of Amended Credit Facility No. 2. The remainder of the net proceeds was used for working capital requirements and to fund additional aircraft acquisitions.

RESULTS OF OPERATIONS

Comparison of the Period from October 29, 2004 (Commencement of Operations) to December 31, 2004 to the Year Ended December 31, 2005

Our financial results for 2004 are not representative of a full year of operations and are not significant because our operations commenced on October 29, 2004. Similarly, our results of operations for the year ended December 31, 2005 are not representative of a full year of operations as we continued to ramp up operations through the purchase of aircraft and the employment of key personnel. In general, the changes for the period from October 29, 2004 (Commencement of Operations) to December 2004 as compared to the year ended December 31, 2005 are not comparable.

During 2004, we operated in one business segment, Aircraft Leasing. In the first quarter of 2005, we commenced a second segment, Debt Investments, engaged in investing in debt securities.

Revenues and Contribution Margin

Revenue and contribution margin by segment for the year ended December 31, 2005 is set forth in the table below. See Note 14 to our consolidated financial statements for the reconciliation to operating income and our reasons for using contribution margins to discuss our results of operations.

(Dollars in thousands)	Year Ended December 31, 2005	
	Aircraft Leasing	Debt Investments
Revenues		
Lease rentals	\$ 32,978	\$ —
Interest income	—	2,942
Other revenues	2	104
Total revenues	32,980	3,046
Expenses		
Depreciation	14,295	—
Interest	8,930	173
Other expenses	1,078	—
Total expenses	24,303	173
Contribution margin	\$ 8,677	\$ 2,873

Aircraft Leasing

For the year ended December 31, 2005, the contribution margin of our Aircraft Leasing segment was \$8.7 million on \$33.0 million of revenue. At December 31, 2005, we owned 32 aircraft held for lease, all of which were on-lease. During 2005, the number of aircraft we owned increased from three aircraft at December 31, 2004 to 32 aircraft at December 31, 2005. For the year ended December 31, 2005, our aircraft leasing revenue of \$33.0 million, depreciation expense of \$14.3 million and interest expense of \$8.9 million reflect the growth of operations during 2005.

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For the same period, other expenses primarily consisted of aircraft insurance of \$526,000, lease rental expenses of \$317,000 and flight equipment repairs of \$235,000.

We expect revenue and all of our aircraft leasing expenses to increase in 2006 as we continue to acquire and lease more aircraft and record a full year of lease rental revenue and expenses related to aircraft purchased in 2005.

Debt Investments

For the year ended December 31, 2005, the contribution margin of our Debt Investments segment was \$2.9 million on \$3.0 million of revenue. At December 31, 2005, we owned \$26.9 million of aircraft related debt securities. For the year ended December 31, 2005, revenues from Debt Investments consisted of interest income totaling \$2.9 million and interest expense consisted of interest on repurchase agreements totaling \$173,000.

Selling, General and Administrative and Other Expenses

For the year ended December 31, 2005, selling, general and administrative expenses of \$12.6 million primarily consisted of personnel expenses and other SG&A expenses. Personnel expenses totaling \$7.4 million consisted of compensation costs of \$6.1 million, relocation and recruiting costs of \$1.1 million and benefits of \$163,000. At December 31, 2005, we had 29 employees. Compensation and benefits costs increased in 2006 as we hired additional personnel and incurred a full year of costs related to employees hired in 2005.

For the year ended December 31, 2005, other SG&A expenses totaling \$5.2 million consisted of legal, accounting and tax fees and other expenses. Legal fees incurred in 2005 related primarily to the legal organization and administration of Aircastle and its various subsidiaries. Legal, accounting and tax fees increased in 2006 in connection with our initial public offering and operating as a public company.

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.

Our provision for income taxes for the year ended December 31, 2005 was \$0.9 million. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in jurisdictions that impose income taxes.

Discontinued Operations

During 2005, we purchased an aircraft and immediately held it for sale. The aircraft is classified on the balance sheet as flight equipment held for sale and all operating activities are classified as discontinued operations. No depreciation expense was recorded on this aircraft.

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For the year ended December 31, 2005, earnings from discontinued operations, net of taxes, totaled \$1.1 million. The aircraft earned lease rentals in the amount of \$1.6 million and incurred interest expense of \$404,000 for the year ended December 31, 2005. Income taxes associated with the aircraft was \$115,000. 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.

Comparison of the nine months ended September 30, 2005 to the nine months ended September 30, 2006

Revenues and Contribution Margin

Revenues and contribution margin by segment is set forth in the tables below. See Note 15 to our unaudited 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:

(Dollars in thousands)	Nine Months Ended September 30,	
	2005	2006
Revenues		
Lease rentals	\$ 13,047	\$ 121,413
Interest income	—	—
Other revenues	65	153
Total revenues	\$ 13,112	\$ 121,566
Expenses		
Depreciation	6,561	37,800
Interest	3,726	36,258
Other expenses	755	1,239
Total expenses	11,042	75,297
Contribution margin	\$ 2,070	\$ 46,269

For the nine months ended September 30, 2005, the contribution margin of our Aircraft Leasing segment was \$2.1 million on \$13.1 million of revenues. At September 30, 2005, we owned 18 aircraft held for lease, 13 of which were on-lease.

For the nine months ended September 30, 2006, the contribution margin of our Aircraft Leasing segment was \$46.3 million on \$121.6 million of revenues. At September 30, 2006, we owned 65 aircraft held for lease, all of which were on-lease. Aircraft leasing revenue of \$121.6 million, depreciation expense of \$37.8 million, interest expense of \$36.3 million and other expenses of \$1.2 all increased relative to the nine months ended September 30, 2005 due to the increase in the size of our aircraft portfolio.

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Debt Investments

Debt Investment revenues and contribution margin were as follows:

(Dollars in thousands)	Nine Months Ended September 30,	
	2005	2006
Revenues		
Lease rentals	\$ —	\$ —
Interest income	2,225	6,588
Total revenues	\$ 2,225	\$ 6,588
Expenses		
Depreciation	—	—
Interest	27	3,194
Other expenses	—	—
Total expenses	27	3,194
Contribution margin	\$ 2,198	\$ 3,394

For the nine months ended September 30, 2005, the contribution margin of our Debt Investments segment was \$2.2 million on \$2.2 million of revenues. At September 30, 2005, we owned \$23 million of debt securities with \$3.4 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2005.

For the nine months ended September 30, 2006, the contribution margin of our Debt Investments segment was \$3.4 million on \$6.6 million of revenues. At September 30, 2006, we owned \$120 million of debt securities with \$13.5 million of unrealized gains as reflected in accumulated other comprehensive income at September 30, 2006.

