PROFIRE ENERGY INC
Form NT 10-K
July 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 12b-25

SEC FILE NUMBER
000-52376

NOTIFICATION OF LATE FILING

(Check One): x Form 10-K o Form 20-F o Form 11-K o Form 10-Q o Form 10-D o Form N-SAR o Form N-CSR

For Period Ended: March 31, 2011
[ ] Transition Report on Form 10-K
[ ] Transition Report on Form 20-F
[ ] Transition Report on Form 11-K
[ ] Transition Report on Form 10-Q
[ ] Transition Report on Form N-SAR
For the Transition Period Ended:

Read Instruction (on back page) Before Preparing Form. Please Print or Type.
Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the Item(s) to which the notification relates:

PART I -- REGISTRANT INFORMATION
Profire Energy, Inc.
Full Name of Registrant
n/a
Former Name if Applicable
321 South 1250 West, #3
Address of Principal Executive Office (Street and Number)
Lindon, Utah 84042
City, State and Zip Code

PART II -- RULES 12b-25(b) AND (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

(a) The reason described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;

x (b) The subject annual report, semi-annual report, transition report on Form 10-K, Form 20-F, 11-K, Form N-SAR or Form N-CSR, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q, or subject distribution report on Form 10-D, or portion thereof, will be filed on or before the fifth calendar day following the prescribed due date; and

(c) The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

PART III -- NARRATIVE

State below in reasonable detail the reasons why Forms 10-K, 20-F, 11-K, 10-Q, 10-D, N-SAR, N-CSR, or the transition report or portion thereof, could not be filed within the prescribed time period.

The annual report of the registrant on Form 10-K could not be timely filed because management requires additional time to compile and verify the data required to be included in the report. The report will be filed within fifteen calendar days of the date the original report was due.

PART IV -- OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this notification

Andrew Limpert	801	796-5127
(Name)	(Area Code)	(Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If answer is no, identify report(s).
x Yes ¨ No

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof?
x Yes ¨ No

If so, attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

The Company anticipates that during the year ended March 31, 2011 total revenues will have increased by approximately 35% compared to the fiscal year ended March 31, 2010. The Company believes this increase is attributable to increasing oil prices during the first half of the fiscal year and a stabilizing of the worldwide economy coupled with the Company's efforts to expand its market, which led to increased sales.

The Company believes that total operating expenses will have increased approximately 23%. This increase was largely attributable to increases in general and administrative expenses and payroll expense resulting from the continued growth of the Company.

As a result of total revenues growing more quickly than total operating and other expenses, the Company expects to realize total comprehensive income of approximately $2,000,000 or $0.04 per share for the fiscal year ended March 31, 2011 compared to approximately $1,775,000, or $0.03 per share for the fiscal year ended March 31, 2010.

Profire Energy, Inc.
(Name of Registrant as Specified in Charter)

has caused this notification to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 29, 2011 By /s/ Andrew Limpert
Andrew Limpert
Chief Financial Officer

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849) (4,849) (4,849)
Net unrealized appreciation on debt investments
(3,557) (3,557) (3,557)
Total comprehensive loss
$ (7,954)
Balance, December 31, 2007
78,574,657 786 1,468,140 (48,960) (125,389) 1,294,577
Issuance of common shares to directors and employees
104,653 1 (1)
Repurchase of common shares from directors and employees
(58,990) (1) (1,269) (1,270)
Amortization of share based payments
6,529 6,529
Excess tax benefit from stock based compensation
1,056 1,056
Dividends declared
(66,804) (66,804)
Net income
115,291 115,291 $ 115,291
Net change in fair value of derivatives, net of $2,602 tax benefit
(245,407) (245,407) (245,407)
Derivative loss reclassified into earnings
16,491 16,491 16,491
Net unrealized appreciation on debt investments
(8,297) (8,297) (8,297)
Total comprehensive (loss)
$ (121,922)
Balance, December 31, 2008
78,620,320 $ 786 $ 1,474,455 $ (473) $ (362,602) $ 1,112,166

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

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

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited (Aircastle, the Company, we, us or our) is a Bermuda exempted company that was incorporate October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates (together, the Fortress Shareholders or Fortress) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle s business is investing in aviation assets, including leasing, managing and selling commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments.

Basis of Presentation

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle owns directly or indirectly all of the outstanding common shares of its subsidiaries. Aircastle consolidates three Variable Interest Entities (VIEs) in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) of which Aircastle is the primary beneficiary (See Note 4. Variable Interest Entities). All intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Effective January 1, 2008, the Company adopted FASB Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which permits an entity to measure certain eligible financial assets and financial liabilities at fair value that are not currently measured at fair value. The company did not elect to measure any additional financial instruments at fair value for its financial assets and liabilities existing at January 1, 2008 and did not elect the fair value option on financial assets and liabilities transacted in the year ended December 31, 2008. Therefore, the adoption of SFAS No. 159 had no impact on the Company s consolidated financial statements.

Also effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (See Note 2. Fair Value Measurements). This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 (FSP No. 157-2) which defers the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). FSP No. 157-2 will apply to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of the deferred provisions will have no material impact on our consolidated financial statements. In October 2008, the FASB issued FSP No. 157-3 which clarified the application of SFAS No. 157 in an inactive market. The FSP addressed application issues, including (i) how management s internal assumptions should be considered when measuring fair value when relevant observable data do not exist, (ii) how observable market information in a market that is not active should be considered when measuring fair value and (iii) how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP No. 157-3 was effective upon issuance and its adoption did not have an effect on our consolidated financial statements.

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Risk and Uncertainties

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

Use of Estimates

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

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

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

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

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

Debt Investments

Aircastle accounts for debt investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). As of December 31, 2008, all of our debt investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses included in shareholders equity as a component of accumulated other comprehensive income. The cost of securities sold is based on the specific identification method. Interest on these securities is accrued as earned and included in interest income. Unrealized losses considered to be other-than-temporary , if any, are recognized in earnings.

Flight Equipment Held for Lease

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

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

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

Aircastle Limited and Subsidiaries
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flight equipment which may have a shorter useful life due to obsolescence.