Selling, General, Administrative and Other Expenses

Selling, general, administrative and other expenses are as follows:

(Dollars in thousands)	Nine Months Ended September 30,	
	2005	2006
Personnel	\$ 4,890	\$ 11,756
Compensation to director	—	3,400
Professional fees	1,691	3,194
Rent and office expenses	298	506
Depreciation of leasehold improvements and office equipment	83	382
Communication expenses	90	251
Business insurance	38	174
Other selling, general and administrative expenses	1,109	1,928
	\$ 8,199	\$ 21,591

Personnel costs consist primarily of salary, recruitment and relocation expenses which increased as the number of employees increased from 29 at September 30, 2005 to 38 at September 30, 2006.

Compensation to a director was a non-cash share based payment expense for the purchase of common shares below fair market value. Professional fees consisted primarily of legal, accounting and tax fees associated with our legal organization and administration. Office expense and equipment costs, mainly rent, depreciation, communications, insurance and other general office expenses, increased with the expansion of facilities required to meet the demands of our growing business.

Income Tax Provision

Our provision for income taxes for the nine months ended September 30, 2005 and 2006 was \$461,000 and \$4.5 million, respectively. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. Consequently, the provision for income taxes recorded relates to income earned by certain of our subsidiaries which are located in jurisdictions that impose income taxes.

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. For the nine months ended September 30, 2006, earnings from discontinued operations, net of taxes, totaled \$3.4 million. The aircraft earned lease rental revenue in the amount of \$2.1 million and incurred interest expense of \$528,000 in 2006. Income tax associated with the aircraft in 2006 was \$448,000. 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.

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 prospectus. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of 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 collectibility is not reasonably assured. Estimating whether collectibility is reasonably assured requires some level of subjectivity and judgment. When collectibility 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 result in changes to a customer's accrual status.

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Income and Valuation of Debt Securities

Income on debt securities is recognized using the effective interest method. Certain investments which represent 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 securities as available for sale. As such, they 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, as well as counterparty 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 September 30, 2006, each of our debt securities available for sale had an unrealized gain.

Flight Equipment

Flight equipment held for lease is stated at cost and depreciated using the straight-line method over a 25 year life from the date of manufacture to estimated residual values.

Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for flight equipment when new. Management may, at its discretion, make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of 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 fair values of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above fair value range, we present value the estimated amount below or above fair value range over the remaining term of the lease. 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.

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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 SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (“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 trade to the change in the fair value of the hedge. The difference is the calculated ineffectiveness and is recorded in income.

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. 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. We anticipate that the current requisite service periods will be obtained for employees with awards.

LIQUIDITY AND CAPITAL RESOURCES

We have been able to meet our liquidity requirements from several sources, including:

- Lines of credit, our securitization, and other secured borrowings;
- Our initial public offering;

- 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.

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We expect that cash on hand and cash flow provided by operations, as well as our credit facilities, will satisfy our short-term liquidity needs with respect to our current portfolios of aircraft and debt securities over the next 12 months.

The acquisition of aircraft and debt securities drives our growth and fuels our long-term need for liquidity. We expect to acquire a substantial amount of aviation assets over the next twelve months but there can be no assurances regarding the timing and amount of such acquisitions. During the first nine months of 2006, we acquired \$746.1 million of commercial jet aircraft and related capital improvements and \$92.7 million of debt securities secured by commercial jet aircraft, for a total of \$838.8 million. In addition, at September 30, 2006, we expect capital expenditures and lessee maintenance payment draws on our owned and committed aircraft portfolio to be approximately \$18 million over the next twelve months. However, there can be no assurance that we will be able to acquire such additional aircraft or that such capital expenditures will not exceed the expected amount. It is our intention to fund future aircraft acquisitions, including the Aircraft Acquisition, 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 and additional equity issuances. It is also our intention to finance investments in debt securities with borrowings arranged at the time of the investment which may include entering into repurchase agreements. Therefore, our ability to execute our business strategy, particularly the growth of our acquisitions, depends to a significant degree on our ability to obtain additional debt and equity capital. Depending on the volume of aircraft acquisitions and opportunities to invest in debt securities, we will likely seek to execute additional securitizations and may seek to execute additional equity offerings during the course of the next 12 months. Decisions by investors and lenders to enter into such transactions with us will depend upon a number of factors, such as our historical and projected performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and the relative attractiveness of alternative investments. We believe that funds will be available to support our growth strategy and will enable us to pay dividends to our common shareholders as contemplated by our dividend policy. However, future deterioration in our performance or our 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

	Period Ended December 31, 2004	Year Ended December 31, 2005	Nine Months Ended September 30, 2005 2006	
(Dollars in thousands)				
Net cash flow provided by operating activities	\$ 4,290	\$ 20,562	\$ 766	\$ 87,433
Net cash flow used in investing activities	(97,405)	(742,144)	(198,566)	(820,960)
Net cash flow provided by financing activities	93,115	801,525	259,886	692,554

Operating activities provided net cash flow of \$766,000 in the first nine months of 2005 and provided net cash flow of \$87.4 million in the first nine months of 2006. 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 September 30, 2005, 13 of our 18 aircraft were on-lease. At

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September 30, 2006, all 65 of our aircraft were on-lease. Cash flow from (used in) 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 \$198.6 million and \$821.0 million for the nine months ended September 30, 2005 and 2006, respectively. The period to period increase reflects the increase in our business activities during this time. During the nine months ended September 30, 2006 we acquired 33 aircraft as compared to 15 aircraft during the nine months ended September 30, 2005, resulting in our investment of \$746.1 million in the acquisition and improvement of flight equipment during the nine months ended September 30, 2006 as compared to \$173.3 million during the nine months ended September 30, 2005. We also invested \$92.7 million in debt securities during the nine months ended September 30, 2006 as compared to \$23.0 million for the nine months ended September 30, 2005. Cash flow from investing activities for the nine months ended September 30, 2006 also reflect proceeds of \$57.2 million from the sale of an aircraft in March 2006 that had been reported as discontinued operations.

Net cash flow from financing activities totaled \$259.9 million and \$692.6 million for the nine months ended September 30, 2005 and 2006, respectively. The period to period increase primarily reflects the growth in our investment in flight equipment. Our financing strategy is to finance aircraft acquisitions on an interim basis using credit facilities until we aggregate a large enough portfolio to securitize. Borrowings under our credit facilities are collateralized by leases on our aircraft, ownership interest in our subsidiaries that own aircraft, cash on deposit in lockbox accounts and other assets held by the collateral agent and rights under the service provider agreements and certain other agreements.

On August 11, 2006, we completed our initial public offering of 10,454,535 common shares at a price of \$23 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 \$4.0 in offering expenses, were \$219.7 million, of which \$205.5 million of the net proceeds were used to repay a portion of the outstanding balance on Amended Credit Facility No. 2. The remainder of the net proceeds were used for working capital requirements and to fund additional aircraft acquisitions.

The increase in cash flows from financing activities also reflects an increase in the advance rates available to the Company from credit facilities and securitization executed since September 30, 2005, including Securitization No. 1, Amended Credit Facility No. 2, Credit Facility No. 3 and the Revolving Credit Facility (each as defined below). At

September 30, 2006, the Company had borrowed \$906 million secured by interests in flight equipment with a net book value of \$1.5 billion. At September 30, 2005, the Company had borrowed \$129.1 million secured by interests in flight equipment with a net book value of \$266 million. The weighted average advance rates of the Company's borrowings under these credit facilities, relative to the net book value of the Company's flight equipment, were 49% and 60% at September 30, 2005 and 2006, respectively.

On June 15, 2006, we closed our first portfolio securitization, which we refer to as Securitization No. 1. The net proceeds from Securitization No. 1 were used to pay down \$441.2 million of debt on Credit Facility No. 1 and \$45.0 million on Amended Credit Facility No. 2 and for working capital purposes.

We also repaid \$36.7 million of debt outstanding on Credit Facility No. 3 on March 31, 2006 when we sold one of the aircraft that had been financed under this facility. The aircraft had been

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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 first nine months of 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 securities on March 10, 2006.

In 2004, the Fortress funds committed to invest \$400 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 the nine months ended September 30, 2006, we received cash from credit facilities of \$415.3 million, net of repayments, to finance investments in aircraft, and we received cash from repurchase agreements of \$75.2 million, net of repayments, to finance the acquisition of debt securities. 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.

Credit Facilities

On December 15, 2006, we amended and restated our senior secured revolving credit agreement, which we refer to as Amended Credit Facility No. 2. This credit facility previously provided for loans in an aggregate amount of up to \$750.0 million, and following amendment and restatement provides for loans in an aggregate amount up to \$1.0 billion. On January 22, 2007, we entered into a further amendment pursuant to which loans in an aggregate amount up to \$1.25 billion are available under Amended Credit Facility No. 2; provided, that such amount will reduce to \$1.0 billion on the earlier of (1) closing of our next securitization or (2) June 30, 2007 (or, if we pay a commitment fee to the lenders, December 31, 2007). Borrowings under Amended Credit Facility No. 2 are used to finance up to 65% of the purchase price of the aircraft secured under the facility; previously the facility could be used to finance up to 85% of the net book value of aircraft. As of January 31, 2007, we had \$560.8 million outstanding under this facility. Borrowings under Amended Credit Facility No. 2 bear interest (a) in the case of loans with an interest rate based on the applicable base rate (the "ABR"), an annual rate equal to the ABR plus an applicable margin or (b) in the case of loans with an interest rate based on the eurodollar rate (the "EDR"), an annual rate equal to the EDR plus an applicable margin. The ABR is determined by reference to the higher of (i) the prime rate of JPMorgan Chase Bank, N.A. and

(ii) the federal funds rate plus half of 1%. The EDR is determined by reference to one-month LIBOR adjusted by the maximum rate, established by the Board of Governors of the Federal Reserve System, as the rate at which reserves are required to be maintained. The applicable margin is 0.25% per annum with respect to ABR borrowings and 1.25% per annum with respect to EDR borrowings. Additionally, we are subject to a 0.125% per annum fee on any unused portion of the total committed facility. We are also required to pay customary agency fees. The facility has no restrictions on the amount of dividends we can pay, provided we are not in default.

Also on December 15, 2006, we entered into a senior secured revolving credit agreement, which we refer to as the Revolving Credit Facility. The Revolving Credit Facility provides loans to certain direct and indirect subsidiaries of AL for working capital and other general corporate purposes and also provides for the issuance of letters of credit for the account of any borrower. The aggregate amount of borrowings together with the aggregate stated amount of all letters of credit under the Revolving Credit Facility may not exceed \$250.0 million. On January 22, 2007 we entered into an amendment pursuant to which loans and letters of credit in an aggregate amount up to \$450.0 million are available under the Revolving Credit Facility; provided, that such amount will reduce to \$250.0 million on the earlier of (1) closing of this offering or (2) March 31, 2007 (or, if we pay a commitment fee to the lenders, December 31, 2007).

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Borrowings under the Revolving Credit Facility bear interest (a) in the case of loans with an interest rate based on the ABR, the ABR plus 0.50% per annum or (b) in the case of loans with an interest rate based on the EDR, the EDR plus 1.50% per annum. Additionally, we are subject to a per annum fee on any unused portion of the total committed facility of 0.25%, during periods when the average outstanding loans under the Revolving Credit Facility are less than \$125.0 million, and 0.125% per annum. 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. Under this facility, we are required to maintain a minimum consolidated net worth, determined according to GAAP, of \$550.0 million. As of January 31, 2007, we had \$75.0 million in loans outstanding under the Revolving Credit Facility and, in addition, a letter of credit in the amount of \$58.1 million is outstanding, reducing our borrowing capacity under this facility.

Also at September 30, 2006, we had a \$73.3 million secured credit facility to finance the acquisition of two aircraft which we refer to as Credit Facility No. 3. This was initially a \$110.0 million facility and had also been used to finance the acquisition of a third aircraft, but was repaid in part upon the sale of one of our aircraft on March 29, 2006. The interest rate on the facility is one-month LIBOR plus 1.50%, which at September 30, 2006 was 6.83% per annum. The facility requires a monthly payment of interest, and on July 18, 2006 was amended 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 our 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 closing of our next securitization financing. We expect to either sell and/or obtain alternative sources of financing for these assets prior to the maturity date. However, we can give no assurances that we will be able to do so. As of January 31, 2007, we had \$73.3 million outstanding under Credit Facility No. 3.

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 counterparty with the simultaneous agreement to repurchase the same or substantially identical securities from the same counterparty at a later date with accrued interest. Repurchase agreements normally do not constitute economic sales and are therefore treated as collateralized financing transactions and are carried at the amount of cash received with the underlying securities sold continuing to

be recognized as securities available for sale. Interest incurred on repurchase agreements is reported in interest expense. At September 30, 2006, we had five outstanding repurchase agreements totaling \$83.8 million. Four 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 three-month LIBOR plus 0.75%. At September 30, 2006, the weighted average interest rate on our repurchase agreements was 5.86% per annum. The repurchase agreements provide for an original term to maturity ranging from six months to one year. At September 30, 2006, two of the repurchase agreements totaling \$75.0 million are scheduled to mature on March 1, 2007; two of the repurchase agreements totaling \$2.9 million are scheduled to mature on June 28, 2007; and one of the repurchase agreements for \$5.9 million matured on December 6, 2006 and was subsequently extended until March 12, 2007. If we cannot renew or replace these repurchase agreements as they mature we will be required to repay them from internal funds or find alternative sources of financing, as to which no assurance can be given.