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

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

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

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

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

Impairment of Flight Equipment

In accordance with SFAS No. 144, Aircastle evaluates its flight equipment for potential impairment loss on a periodic basis and when indicators of impairment exist. Impairment exists when the carrying value of an aircraft exceeds the sum of the undiscounted expected future cash flows, or its fair value. When indicators of impairment suggest that the carrying value of an aircraft may not be recoverable, we determine whether SFAS No. 144 s impairment recognition criteria have been met by evaluating whether the carrying value of the asset exceeds the undiscounted future cash flows expected to result from the use and eventual disposition of the asset.

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

The preparation of the undiscounted cash flows requires the use of assumptions and estimates, including the level of future rents, the residual value expected to be realized upon disposition of the asset, estimated downtime between re-leasing events and the amount of re-leasing costs. Our review for impairment includes a consideration of the existence of impairment indicators including third party appraisals of our aircraft, published values for similar aircraft, recent transactions for similar aircraft, adverse changes in market conditions for specific aircraft types and the occurrence of significant adverse changes in general industry and market conditions that could affect the fair value of our aircraft.

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Capitalization of Interest

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

Security Deposits

Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. At December 31, 2007 and 2008, security deposits represent cash received from the lessee that is held on deposit until lease expiration. Aircastle s operating leases also obligate the lessees to maintain flight equipment and comply with all governmental requirements applicable to the flight equipment, including, without limitation, operational, maintenance, registration requirements and airworthiness directives.

Maintenance Payments

Typically, under an operating lease, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the level of security deposit which may be provided by the lessee and market conditions at the time we enter into the lease. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually shortly following completion of the relevant work.

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

In addition, many of our leases contain provisions which may require us to pay a portion of costs for heavy maintenance, overhaul or replacement of certain high-value components in excess of the amounts paid to us by the lessee. We estimate the amount of our liability for such costs paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated amount of the maintenance event cost and estimated amounts the lessee is responsible to pay. This estimated maintenance liability is recognized as a reduction of lease revenue on a straight-line basis as lease incentives over the life of the lease.

Income Taxes

Aircastle provides for income taxes of its taxable subsidiaries under the provisions of SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). SFAS No. 109 requires an asset and liability based

Aircastle Limited and Subsidiaries
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approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), effective January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities.

Hedging Activities

We utilize derivative financial instruments to manage our exposure to interest rate risks. We account for derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). All derivatives are recognized on the balance sheet at their fair value. Through December 31, 2008, most of our derivatives were designated as cash flow hedges. On the date that we enter into a derivative contract, we formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions.

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

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

Aircastle may choose to terminate certain derivative financial instruments prior to their contracted maturities. Any net gains or losses on the derivative financial instrument in accumulated other comprehensive income at the date of termination are not reclassified into earnings if it remains probable that the cash flows of the hedged items (interest payments) will occur. The amounts in accumulated other comprehensive income are reclassified into earnings as the hedged items (interest payments) affect earnings. Terminated hedges are reviewed periodically to determine if the forecasted transactions remain probable of occurring. To the extent the forecasted transaction, or portion thereof, is no longer probable of occurring, the related portion of the accumulated other comprehensive income balance is reclassified into earnings immediately.

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Lease Rentals

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options to our lessees, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a London Interbank Offered Rate (LIBOR) index are recognized on a straight-line basis over the period the rentals are fixed and accruable. Revenue is not recognized when collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other gains and losses, net of income taxes, if any, affecting shareholders equity that, under GAAP, are excluded from net income. At December 31, 2008, such amount consists of the effective portion of fluctuations in the fair value of derivatives designated as cash flow hedges and unrealized gains on the fair value of debt investments classified as available-for-sale.

Share Based Compensation

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

Deferred Financing Costs

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

Leasehold Improvements, Furnishings and Equipment

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

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for interim periods beginning after November 15, 2008 and fiscal years that include those interim periods (first quarter 2009 for calendar year-end companies). The adoption of SFAS No. 161 will have no material impact on our consolidated financial statements.

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS No. 162 will have no material impact on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1). FSP No. EITF 03-6-1 addresses whether unvested share-based payment awards with rights to receive dividends or dividend equivalents should be considered participating securities for the purposes of applying the two-class method of calculating earnings per share (EPS) under SFAS No. 128, *Earnings per Share*. The FASB staff concluded that unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing EPS. FSP No. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years (early application is not permitted), and also requires that all prior-period EPS data presented be adjusted retrospectively. The Company has determined that the adoption of EITF 03-6-1 will require us to present earnings per share using the two-class method.

Note 2. Fair Value Measurements

As described in Note 1 Summary of Significant Account Policies, we adopted SFAS No. 157, *Fair Value Measurements*, for financial assets and liabilities as of January 1, 2008. This standard defines fair value, provides a consistent framework for measuring fair value and expands certain disclosures. SFAS No. 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

Cost approach Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

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The following table sets forth our financial assets and liabilities as of December 31, 2008 that we measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Fair Value as of December 31, 2008	Fair Value Measurements at December 31, 2008 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique
Assets:					
Cash and cash equivalents	$ 80,947	$ 80,947	$	$	Market
Restricted cash and cash equivalents	182,623	182,623			Market
Debt investments	14,349			14,349	Income
Total	$ 277,919	$ 263,570	$	$ 14,349	
Liabilities:					
Derivative liabilities	$ 276,401	$	$ 210,080	$ 66,321	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consists largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as level 1 within our fair value hierarchy. Our derivatives included in level 2 consist of United States dollar denominated interest rate swaps, and their fair values are determined by applying standard modeling techniques under the income approach to relevant market interest rates (cash rates, futures rates, swap rates) in effect at the period close to determine appropriate reset and discount rates.

Our debt investments included in Level 3 consist of available-for-sale United States corporate obligations consisting of interests in pools of loans which are collateralized by interests in commercial aircraft. The fair value of our debt investments included within Level 3 are valued by using discounted cash flow methodologies, where the inputs to those models are based on unobservable market inputs. The Company used two sources of unobservable inputs; we obtained broker quotes which provided an indicative indication of the market value and we obtain market values from a pricing service. We used the broker quotes and/or the pricing service market values to validate the discount rate used for our cash flow model for these debt investments in accordance with SFAS 157-3.