Our debt obligations contain various customary non-financial loan covenants. Such covenants do not, in management's opinion, materially restrict our investment strategy or our ability to raise capital. We are in compliance with all of our loan covenants as of September 30, 2006.

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The following table provides a summary of our credit facilities at September 30, 2006:

		As of September 30, 2006			Final
Debt Obligation	Collateral	Commitment	Outstanding	Interest Rate	Stated
Amended Credit Facility No. 2 ⁽¹⁾	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	\$ 750,000	\$277,894	1 Month LIBOR + 1.25%	Maturity
Credit Facility No. 3 ⁽²⁾	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	73,332	73,332	1 Month LIBOR + 1.50%	3/31/07
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	554,733	554,733	1 Month LIBOR + 0.27%	06/20/31
Repurchase Agreements	Securities available for sale	77,959	77,959	1 Month LIBOR + 0.50%	6/28/07 and 3/1/07
Repurchase Agreement ⁽³⁾	Securities available for sale	5,880	5,880	3 Month LIBOR +	3/12/07

0.75%

\$1,461,904 \$989,798

- (1) On December 15, 2006, the \$750,000 credit facility was amended to increase the maximum committed amount to \$1.0 billion and to extend the maturity to December 15, 2008. 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 credit facility was amended to increase the maximum committed amount to \$1.25 billion. In addition, on December 15, 2006 the Company entered into a \$250 million revolving credit facility with a group of banks. The 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 million and matures on December 15, 2007. On January 22, 2007, the credit facility was amended to increase the maximum committed amount to \$450 million.
- (2) On January 26, 2007, Credit Facility No. 3 was amended to extend the maturity date to the earlier of September 30, 2007 or the closing of our next securitization financing.
- (3) This agreement, which matured on December 6, 2006, was subsequently extended to a maturity date of March 12, 2007.

Securitization

On June 15, 2006, two of our subsidiaries, ACS Aircraft Finance Ireland plc and ACS Aircraft Finance Bermuda Limited, which we refer to together as the ACS Group, issued \$560 million of Class A-1 notes, or the notes to a newly formed trust, ACS 2006-1 Pass Through Trust, or the trust. The trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the certificates, representing undivided fractional interests in the notes. Payments on the notes will be passed through to the holders of the certificates. The notes are secured by ownership interests in aircraft-owning subsidiaries of ACS Bermuda and ACS Ireland and the individual aircraft leases, any cash or other assets held by the security trustee and rights under the service provider agreements and certain other agreements and assets. Each of ACS Bermuda and ACS Ireland has fully and unconditionally guaranteed each other's obligations under the notes. However, the notes are neither obligations of or guaranteed by Aircastle Limited. The ACS Group used the proceeds from the sale of the notes to acquire directly or indirectly 40 aircraft from us and we paid for certain expenses incurred in connection with the offering of approximately \$14 million. We used a portion of the proceeds of Securitization No. 1 to return \$36.9 million to the Fortress funds in exchange for the cancellation of 3,693,200 of our common shares and \$487.0 million of the proceeds to repay in full the amount outstanding under Credit Facility No. 1. The notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27% and scheduled payments of principal. The scheduled payments of principal have been calculated such that the principal balance of the notes is equal to 54.8% of the Initial Appraised Value of the aircraft, as such Initial Appraised Value is decreased over time by an assumed amount of

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depreciation. During the first five years of the transaction, subject to compliance with the debt service coverage ratio test in years four and five, all cash flows attributable to the underlying aircraft after payment of expenses, interest and scheduled principal payments, or excess securitization cash flows, will be available for distribution to us. We have used and intend to use the excess securitization cash flow to pay dividends and to make additional investments. We expect to refinance the notes on or prior to June 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 notes and will not be available to us to pay dividends to our shareholders. If during year four or five of the transaction, the debt service coverage ratio test fails on two consecutive payment dates, the excess securitization cash flow will be used to repay

the principal amount of the notes and will not be available to us to pay dividends to our shareholders.

During the twelve months subsequent to the closing of Securitization No. 1, the gross contracted lease rental revenues payable on Securitization No. 1 are scheduled to be approximately \$121.8 million. Cash outflows of the securitization, not including remarketing expenses, are expected to be comprised of operating expenses, interest expense and principal amortization. The operating expenses incurred directly by Securitization No. 1 (exclusive of the servicing and administrative fees paid to us) are expected to be \$3.8 million for the twelve month period. Interest expense incurred on the certificates and amortization of principal are expected to be \$32.2 million and \$21.5 million, respectively, for the twelve month period. Additionally, total depreciation on a GAAP basis for the initial twelve month period is expected to be \$39.3 million, or \$17.8 million in excess of principal amortization. Actual amounts may differ from estimated amounts. For a more detailed description of the securitization, see “Description of Indebtedness — Securitization.”

On August 4, 2006, the \$45.8 million outstanding on a \$525 million secured credit facility, which we refer to as Credit Facility No. 1, was repaid in full with proceeds from Securitization No. 1 and terminated.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on variable rate liabilities, binding letters of intent to purchase aircraft and rent payments pursuant to our office leases. Total contractual obligations increased from \$723.2 million at the end of 2005 to approximately \$1.4 billion at September 30, 2006. The primary reasons for the increase are:

- an increase in borrowings on credit facilities and Securitization No. 1, which reflects the increase in our flight equipment held for lease;
- an increase in repurchase agreements to finance the acquisition of securities available for sale, which reflects the increase in our debt investments; and
- the increase in contractual obligations due in greater than one year as compared to December 31, 2005 reflects the replacement of short-term credit facilities with longer term financing under Securitization No. 1.

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The following table presents our actual contractual obligations and their maturity dates as of December 31, 2005:

Payments Due By Period as of December 31, 2005

Contractual Obligations	Total	Less than			More than 5 years
		1 year	1-3 years	3-5 years	
		(Dollars in thousands)			
Credit Facility No. 1 ⁽¹⁾⁽²⁾	\$ 404,257	\$ 38,145	\$ 366,112	\$ —	\$ —
Credit Facility No. 3 ⁽¹⁾	115,063	115,063	—	—	—
Repurchase agreements ⁽¹⁾	8,864	8,864	—	—	—
Operating leases ⁽³⁾	3,416	474	969	995	978

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Purchase obligations ⁽⁴⁾	191,620	191,620	—	—	—
Total	\$ 723,220	\$ 354,166	\$ 367,081	\$ 995	\$ 978

(1)Includes interest on variable rate, LIBOR-based instruments at the December 31, 2005 rate.

(2)Credit Facility No. 1 was repaid with a portion of the net proceeds of Securitization No. 1.