Our derivatives included in level 3 consist of United States dollar denominated interest rate swaps with a guaranteed notional balance. The guaranteed notional balance has a lower and upper notional band guaranteed to mirror any changes in the debt notional between the bands. The fair value of the interest rate swap is determined based on the upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close. The range of the guarantee notional between the upper and lower band represents an option that may not be exercised independent of the debt notional and is therefore valued on unobservable market inputs.

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The following tables reflect the activity for the major classes of our assets and liabilities measured at fair value using level 3 inputs for the twelve months ended December 31, 2008:

Twelve Months Ended December 31, 2008	**Assets Debt Investments**	**Liabilities Derivative Liabilities**
Balance as of December 31, 2007	$	$
Transfers in (out) in third quarter 2008	19,618	
Principal repayments	(127)	
Total gains/(losses), net:		
Included in interest income	160	
Included in other income (expense)		1,210
Included in interest expense		(398)
Included in other comprehensive income	(5,302)	(67,133)
Balance as of December 31, 2008	$ 14,349	$ (66,321)

There were no assets and liabilities measured at fair value on a non-recurring basis.

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, debt investments, accounts payable, amounts borrowed under financings, repurchase agreements and cash flow hedges. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short term nature.

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

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

The carrying amounts and fair values of our financial instruments at December 31, 2007 and 2008 are as follows:

	2007		**2008**	
	Carrying Amount of Asset	**Fair Value of Asset**	**Carrying Amount of Asset**	**Fair Value of Asset**

	(Liability)	(Liability)	(Liability)	(Liability)
Debt investments	$ 113,015	$ 113,015	$ 14,349	$ 14,349
Credit facilities	(798,186)	(798,186)		
Securitizations and Term Debt Financings	(1,677,736)	(1,623,522)	(2,476,296)	(2,328,574)
Repurchase agreements	(67,744)	(67,744)		
Derivative liabilities	(154,388)	(154,388)	(276,401)	(276,401)

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

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at December 31, 2008 were as follows:

Year Ending December 31,	Amount
2009	$ 491,562
2010	438,131
2011	379,381
2012	323,185
2013	232,569
Thereafter	560,988
Total	$ 2,425,816

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

	Year Ended December 31,		
Region	2006	2007	2008
Europe	45%	44%	46%
Asia	20%	27%	24%
North America	28%	16%	13%
Latin America	5%	6%	7%
Middle East and Africa	2%	7%	10%
Total	100%	100%	100%

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

For the year ended December 31, 2006, one customer accounted for 24% of lease rental revenue and three additional customers accounted for 20% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the year ended December 31, 2007, one customer accounted for 12% of lease rental revenues and two additional customers accounted for a combined 11% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues. For the year ended December 31, 2008, one customer accounted for 8% of lease rental revenues and two additional customers accounted for a combined 12% of lease rental revenues. No other customer accounted for more than 5% of lease rental revenues.

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

	December 31, 2007		December 31, 2008	
Region	Number of Aircraft	Net Book Value %	Number of Aircraft	Net Book Value %
Europe	65(1)	47%	56	44%
Asia	35	27%	32	23%
North America	13(1)	10%	14	12%
Latin America	12	7%	8	5%
Middle East and Africa	8	9%	12	11%
Off-lease		%	8(2)	5%
Total	133	100%	130	100%

(1) Includes one Boeing Model 747-400 aircraft in Europe and one Boeing Model 747-400 aircraft in North America which were being converted to freighter configuration for which we had executed leases post-conversion with a carrier in each of these geographic regions.

(2) Includes one Boeing Model 737-300 for which we have a signed lease with a carrier in the Middle East and which we expect to deliver in the first quarter of 2009, and seven Boeing Model 737-700 s, three of which we delivered on lease to a carrier in Europe, two of which are committed for lease to a carrier in Africa and one of which is the subject of a letter of intent for lease to a carrier in Latin America, and we expect to deliver the latter three aircraft in the second quarter of 2009.

At December 31, 2007 and 2008, lease acquisition costs included in other assets on the consolidated balance sheets were $417 and $293, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were $586 and $5,127 at December 31, 2007 and 2008, respectively.

Note 4. Variable Interest Entities

Aircastle consolidates three Variable Interest Entities (VIEs) in accordance with FIN 46(R) of which Aircastle is the primary beneficiary. ACS Aircraft Finance Ireland plc (ACS Ireland), ACS Aircraft Finance Ireland 2 Limited (ACS Ireland 2) and ACS Ireland 3 Limited (ACS Ireland 3), which had total combined assets of $496,620 at December 31, 2008, are VIEs which we consolidate. We are the primary beneficiary of the three VIEs as we bear the significant risk of loss and participate in gains through Class E-1 Securities. An Irish charitable trust owns 95% of the common shares of each VIE. The Irish charitable trust s risk is limited to its annual dividend of $2 per VIE.

At December 31, 2008, the assets of the three VIEs include fifteen aircraft transferred into the VIEs in connection with Securitization No. 1, Securitization No 2 and Term Financing No. 1. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the fifteen aircraft. At December 31, 2008, the outstanding principal amount of debt for the three VIEs was $348,119. The debt of the three VIEs is neither an obligation of, nor guaranteed by, Aircastle Limited. (See Note 7. Securitizations and Borrowings under Credit Facilities Securitizations and Term Debt Financings.)

Note 5. Discontinued Operations and Flight Equipment Held for Sale

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

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the credit facility associated with this aircraft, a portion of the proceeds was used to repay $36,666 of debt related to the aircraft plus accrued interest.

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

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

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

Note 6. Debt Investments

As of December 31, 2007 and 2008, all of our debt investments classified as available-for-sale were U.S. corporate obligations. The aggregate fair value of these debt investments at December 31, 2008 was $14,349. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which $2,241 are senior tranches and $12,108 are subordinated to other debt related to such aircraft. Our debt investments had net unrealized gain positions relative to their net book values, which aggregated to $10,833 and $2,536 at December 31, 2007 and 2008, respectively. At December 31, 2008, three of our four debt investments had unrealized loss positions for less than 12 continuous months in the aggregate of $2,105 relative to their net book values with an aggregate fair value of $6,625. The Company determined that the three securities are temporarily impaired as the anticipated cash flows are probable of occurring and that the Company has the ability and intent to hold these securities until maturity.

In 2007, we acquired a loan secured by a commercial jet aircraft with a cash purchase price of $15,251 that was classified as held to maturity. The loan had an outstanding balance of $13,567 at maturity, which we believe approximated its fair value. The borrower elected not to repay the loan at maturity and, accordingly, we took ownership of this aircraft during the first quarter of 2008.

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

One of our debt investments, with a fair value of $4,384 at December 31, 2008 has a stated maturity in 2010. One of our debt investments, with a fair value of $1,112, has a stated maturity in 2017. Our other two debt investments with an aggregate fair value of $8,853 have remaining terms to stated maturity in excess of 10 years after December 31, 2008. All of our debt investments provide for

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the periodic payment of both principal and interest and are subject to prepayment and/or acceleration depending on certain events, including the sale of the underlying collateral aircraft and events of default. Therefore, the actual maturity of our debt investments may be less than the stated maturities.

Note 7. Securitizations and Borrowings under Credit Facilities

The outstanding amounts of our securitizations, term debt financings and borrowings under our credit facilities were as follows:

Debt Obligation	At December 31, 2007 Outstanding Borrowings	At December 31, 2008 Outstanding Borrowings	Interest Rate[(1)]	Final Stated Maturity
Securitizations and Term Debt Financings:				
Securitization No. 1	$ 527,397	$ 472,048	1.47%	6/20/31
Securitization No. 2	1,150,339	1,097,913	2.14%	6/14/37
Term Financing No. 1		757,610	3.58%	5/02/15
Term Financing No. 2		148,725	4.40%	9/23/13
Total Securitizations and Term Debt Financings	1,677,736	2,476,296		
Credit Facilities:				
Revolving Credit Facility			NA	12/11/08
Amended Credit Facility No. 2	734,059		NA	12/15/08
747 PDP Credit Facility	64,127		NA	4/10/08
Total Credit Facilities	798,186			
Total	$ 2,475,922	$ 2,476,296		

(1) Reflects floating rate in effect at the applicable reset date.

Securitizations and Term Debt Financings:

Securitization No. 1

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

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The terms of Securitization No. 1 require the ACS Group to satisfy certain financial covenants, including the maintenance of debt service coverage ratios. The ACS Groups compliance with these covenants depends substantially upon the timely receipt of lease payments from their lessees. In particular, during the first five years from issuance, Securitization No. 1 has an amortization schedule that requires that lease payments be applied to reduce the outstanding principal balance of the indebtedness so that such balance remains at 54.8% of the assumed future depreciated value of the portfolio. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates in the fourth and fifth year following the closing date of Securitization No. 1, and in any month following the fifth anniversary of the closing date, all excess securitization cash flow is required to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

The ACS 1 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.27%, and scheduled payments of principal. Financial Guaranty Insurance Company (FGIC) issued a financial guaranty insurance policy to support the payment of interest when due on the ACS 1 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 1 Certificates. The downgrade in the rating of FGIC did not result in a change in any of the rights or obligations of the parties to Securitization No. 1. We have entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 1 Notes and, accordingly, the ACS 1 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall.

Securitization No. 2

On June 8, 2007, we completed our second securitization, a $1,170,000 transaction comprising 59 aircraft and related leases, which we refer to as Securitization No. 2 . In connection with Securitization No. 2, two of our subsidiaries, ACS Ireland 2 and ACS 2007-1 Limited (ACS Bermuda 2), to which we refer together with their subsidiaries as the ACS 2 Group issued $1,170,000 of Class A notes, or the ACS 2 Notes , to the ACS 2007-1 Pass Through Trust, or the ACS 2 Trust. The ACS 2 Trust simultaneously issued a single class of Class G-1 pass through trust certificates, or the ACS 2 Certificates, representing undivided fractional interests in the ACS 2 Notes. Payments on the ACS 2 Notes will be passed through to the holders of the ACS 2 Certificates. The ACS 2 Notes are secured by ownership in aircraft owning subsidiaries of ACS Bermuda 2 and ACS Ireland 2 and the aircraft leases, cash, rights under service agreements and any other assets they may hold. Each of ACS Bermuda 2 and ACS Ireland 2 has fully and unconditionally guaranteed the other s obligations under the ACS 2 Notes. However, the ACS 2 Notes are neither obligations of, nor guaranteed by, Aircastle Limited. The ACS 2 Notes mature on June 14, 2037.

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

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to be used to reduce the principal balance of the indebtedness and will not be available to us for other purposes, including paying dividends to our shareholders.

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

The ACS 2 Notes provide for monthly payments of interest at a floating rate of one-month LIBOR plus 0.26%, and scheduled payments of principal. FGIC issued a financial guaranty insurance policy to support the payment of interest when due on the ACS 2 Certificates and the payment, on the final distribution date, of the outstanding principal amount of the ACS 2 Certificates. A downgrade in the rating of FGIC will not result in any change in the rights or obligations of the parties to Securitization No. 2. We have entered into a series of interest rate hedging contracts intended to hedge the interest rate exposure associated with issuing floating-rate obligations backed by primarily fixed-rate lease assets. Obligations owed to the hedge counterparty under these contracts are secured on a pari passu basis with the same collateral that secures the ACS 2 Notes and, accordingly, the ACS 2 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall.

Term Financing No. 1

On May 2, 2008 two of our subsidiaries, ACS Ireland 3 and ACS 2008-1 Limited (ACS Bermuda 3), which we refer to together with their subsidiaries as the ACS 3 Group, entered into a seven year, $786,135 term debt facility, which we refer to as Term Financing No. 1, to finance a portfolio of 28 aircraft. The loans under Term Financing No. 1 were fully funded into an aircraft purchase escrow account on May 2, 2008. These loans were released to us from escrow as each of the financed aircraft was transferred into the facility. The loans are secured by, among other things, first priority security interests in, and pledges or assignments of ownership interests in, the aircraft-owning and other subsidiaries which are part of the financing structure, as well as by interests in aircraft leases, cash collections and other rights and properties they may hold. However, the loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on May 2, 2015.