(3)Represents contractual payments on our office lease in Stamford, Connecticut.

(4)At December 31, 2005 we had binding letters of intent to acquire nine aircraft. All aircraft were acquired in 2006.

The following table presents our actual contractual obligations and their maturity dates as of September 30, 2006:

Payments Due By Period as of September 30, 2006

Contractual Obligations	Total	Less than			More than 5 years
		1 year	1-3 years	3-5 years	
		(Dollars in thousands)			
Amended Credit Facility No. 2 ⁽¹⁾⁽²⁾	\$ 298,933	\$ 25,117	\$ 273,816	\$ —	\$ —
Credit Facility No. 3 ⁽¹⁾	75,864	75,864	—	—	—
Securitization No. 1 ⁽¹⁾	872,347	51,177	102,076	123,897	595,197
Repurchase agreements ⁽¹⁾	85,881	85,881	—	—	—
Operating leases ⁽³⁾	4,764	635	1,322	1,349	1,458
Purchase obligations ⁽⁴⁾	72,250	72,250	—	—	—
Total	\$ 1,410,039	\$ 310,924	\$ 377,214	\$ 125,246	\$ 596,655

(1)Includes interest on variable rate, LIBOR-based instruments at the September 30, 2006 rate.

(2)\$205.5 million of the net proceeds from our initial public offering were used to repay a portion of our Amended Credit Facility No. 2 on August 15, 2006.

(3)Represents contractual payments on our office lease in Stamford, Connecticut and Dublin, Ireland.

(4)At September 30, 2006, we had binding letters of intent to acquire four aircraft. One of the aircraft was acquired during 2006, and one transaction is still pending and two of the letters of intent were subsequently terminated.

Our hedging transactions using derivative instruments and our securities repurchase transactions also involve counterparty credit risk. The counterparties to our derivative arrangements and repurchase agreements are major financial institutions 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.

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Margin Calls

Our repurchase agreements and interest rate derivative instruments are also subject to margin calls based on the value of the underlying security and the level of interest rates. Margin calls resulting from decreases in the value of our debt instruments or mark-to-market losses on our derivative instruments due to decreasing interest rates could require that

we post additional collateral. Management believes that we maintain adequate cash reserves and liquidity to meet any reasonably possible margin calls resulting from these risks, but can make no assurances that we will have adequate additional collateral under all potential scenarios.

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. In 2004, we incurred \$255,000 of capital expenditures. In 2005 we made a total of \$30.5 million of capital expenditures related to the acquisition of aircraft. For the nine months ending September 30, 2006 we made a total of \$2.9 million of capital expenditures related to the acquisition of aircraft.

As of September 30, 2006, the weighted average (by net book value) age of our aircraft was approximately 8.6 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. Under the terms of 37 of our leases, the lessee is required to make periodic payments to us in order to provide for the payment of maintenance tied to the usage of the aircraft. Under the terms of 26 of our leases, the lessee may be required to make a maintenance payment to us at the end of the lease based upon certain utilization criteria. The terms of two of our leases require that the lessee make both a monthly maintenance payment and an additional maintenance payment to us at the end of the lease term in certain circumstances. At September 30, 2006, we held \$72.6 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 “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.”

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2005 or September 30, 2006.

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Foreign Currency Risk and Foreign Operations

At September 30, 2006, except for one lease that expired in November 2006, where the lease rentals were payable in euros, lease rentals under all of our leases are payable in U.S. dollars. However, we incur euro and Singapore dollar denominated expenses in connection with our subsidiary in Ireland and branch office in Singapore. As of September

30, 2006, six of our 38 employees were based in Ireland and two employees were based in Singapore. For the nine months ended September 30, 2006, expenses denominated in currencies other than the U.S. dollar, such as payroll and office costs, aggregated approximately \$2.8 million in U.S. dollar equivalents and represented approximately 13% 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 nine months ended September 30, 2005 and 2006 we incurred a loss of \$11,000 and a gain of \$12,000 on foreign currency transactions, respectively.

Interest Rate Risk

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, debt investments, floating rate debt obligations and interest rate derivative instruments. Our lease agreements typically require the payment of a fixed amount of rent during the term of the lease. Similarly, our debt securities are predominately collateralized by fixed rate aircraft leases, and provide for a fixed coupon interest rate. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities. We are also exposed to loss on (i) our fixed-pay interest rate swaps to the extent interest rates decrease below the contractual fixed rates of our swaps and (ii) our other interest rate derivate instruments.

Changes in interest rates may also impact our net book value as our debt securities and derivatives are periodically marked-to-market. Generally, as interest rates increase the value of our fixed rate debt securities 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 securities 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 securities and spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decline. 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.

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Hedging

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate swaps and interest rate forward contracts to hedge the

current and expected future interest rate payments on our variable rate debt. Interest rate swaps are agreements in which a series of interest rate flows are exchanged with a third party over a prescribed period. An interest rate forward contract is an agreement to make or receive a payment at the end of the period covered by the contract, with reference to a change in interest rates. The notional amount on a swap or forward contract is not exchanged. Our swap transactions typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment and debt securities. Similarly, our interest rate forward contracts typically provide for us to receive payment if interest rates increase and make a payment if they decrease. 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 September 30, 2006:

Hedged Item	Notional Amount	Effective Date	Maturity Date	Floating Rate	Fixed Rate	Fair Value of Derivative Asset or (Liability)
				(Dollars in thousands)		
Securitization No. 1 ^(a)	\$ 554,733	Jun-06	Jun-16	1 Month LIBOR + 0.27%	5.78%	\$ (16,163)
Amended Credit Facility No. 2 and Credit Facility No. 3 ^(b)	500,000	Mar-06	Mar-11	1 Month LIBOR	5.07%	(2,706)
Repurchase Agreement ^(c)	67,000	Feb-06	Jul-10	1 Month LIBOR	5.02%	153
Repurchase Agreement ^(d)	5,000	Dec-05	Sep-09	3 Month LIBOR	4.94%	17
Repurchase Agreement ^(e)	2,900	Jun-05	Mar-13	1 Month LIBOR	4.21%	138
Total	\$ 1,129,633					\$ (18,561)

(a) On June 1, 2006, we entered into a series of forward contracts to hedge the variable interest rate payments on Securitization No. 1. The notional amounts of the initial forward contracts in that series start at \$560 million with respect to the July 2006 forward contract and decrease monthly based on the projected principal payments on the certificates. The terms of the forward contracts provide for a comparison of, on average, a fixed rate of 5.78% per annum and of one-month LIBOR plus 0.27%. The aggregate market value of the forward contracts at September 30, 2006 was a liability of \$16.2 million. The interest rate forward contracts are treated as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