We generally retained the right to receive future cash flows after the payment of claims that are senior to our rights, including, but not limited to, payment of expenses related to the aircraft, fees of administration and fees and expenses of service providers, interest and principal on the loans, amounts owed to interest rate hedge providers and amounts, if any, owing to the liquidity provider for previously unreimbursed advances. We are entitled to receive these excess cash flows until May 2, 2013, subject to confirmed compliance with the Term Financing No. 1 loan documents. After that date, all excess cash flows will be applied to the prepayment of the principal balance of the loans.

The loans provide for monthly payments of interest on a floating rate basis at a rate of one-month LIBOR plus 1.75% and scheduled payments of principal, which during the first five years will equal approximately $48.9 million per year. The loans may be prepaid upon notice, subject to certain conditions, and the payment of expenses, if any, and the payment of a prepayment premium on amounts prepaid on or before May 2, 2010. We entered into interest rate hedging arrangements with respect to a substantial portion of the principal balance of the loans under Term Financing No. 1 in order to effectively pay interest at a fixed rate on a substantial portion of the loans. Obligations owed to hedge counterparties under these contracts are secured on a pari passu basis by the same collateral that secures the loans under Term Financing No. 1 and, accordingly, there is no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall.

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Term Financing No. 1 requires compliance with certain financial covenants in order to continue to receive excess cash flows, including the maintenance of loan to value and debt service coverage ratios. From and after May 2, 2009, if loan to value ratio exceeds 75%, all excess cash flows will be applied to prepay the principal balance of the loans until such time as the loan to value ratio falls below 75%. In addition, from and after May 2, 2009, debt service coverage must be maintained at a minimum of 1.32. If the debt service coverage ratio requirements are not met on two consecutive monthly payment dates, all excess cash flows will thereafter be applied to prepay the principal balance of the loans until such time as the debt service coverage ratio exceeds the minimum level. Compliance with these covenants depends substantially upon the appraised value of the aircraft securing Term Financing No. 1 and the timely receipt of lease payments from their lessees.

Term Financing No. 2

On September 12, 2008, one of our subsidiaries entered into a five-year, $206,580 million term debt facility, which we refer to as Term Financing No. 2, to finance a portfolio of up to nine aircraft. The loans under Term Financing No. 2 were fully funded into an aircraft purchase escrow account on September 23, 2008. These loans were released to us from escrow as each of the financed aircraft was transferred into the facility. In the third quarter, the loans with respect to seven aircraft were released to us upon transfer, and in the fourth quarter, the loans with respect to two aircraft were released to us upon transfer. One aircraft was subsequently sold in December 2008.

Loans under Term Financing No. 2 are secured by, among other things, first priority security interests in, and pledges or assignments of ownership interests in, the aircraft-owning entities and other subsidiaries which are part of the financing structure, as well as by interests in aircraft leases, cash collections and other rights and properties they may hold. However, the loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on September 23, 2013.

We generally retained the right to receive future cash flows from the aircraft securing Term Financing No. 2 after the payment of claims that are senior to our rights, including, but not limited to, payment of expenses related to the aircraft, fees of administration and fees and expenses of service providers, interest and principal on the loans, and amounts owed to interest rate hedge providers. However, Term Financing No. 2 requires that approximately 85% of the cash flow remaining after expenses, fees, interest and amounts owing to interest rate hedge providers will be applied to reduce the principal balance of the loans, and in any case distribution of any excess cash flow to us is subject to continuing compliance with the Term Financing No. 2 loan documents.

Borrowings under Term Financing No. 2 will bear interest on the basis of three-month LIBOR plus 2.25% per annum or, if greater, on the basis of the lenders cost of funds rate plus a margin, currently 2.25% per annum. The loans provide for quarterly payments of interest and scheduled payments of principal. The Loans may be prepaid upon notice, subject to certain conditions, and the payment of expenses, if any, and in some cases the payment of a prepayment premium on amounts prepaid on or before September 23, 2010.

Term Financing No. 2 requires our relevant subsidiaries to satisfy certain financial covenants, including the maintenance of loan to value and interest coverage ratios. The loan to value ratio begins at 75% of appraised value and reduces over time to 35% of appraised value approximately 54 months after closing. The interest coverage test compares available cash, being the amount by which rentals received in the preceding six month period exceeds any re-leasing costs and servicing fees, to interest on the loans (net of interest rate hedging) during that period. The interest coverage ratio tests, on any quarterly payment date, whether available cash exceeds net interest costs by a factor of three (rising over time to five, in the fifth year after closing), and the covenant will be breached if the test fails on

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any two consecutive quarterly payment dates. Compliance with these covenants depends substantially upon the appraised value of the aircraft securing Term Financing No. 2, the timely receipt of lease payments from the relevant lessees and on our ability to utilize the cure rights provided to us in the loan documents. Failure to comply with the loan to value test, or to comply with the interest coverage test at a time when we are also in breach of a modified version of the loan to value test, would result in a default under Term Financing No. 2 in the absence of cure payments by us.

Credit Facilities:

Revolving Credit Facility

On December 15, 2006, the Company entered into a $250,000 revolving credit facility with a group of banks which we refer to as the Revolving Credit Facility . The Revolving Credit Facility provided loans for working capital and other general corporate purposes and also provided for issuance of letters of credit. Borrowings under the Revolving Credit Facility bore interest generally on the basis of the euro dollar rate (the EDR), the EDR plus 1.50% per annum. Additionally, we paid 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 were less than $125,000, and 0.125% per annum when the average outstanding loans were equal to or greater than $125,000 and we paid customary agency fees.

On March 20, 2008, the parties to the Revolving Credit Facility entered into a fourth amendment to the Revolving Credit Facility (the 2006-B Fourth Amendment), extending the Stated Termination Date (as defined therein) to December 11, 2008, and reducing the commitments of the lenders to make loans thereunder (the Revolving Commitments) to $150,000. The Revolving Commitments were reduced to $100,000 on June 30, 2008, $80,000 on August 31, 2008, $60,000 on September 30, 2008 and $40,000 on October 31, 2008, with final maturity on December 11, 2008. The 2006-B Fourth Amendment also amended the Revolving Credit Facility so that Bear Stearns Corporate Lending Inc. had no further Revolving Commitments or loans outstanding under the Revolving Credit Facility, with JPMorgan Chase Bank, N.A. and Citicorp North America, Inc. The applicable margin on LIBOR-based loans under the Revolving Credit Facility increased to 200 basis points, and the remaining lenders under the Revolving Credit Facility received an up-front fee equal to 25 basis points of the $150,000 committed amount of the facility.