(b) On March 21, 2006 we entered into a series of interest rate forward contracts to hedge the variable interest rate payments on debt we expected to incur to finance aircraft acquisitions over the next year. The notional amounts of the forward contracts in that series started at \$100 million with respect to the March 2006 forward contract and increased to a maximum of \$500 million with respect to the September 2006 forward contract. The increase in notional amount over time reflected projected aircraft acquisitions and related borrowings through September 2006. To the extent that actual interest payments on borrowings do not match anticipated cash flows from forward contracts, we may be required to recognize additional income or expense on the forward contracts. The terms of the forward contracts provide for a comparison of, on average, a fixed rate of 5.07% per annum and of one-month LIBOR. The aggregate market value of the forward contracts at September 30, 2006 was a payable of \$2.7 million. The interest rate forward contracts are treated as cash flow hedges for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

(c) In March 2006 we designated an interest rate swap which we had entered into in February 2006 as a hedge of the future variable-rate interest payments on a repurchase agreement we executed to finance our acquisition of securities. The interest rate swap had an initial notional principal amount of \$74 million and decreases periodically based on estimated projected principal payments on the securities. The interest rate swap, which matures in July 2010, requires that we make semi-annual payments of a fixed rate of 5.02% per annum and receive monthly an amount based on the one-month LIBOR rate and the then current notional principal amount. At September 30, 2006 the market value of the swap was a receivable of \$153,000. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

(d) On December 5, 2005, we entered into a four-year interest rate swap with a notional amount of \$5 million to hedge a repurchase agreement we had entered into to finance our acquisition of securities. The swap requires that we make semi-annual fixed rate payments of 4.94% and receive quarterly floating rate payments equal to three-month

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LIBOR. The market value of the swap was a receivable of approximately \$17,000 at September 30, 2006. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

(e) On June 28, 2005, we entered into a seven-year interest rate swap with a notional amount of \$2.9 million to hedge a floating rate repurchase agreement we had entered into to finance our acquisition of securities. The swap requires that we make quarterly fixed rate payments at 4.21% per annum and receive monthly floating rate payments equal to one-month LIBOR. The market value of the swap was a receivable of approximately \$138,000 at September 30, 2006. The interest rate swap is treated as a cash flow hedge for accounting purposes with fair value adjustments recorded as a component of other comprehensive income on our balance sheet.

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.

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 \$43,000, determined based on actual costs to Fortress, was reimbursed to Fortress.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of interest rate changes through our securities portfolio, our variable rate liabilities and our interest rate swap and forward contracts. Significant increases in interest rates could decrease the fair value of our

debt securities, increase the amount of interest payments on our variable rate debt and reduce the spread we earn between our generally fixed-rate revenues and our variable rate interest expense. We enter into interest rate swaps and forward contracts to minimize the risks associated with variable rate debt.

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

	Face/Notional Amount September 30, 2006	Face/Notional Amounts Maturing Twelve Months Ending September 30,						Fair Value September 30, 2006
		2007	2008	2009	2010	2011	Thereafter	
(Dollars in thousands)								
Fixed-Rate Assets								
Securities Available for Sale	\$ 120,271	\$ 34,687	\$ 14,862	\$ 24,118	\$ 27,116	\$ 3,071	\$ 16,417	\$ 120,271
Average coupon rate, end of period ⁽¹⁾	7.77%	7.78%	7.79%	7.90%	8.09%	8.14%		
Variable-Rate Liabilities ⁽²⁾								
Borrowing Under Credit Facilities	\$ 351,226	\$ 80,376	\$ 270,850	\$ —	\$ —	\$ —	\$ —	\$ 351,226
Average coupon rate, end of period ⁽⁴⁾	6.63%	6.55%	6.40%	—	—	—		
Securitized Notes ⁽³⁾								
Certificates Issued	554,733	\$ 21,734	\$ 22,825	\$ 23,951	\$ 25,114	\$ 49,040	\$ 412,069	\$ 554,733
Average coupon rate, end of period ⁽⁴⁾	5.60%	5.57%	5.42%	5.37%	5.37%	5.37%		
Repurchase Obligations	\$ 83,839	\$ 83,839	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 83,839
Average interest rate, end of period ⁽⁴⁾	5.86%	5.80%	—	—	—	—		
Interest Rate Swaps Related to Credit Facilities								
Pay fixed/ receive variable	\$ 74,900	\$ 28,000	\$ 11,500	\$ 14,500	\$ 18,000	—	\$ 2,900	\$ 30,800
Average pay fixed rate	4.98%	4.96%	4.94%	4.88%	4.21%	4.21%		
Average receive variable rate, end of	5.33%	5.34%	5.14%	5.10%	5.10%	5.10%		

period⁽⁵⁾⁽⁶⁾

Interest Rate Forwards
Related to Repurchase
Obligations

Notional amount ⁽⁷⁾	\$500,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$500,000	\$ (2,700,000)
Average pay fixed rate	5.07%	5.07%	5.07%	5.07%	5.07%	5.07%		
Average receive variable rate, end of period ⁽⁵⁾⁽⁶⁾	5.33%	5.30%	5.10%	5.10%	5.05%	5.10%		

Interest Rate Forwards
Related to

Securitization No. 1

Notional amounts ⁽⁸⁾	\$554,733	\$21,734	\$ 22,825	\$23,952	\$25,113	\$78,268	\$382,841	\$ (16,100,000)
Average pay fixed rate	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%		
Average receive variable rate, end of period ⁽⁵⁾⁽⁶⁾	5.60%	5.57%	5.42%	5.37%	5.37%	5.37%		

(1)Refers to the weighted-average interest rate on the face amount of securities remaining at the end of each period.

(2)Amounts shown as projected future variable-rate liabilities maturing exclude cash interest receipts or payments when due.

(3)As described in Note 8, on June 15, 2006 the Company issued certificates under Securitization No. 1. A portion of the proceeds were used to repay in full Credit Facility No. 1 previously reported above in our consolidated balance sheets in the combined balance of amounts included under “Borrowings under credit facilities”.

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(4)Refers to the weighted-average interest rate on the face amount of variable-rate liabilities outstanding at the end of each period.

(5)Refers to the weighted-average interest rate on notional amount of interest rate swaps and forward contracts outstanding at the end of each period.

(6)The variable rate on our interest rate swaps and equivalent rate on our forward contracts is reset monthly at one-month LIBOR or quarterly at three-month LIBOR, as applicable.

(7)On March 21, 2006, the Company entered into a series of interest rate forward contracts to hedge the variability of future interest payments on our credit facilities. The notional amounts of the forward contracts in that series started at \$100 million with respect to March 2006 forward contract and increased to a maximum of \$500 million with respect to the September 2006 forward contract.

(8)On June 1, 2006 the Company entered into a series of forward contracts to hedge variable interest rate payments on Securitization No. 1. The notional amounts of the initial contracts in that series start at \$560 million with respect to the July 2006 forward contract and decrease monthly based upon projected principal payments on the certificates.

The fair value of securities available for sale, repurchase obligations and interest rate swaps related to repurchase agreements all increased from December 31, 2005 to September 30, 2006 because of our purchase of additional debt securities during the nine months ended September 30, 2006, our execution of repurchase agreements to finance the acquisition of debt securities and our execution of interest rate swaps to hedge the variable interest payments on the LIBOR-based repurchase agreements. The amount of borrowings under credit facilities also increased during the nine

months ended September 30, 2006 in connection with the financing of additional aircraft acquisitions. Also, in the fourth quarter of 2006, we entered into a \$200 million notional interest rate swap to hedge the variable interest payments on debt we expect to incur to finance aircraft acquisitions over the next year. The terms of the swap provide for payment of a fixed rate of 5.055% and receipt of one-month LIBOR. This swap has a start date of January 15, 2007 and a mandatory termination date of August 15, 2007. We have designated this interest rate swap as a cash flow hedge for accounting purposes.

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

Inflation

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

Management's Use of EBITDA

We define EBITDA as income (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. Accordingly, this metric measures our financial

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performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the consolidated financial performance of our business.

Limitations of EBITDA

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

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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 prospectus. 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 prospectus, 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 period from October 29 to December 31, 2004, the year ended December 31, 2005 and the nine months ended September 30, 2005 and 2006.

	Period from October 29, 2004 (Commencement of Operations) Through December 31 2004	Year Ended December 31 2005	Nine Months Ended September 30	
			2005	2006
Net income (loss)	\$ (1,465)	\$ 228	\$ (3,856)	\$ 31,412
Depreciation	390	14,460	6,644	38,182
Amortization	30	734	551	(3,093)
Interest, net	(9)	7,739	3,217	35,058
Income tax provision	—	940	461	4,453
Earnings from discontinued operations, net of income taxes	—	(1,107)	—	(3,399)
EBITDA	\$ (1,054)	\$ 22,994	\$ 7,017	\$ 102,613

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Industry

We obtained the information in this prospectus about the aviation industry and operating leasing industry from several independent outside sources, including BACK, an aviation consulting and aviation market analysis firm; SH&E, an aviation consulting and aviation market analysis firm; IBA, an aviation consulting firm; ASG, a provider of aircraft appraisals, market analysis and aviation industry insight; ESG Aviation Services and The Airline Monitor, an aviation market analysis firm.

Aircraft Fleet

According to BACK, the current active worldwide commercial aircraft fleet consists of more than 17,000 aircraft. As illustrated in the table below, approximately 13,000 of these aircraft are Western-built. Of the Western-built fleet, approximately 11,800 aircraft were manufactured by Boeing and Airbus, the two largest aircraft manufacturers. These aircraft are typically compliant with noise (Stage 3) and other environmental standards, relatively fuel efficient and technologically advanced. The remaining aircraft in the global fleet tend to be older, have higher direct operating costs (driven largely by less fuel efficient engines) and a smaller installed base of users.

Active World-Wide Commercial Aircraft Fleet

	Age distribution (years)				Total
	0-4	5-9	10-14	15+	
Airbus and Boeing					
New Narrow-Body Models: 737,A318,A319,A320,A321	2,067	2,283	358	335	5,043
Classic 737	—	203	557	1,541	2,301
Other Narrow-Body Models: 707,717,727,757	80	335	239	737	1,391
Mid-Body Models: 767,A300,A310,A330	263	375	339	551	1,528
Wide-Body Models: 747, 777, A340	319	556	360	324	1,559
Total Airbus and Boeing	2,729	3,752	1,853	3,488	11,822
Freighters (Western-built)	100	158	183	1,399	1,840
Total Western-Built Commercial Aircraft	2,829	3,910	2,036	4,887	13,662
Other Western-Built Commercial Aircraft	—	94	276	1,306	1,676
Other Eastern-Built Commercial Aircraft and Freighters	33	23	251	2,108	2,415
Total Active Worldwide Commercial Aircraft Fleet	2,862	4,027	2,563	8,301	17,753

Source: BACK Aviation Solutions as of January 2007

Note: Excludes Regional and Parked Aircraft

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According to The Airline Monitor, the total world commercial aircraft fleet excluding in-production regional jets is expected to increase to approximately 24,600 aircraft by 2016. Over this period, Boeing and Airbus are expected to increase annual new aircraft deliveries from 910 units in 2007 to 1,245 units in 2016.

According to SH&E, the current fleet of more than 17,000 aircraft has an aggregate estimated value in excess of \$360 billion and is expected to grow to approximately \$620 billion (in 2007 dollars) in 2016, representing a compound annual growth rate of 5.5%.

World Fleet Projections

Source: The Airline Monitor

Both Boeing and Airbus are planning to introduce new aircraft models over the next 10 years including the super jumbo A380 and 747-800, the 200-300 seat 787 and A350. Both are also contemplating new models for the next generation of narrow-body aircraft using state-of-the-art composite technology.

Geographic Distribution of Aircraft Fleet

As indicated in the table below, the majority of the global fleet is located in North America and Europe, while the fastest fleet growth since 1997 occurred outside of these regions. In particular, the number of aircraft operating in Asia has increased by approximately 53.6% since 1997, while the fleet operating in the Middle East and Latin America increased by 85.8% and 32.8%, respectively, over this same period.

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Historical Geographic Distribution of Aircraft Fleet

Region	1997	2002	5 Jan 2007	1997-2007 total growth
Africa	526	593	785	49.2%
Asia	2,017	2,235	3,098	53.6%
Australia	320	335	527	64.7%
Europe	5,269	5,151	5,688	7.9%
Latin America	809	938	1,074	32.8%
Middle East	564	694	1,048	85.8%
North America	5,412	5,803	5,533	2.2%
Total	14,917	15,749	17,753	19.0%

Source: BACK Aviation Solutions January 2007

Current Freighter Fleet

	Current fleet	% of total	Models
Small Narrow-Body	511	27.8%	727, 737, DC-9
Medium Narrow-Body	307	16.7%	707, 757, DC-8
Mid-Body	419	22.8%	767, A300, A310, DC-10-10
Large Wide-Body	603	32.8%	747, DC-10-30, DC-10-40, MD-11
Total	1,840	100.0%	

Source: BACK Aviation Solutions as of 5 January 2007

Freighters are either conversions from passenger aircraft or production freighters, which are aircraft built specifically for freight transportation. Passenger-to-freighter, or PTF, aircraft conversion have traditionally supported aircraft residual values and extended the useful economic lives of the aircraft by 5-10 years. Approximately 75% of freighters

were PTF conversions while 25% were production freighters.