The Revolving Credit Facility matured on December 11, 2008.

Amended Credit Facility No. 2

On February 28, 2006, we entered into a $500,000 revolving credit facility with a group of banks to finance the acquisition of aircraft and related improvements which we refer to as Credit Facility No. 2. Borrowings under this credit facility accrued interest generally on the basis of the EDR plus 1.25%. Additionally, we paid a 0.125% fee on any unused portion of the total committed facility. On December 15, 2006, Credit Facility No. 2 was amended to, among other things, extend the maturity to December 15, 2008 (Amended Credit Facility No. 2).

On March 20, 2008, the parties to Amended Credit Facility No. 2 entered into an amendment that reduced the commitments of the lenders to make loans thereunder to $500,000, on any future date after which the loans outstanding under Amended Credit Facility No. 2 fell below $500,000. In connection with the reduced commitments of the lenders under Amended Credit Facility No. 2, during the second quarter of 2008 we wrote off $553 of debt issuance costs, which is reflected in interest expense on the consolidated statement of income.

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On December 11, 2008, we repaid the remaining balance of $36,661 and Amended Credit Facility No. 2 matured on December 15, 2008.

747 PDP Credit Facility

On July 26, 2007, we made an accelerated payment to the relevant Guggenheim Aviation Investment Fund LP (GAIF) seller under our acquisition agreement with GAIF (the GAIF Acquisition Agreement) for three Boeing Model 747-400ERF aircraft in the amount of $106,668 and assumed a pre-delivery payment credit facility related to such 747-400ERF aircraft (the Accelerated ERF Aircraft), which we refer to as the 747 PDP Credit Facility . The total outstanding amount of borrowings assumed under the 747 PDP Credit Facility was $95,926. On July 30, 2007, we took delivery of the first Accelerated ERF Aircraft and paid down $31,799 under the 747 PDP Credit Facility. On February 11, 2008, we took delivery of the second Accelerated ERF Aircraft and paid down $32,202 under the 747 PDP Credit Facility. The facility matured upon the delivery of the third and final Accelerated ERF aircraft on April 10, 2008 when we paid the remaining balance of $31,925.

2008-A Credit Facility

On February 5, 2008, we entered into a senior secured credit agreement with two banks which we refer to as the 2008-A Credit Facility . The 2008-A Credit Facility provided for loans in an aggregate amount of up to $300,000 to finance a portion of the purchase price of certain aircraft.

On May 15, 2008, we reduced our total credit commitment under the 2008-A Credit Facility to $188,000 and on June 3, 2008, we paid the remaining balance of $187,267 with proceeds from the refinancing of two aircraft transferred into Term Financing No. 1. As a result of the pay-off of the 2008-A Credit Facility, during the second quarter of 2008 we wrote off $250 of debt issuance costs which is reflected in interest expense on the consolidated statement of income.

Credit Facility No. 1

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

Credit Facility No. 3

In October 2005, the Company entered into a credit facility for $109,998 with a bank to finance the acquisition of three aircraft, which we refer to as Credit Facility No. 3. The interest rate on this facility was one-month LIBOR plus 1.50%. On March 30, 2006, $36,666 of Credit Facility No. 3 was repaid using a portion of the proceeds from the disposition of flight equipment held for sale, which had been financed under this facility. Credit Facility No. 3 was amended on July 18, 2006, to increase the maximum committed amount by approximately $25,116 and to extend the maturity date to March 31, 2007. The increase in the maximum committed amount was reduced by $25,116 with the closing of the initial public offering. On January 26, 2007, Credit Facility No. 3 was amended to extend the maturity

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date from March 31, 2007, to the earlier of September 30, 2007, or the transfer of the related aircraft financed in Credit Facility No. 3 into Securitization No. 2. Credit Facility No. 3 was repaid in full in July 2007 out of the proceeds of Securitization No. 2.

The weighted average interest rates for our credit facilities at December 31, 2006, 2007 and 2008 were 6.64%, 6.26% and 0%, respectively.

Maturities of the securitizations and term debt financings over the next five years and thereafter are as follows:

2009	$	136,738
2010		161,316(1)
2011		194,330(1)
2012		280,059
2013		356,840
Thereafter		1,347,013
Total	$	2,476,296

(1) Includes repayments of $16,266 in 2010 and $7,286 in 2011 related to contracted sales for two aircraft in 2010 and one aircraft in 2011.

Note 8. Repurchase Agreements

As at December 31, 2007 and December 31, 2008, the outstanding amounts of our repurchase agreements were $67,744 and $0, respectively.

Note 9. Shareholders Equity and Share Based Payment

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

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

On October 10, 2007, the Company completed a second follow-on public offering of 11,000,000 primary common shares at a public offering price of $31.75 per share, including 1,000,000 common shares pursuant to the underwriter s option to cover over-allotments, resulting in gross proceeds from the offering of $349,250 before offering costs. The net proceeds of this offering, after our payment of $10,478 in underwriting discounts and commissions and approximately $1,019 in other offering expenses, were $337,753. Approximately $230,889 of the net proceeds was used to repay borrowings under Amended Credit Facility No. 2. The remainder of the net proceeds was used for aircraft acquisitions and working capital requirements.

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In conjunction with the second follow-on public offering, certain Fortress Shareholders sold 11,000,000 secondary common shares in the public offering, including 1,000,000 common shares from the selling Fortress Shareholders pursuant to the underwriter s option to cover over-allotments. The Company did not receive any funds from this secondary offering by the selling Fortress Shareholders.

In January 2006, the board of directors (the Board) and the Fortress Shareholders adopted the Aircastle Investment Limited 2005 Equity and Incentive Plan, and the Board and the Fortress Shareholders approved an amendment to and restatement thereof on July 20, 2006 (as so amended and restated, the 2005 Plan). The purpose of the 2005 Plan is to provide additional incentive to selected management employees. The 2005 Plan provides that the Company may grant (a) share options, (b) share appreciation rights, (c) awards of restricted common shares, deferred shares, performance shares, unrestricted shares or other share-based awards, or (d) any combination of the foregoing. Four million shares were reserved under the 2005 Plan, increasing by 100,000 each year beginning in 2007 through and including 2016. The 2005 Plan provides that grantees of restricted common shares will have all of the rights of shareholders, including the right to receive dividends, other than the right to sell, transfer, assign or otherwise dispose of the shares until the lapse of the restricted period. Generally, the restricted common shares vest over three or five year periods based on continued service and are being expensed on a straight line basis over the requisite service period of the awards. The terms of the grants provide for accelerated vesting under certain circumstances, including termination without cause following a change of control.