The conversion market has become very active with the launch of a number of original equipment manufacturer, or OEM, and third-party PTF programs for such Boeing aircraft as the 737-300, 737-400, 757-200, 767-200, 747-400 and MD-11. Current OEM Airbus programs gaining momentum include those targeting A310-300 and A300-600 aircraft. The increased market activity, combined with competition surrounding conversion slots and sourcing of aircraft conversion candidates, indicates a growing market that will help maintain certain aircraft values.

Averaging the 2006 forecasts produced by Boeing in their World Air Cargo Forecast 2006-2007 and Airbus in their Global Market Forecast 2006 suggests that approximately two-thirds of the existing global freighter fleet is expected to be retired over the next 20 to be replaced and augmented by approximately 780 new, production freighters and 2,500 PTF conversions. The bulk of these will be mid-body and wide-body types.

New, more efficient freighter models will be introduced in the short-medium term with the introduction the Boeing 747-8F, the A380-F and the industrial launch of the A330-200F. Additionally, the announced plan by FedEx to acquire approximately 90 B757-200 aircraft for conversion to freighters, to replace its aging B727-200 fleet, has helped support the residual values of this model.

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Aircraft Ownership

As the table below shows, aircraft ownership is highly fragmented, with over 1,800 owners consisting of airlines, operating lessors, banks, manufacturers, governments and others. Airlines are currently the largest aircraft owners, accounting for 48.1% of the global fleet. Since 1997, operating lessors have significantly increased their ownership percentage from 18.8% to 30.9%.

Market Size and Ownership

Category	1997			January 2007			
	Aircraft	% total	# of owners	Aircraft	CAGR ('97-'07)	% total	# of owners
Airline	8,214	55.1%	664	8,548	0.4%	48.1%	714
Operating lessor	2,800	18.8%	296	5,479	6.9%	30.9%	523
Bank/Manufacturer	2,329	15.6%	454	2,279	-0.2%	12.8%	381
Government	1,449	9.7%	123	1,289	-1.2%	7.3%	129
Others	125	0.8%	106	158	2.4%	0.9%	130
Grand Total	14,917	100.0%	1,643	17,753	1.8%	100.0%	1,877

Source: BACK Aviation Solutions as of 5 January 2007

Note: Excludes Regional Jets and Parked Aircraft
Operating Lessor Market

The high cost of aircraft fleet renewal and expansion, and the competitive environment of the commercial airline industry has led many airlines to outsource aircraft ownership to operating lessors. Airlines find operating leases to be attractive because they (i) maximize fleet flexibility by matching capacity with demand and by maintaining a variety of aircraft types, (ii) require a lower capital commitment, which provides greater financial flexibility and (iii) significantly reduce aircraft residual risk. In addition, as legacy carriers continue to restructure, aircraft operating leasing is being used regularly to finance both new and existing aircraft (sale-leaseback transactions).

As indicated in the graph below, over the last 20 years, the percentage of the global commercial aircraft fleet owned by operating lessors increased from 8.2% in 1987 to 30.9% in January 2007, while the percentage owned by airlines declined from 72.1% to 48.1% over the same time period.

Operating Lessor vs. Airline Ownership

	1987	1992	1997	2002	2007
Operating lessors	8.2%	15.2%	18.8%	24.7%	30.9%
Airlines	72.1%	58.4%	55.1%	49.3%	48.1%

Sources: BACK Aviation Solutions as of 5 January 2007

Note: Excludes Regional Jets and Parked Aircraft.

The two largest competitors in the aircraft leasing industry are GE Commercial Aviation Services, or GECAS, and International Lease Finance Corporation, or ILFC. GECAS, an arm of General Electric, owns/manages over 1,300 aircraft. ILFC, a wholly owned subsidiary of American International Group, Inc., or AIG, owns/manages almost 1,000 aircraft. The remaining population of operating lessors is fragmented. As of February 2006, the top 20 lessors owned and managed 5,567 aircraft.

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There have been some significant recent corporate developments in the operating lessor market with the flotation of AerCap on the NYSE in November 2006 and the purchase of Singapore Aircraft Leasing Enterprise by Bank of China in December 2006. Also, AWAS was acquired by European private equity firm Terra Firma in May 2006 and a consortium linked to Macquarie Bank of Australia purchased the aircraft portfolio of GATX in November 2006. GECAS has launched the flotation of Genesis, a portfolio of operating leased aircraft which will continue to be managed by GECAS on the NYSE in December 2006.

Top 20 Aircraft Operating Lessors by Active Aircraft Fleet

Leasing company	Number of Aircraft Owned and Managed	% Owned Aircraft	% Managed Aircraft
GECAS	1,334	82.5%	17.5%
ILFC	990	94.7%	5.3%
Boeing Capital Corporation	349	99.4%	0.6%

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BAE Systems Asset Management	318	27.0%	73.0%
CIT Group	304	97.7%	2.3%
Raytheon Aircraft Credit Corp	278	100.0%	0.0%
RBS Aviation Capital	265	100.0%	0.0%
Aviation Capital Group	224	92.9%	7.1%
AerCap	214	65.4%	34.6%
Babcock & Brown	206	75.2%	24.8%
Pegasus Aviation	182	100.0%	0.0%
AWAS	154	100.0%	0.0%
GATX Capital Corporation	154	72.7%	27.3%
ATR Asset Management	124	96.8%	3.2%
Orix Aviation Systems	97	90.7%	9.3%
SALE	90	84.6%	15.4%
Pembroke Group Ltd	76	90.8%	9.2%
Aircastle	73	94.5%	5.5%
BCI Aircraft Leasing	71	94.4%	5.6%
Finova Capital Corporation	64	100.0%	0.0%
Total	5,567		

Source: International Bureau of Aviation, as of December 2006
Macro Fundamentals

Although the airline industry is cyclical, negative world traffic growth has only occurred twice in modern aviation history: in 1990-1992 with the first Gulf War and in 2001-2003 due to several factors, including the September 11, 2001 terrorist attacks in the United States, global economic recession, military actions in the Middle East, health concerns, SARS, natural disasters and the continuing threat of terrorist attacks.

Global passenger and freight traffic has grown rapidly in recent years, driven by factors such as strong economic growth in developing countries, globalization of supply chains, and liberalization of global aviation markets. The IMF World Economic Outlook September 2006 indicates that over the next five years global GDP is estimated to grow at an average rate of 4.8% per year. Since 1994, for every 1.0% increase in global GDP, passenger and freight traffic have, on average, grown by 1.4% and 1.6%, respectively. Excluding the downturn in 2001 and 2002, for every 1.0% increase in global GDP, passenger and freight traffic have, on average, grown by 1.7% and 1.9%, respectively.

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Global Passenger Traffic Growth/GDP Growth and Global Freight Traffic Growth/GDP Growth