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

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

The fair value of the restricted common shares granted in 2006 prior to the initial public offering was determined based on an estimate of the offering range per share from the anticipated initial public offering. The fair value of restricted common shares granted in 2006 subsequent to the date of the initial public offering was determined based upon the market price of the shares at the grant date.

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

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A summary of the fair value of non-vested shares for the years ended December 31, 2007 and 2008 is as follows:

Non vested Shares	Shares (in 000 s)	Weighted Average Grant Date Fair Value	Fair Value of Non-vested Shares at Grant Date
Non-vested at January 1, 2006	372.5	$ 8.50	$ 3,166
Granted	604.3	23.59	14,258
Cancelled	(4.5)	22.00	(99)
Vested	(71.0)	14.92	(1,059)
Non-vested at December 31, 2006	901.3	18.05	16,266
Granted	436.5	30.72	13,410
Cancelled	(17.3)	23.52	(407)
Vested	(259.9)	19.20	(4,988)
Non-vested at December 31, 2007	1,060.6	22.89	24,281
Granted	85.0	14.84	1,262
Cancelled	(0.6)	28.89	(17)
Vested	(238.2)	18.91	(4,504)
Non-vested at December 31, 2008	906.8	$ 23.18	$ 21,022

The fair value of the restricted common shares granted in 2007 and 2008 were determined based upon the market price of the shares at the grant date. (See Note 20. Subsequent Events.)

The total unrecognized compensation cost, adjusted for estimated forfeitures, related to all non-vested shares as of December 31, 2008, in the amount of $13,474, is expected to be recognized over a weighted average period of 2.5 years.

Note 10. Dividends

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

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
July 20, 2006	$ 0.35	$ 14,367	July 26, 2006	July 31, 2006

August 2, 2006	$	0.156(1)	6,403	August 1, 2006	August 15, 2006
October 9, 2006	$	0.194(1)	9,992	October 31, 2006	November 15, 2006
December 13, 2006	$	0.4375	22,584	December 29, 2006	January 15, 2007
March 14, 2007	$	0.50	33,634	March 30, 2007	April 13, 2007
June 14, 2007	$	0.60	40,460	June 29, 2007	July 13, 2007
September 13, 2007	$	0.65	43,822	September 28, 2007	October 15, 2007
December 11, 2007	$	0.70	55,004	December 31, 2007	January 15, 2008
March 24, 2008	$	0.25	19,640	March 31, 2008	April 15, 2008
June 11, 2008	$	0.25	19,647	June 30, 2008	July 15, 2008
September 11, 2008	$	0.25	19,655	September 30, 2008	October 15, 2008
December 22, 2008	$	0.10	7,862	December 31, 2008	January 15, 2009

(1) Total dividend for quarter of $0.35.

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Note 11. Earnings Per Share

Aircastle is required to present both basic and diluted earnings (loss) per share (EPS). Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during each period. The weighted average shares outstanding exclude our unvested shares for purposes of Basic EPS. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period while also giving effect to all potentially dilutive common shares that were outstanding during the period based on the treasury stock method.

The calculations of both basic and diluted earnings per share for the years ended December 31, 2006, 2007 and 2008 are as follows:

	Year Ended December 31,		
Numerator	**2006**	**2007**	**2008**
Income from continuing operations	$ 45,920	$ 114,403	$ 115,291
Earnings from discontinued operations, net of income taxes	5,286	12,941	
Net income	$ 51,206	$ 127,344	$ 115,291
Denominator			
Weighted-average shares used to compute basic earnings per share	45,758,242	67,177,528	77,750,136
Effect of dilutive restricted common shares	293,757	240,274	57,497
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	46,051,999	67,417,802	77,807,633
Basic earnings per share:			
Income from continuing operations	$ 1.00	$ 1.71	$ 1.48
Earnings from discontinued operations, net of income taxes	0.12	0.19	
Net income per share	$ 1.12	$ 1.90	$ 1.48
Diluted earnings per share:			
Income from continuing operations	$ 1.00	$ 1.70	$ 1.48
Earnings from discontinued operations, net of income taxes	0.11	0.19	
Net income per share	$ 1.11	$ 1.89	$ 1.48

Note 12. Income Taxes

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

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The sources of income from continuing operations before income taxes for the years ended December 31, 2006, 2007 and 2008 were as follows:

	Year Ended December 31,		
	2006	2007	2008
U.S. operations	$ 1,566	$ 2,352	$ 2,109
Non-U.S. operations	49,199	119,709	120,723
Total	$ 50,765	$ 122,061	$ 122,832

The components of the income tax provision from continuing operations for the year ended December 31, 2006, 2007 and 2008 consisted of the following:

	Year Ended December 31,		
	2006	2007	2008
Current:			
United States:			
Federal	$ 1,924	$ 4,365	$ 1,110
State	463	749	205
Non-U.S	118	5,501	1,313
Current income tax provision	2,505	10,615	2,628
Deferred:			
United States:			
Federal	(331)	(1,216)	1,790
State	(66)	(244)	251
Non-U.S	2,737	(1,497)	2,872
Deferred income tax provision (benefit)	2,340	(2,957)	4,913
Total	$ 4,845	$ 7,658	$ 7,541

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Significant components of the Company s deferred tax assets and liabilities at December 31, 2006, 2007 and 2008 consisted of the following:

	Year Ended December 31, 2006	2007	2008
Deferred tax assets:			
Non-cash share based payments	$ 1,051	$ 1,666	$ 2,382
Hedge gain		537	77
Net operating loss carry forwards	1,176	1,622	5,366
Other comprehensive income		1,928	4,529
Other	246	173	
Total deferred tax assets	2,473	5,926	12,354
Deferred tax liabilities:			
Accelerated depreciation	(4,971)	(2,963)	(12,007)
Other	(176)	(119)	(159)
U.S. federal withholding tax on unremitted earnings			
Total deferred tax liabilities	(5,147)	(3,082)	(12,166)
Net deferred tax (liabilities) assets	$ (2,674)	$ 2,844	$ 188

The Company had approximately $7,729 of net operating loss carry forwards available at December 31, 2008 to offset future taxable income subject to U.S. graduated tax rates. If not utilized, these carry forwards begin to expire in 2027. The Company also had net operating loss carry forwards of $19,252 with no expiration date to offset future Irish taxable income. Deferred tax assets and liabilities are included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated balance sheets.

We do not expect to incur income taxes on future distributions of undistributed earnings of non-U.S. subsidiaries and, accordingly, no deferred income taxes have been provided for the distributions of such earnings. As of December 31, 2008, we have elected to permanently reinvest our accumulated undistributed U.S. earnings of $5,765. Accordingly, no U.S. withholding taxes have been provided. Withholding tax of $1,730 would be due if such earnings were remitted.

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

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Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations at December 31, 2006, 2007 and 2008 consisted of the following:

	Year Ended December 31,		
	2006	2007	2008
Notional U.S. federal income tax expense at the statutory rate:	$ 17,768	$ 42,721	$ 42,991
U.S. state and local income tax, net	186	164	88
Non-U.S. operations	(13,641)	(35,434)	(35,550)
Non-deductible expenses in the U.S	644	199	87
Other	(112)	8	(75)
Provision for income taxes	$ 4,845	$ 7,658	$ 7,541

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), effective January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of the adoption of FIN 48.

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

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

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Note 13. Interest, Net

The following table shows the components of interest, net for the years ended December 31, 2006, 2007 and 2008:

	Year Ended December 31,		
	2006	2007	2008
Interest on borrowings and other liabilities	$ 52,413	$ 109,853	$ 169,860
Hedge ineffectiveness (gains) losses	(814)	171	16,623
Amortization related to deferred (gains) losses	(2,213)	(4,849)	15,488
Losses on termination of interest rate swaps			1,003
Amortization of deferred financing fees	6,380	6,991	13,603
Interest Expense	55,766	112,166	216,577
Less interest income	(6,200)	(12,239)	(7,311)
Less capitalized interest		(7,267)	(5,737)
Interest, net	$ 49,566	$ 92,660	$ 203,529

Note 14. Commitments and Contingencies

Rent expense, primarily for the corporate office and sales and marketing facilities, was approximately $777, $961 and $1,342 for the years ended December 31, 2006, 2007 and 2008, respectively.

As of December 31, 2008, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut, Dublin, Ireland, and Singapore for future minimum lease payments as follows:

December 31,	Amount
2009	$ 1,123
2010	973
2011	985
2012	996
2013	189
Thereafter	473
Total	$ 4,739

On June 20, 2007, we entered into an acquisition agreement, which we refer to as the Airbus A330 Agreement, under which we agreed to acquire from Airbus fifteen new A330-200 aircraft, or the New A330 Aircraft (as reduced to twelve aircraft as described below). Pre-delivery payments for each aircraft are payable to Airbus and are refundable to us only in limited circumstances. We agreed to separate arrangements with Rolls-Royce PLC, or Rolls-Royce, and Pratt & Whitney, or P&W, pursuant to which we committed to acquire aircraft engines for the New A330 Aircraft. We agreed to acquire six shipsets of Trent 772B engines from Rolls-Royce and were granted options to acquire an additional four shipsets. We also committed to acquire five shipsets of PW4170 engines from P&W, and were granted options to acquire an additional five shipsets. Each shipset consists of two engines. In July 2008, we amended the Airbus A330 Agreement, reducing the number of New A330 Aircraft to be acquired from fifteen to twelve and changing the Airbus A330 Agreement so that we receive a mix of freighter and passenger aircraft. As a result, seven of the New A330 Aircraft are scheduled to be delivered as freighters, including three early positions, and five of the New A330 Aircraft will be

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manufactured in passenger configuration. As of December 31, 2008, we had paid $56,029 in Airbus deposits and pre-delivery payments are recorded $4,425 in capitalized interest. Pre-delivery payments scheduled for 2009 amount to $126,117 million. Under certain circumstances, we have the right to change the delivery positions to alternative A330 aircraft models. Four of the New A330 Aircraft are scheduled to be delivered in 2010, six are scheduled to be delivered in 2011 and the remaining two are scheduled to be delivered in 2012. (See Note 20. Subsequent Events.)

At December 31, 2008, we had commitments to acquire, convert and modify aircraft including, where applicable, our estimate of adjustments for configuration changes, engine acquisition costs, contractual price escalations and other adjustments, net of amounts already paid, as follows:

December 31,		Amount
2009	$	137,468
2010		337,238
2011		366,396
2012		99,352
Total	$	940,454

Note 15. Related Party Transactions

Fortress provides certain support services to Aircastle and requires us to reimburse it for costs incurred on its behalf. These costs consist primarily of professional services and office supplies purchased from third parties. These expenses are charged to Aircastle at cost and are included in selling, general and administrative expenses in our consolidated statements of operations. Total costs of direct operating services were $228 in 2006, $32 in 2007 and $0 in 2008.

Through December 31, 2006, Aircastle employees participated in various benefit plans sponsored by Fortress, including a voluntary savings plan (401(k) Plan) and other health and benefit plans. Aircastle reimbursed Fortress $627 and $113 in 2006 and 2007, respectively, for its costs under the 401(k) Plan and the health and benefit plans. Aircastle also reimbursed Fortress for matching contributions up to 3% of eligible earnings. At December 31, 2006, Aircastle had accrued $113 in annual contributions for the 2006 plan year for our employees participation in the 401(k) Plan sponsored by Fortress, which was paid to Fortress in March 2007. In January 2007, Aircastle established a separate 401(k) plan and other health and benefit plans. Total costs under the Aircastle 401(k) plan and other health and benefit plans were $990 and $1,390 in 2007 and 2008, respectively.

As of December 31, 2006, $132 was payable to Fortress. As of December 31, 2007, a deposit of $200 related to the sale of the two aircraft discussed below was payable to Fortress and was paid to Fortress in January 2008. As of December 31, 2008, we had a payable of $0 to Fortress.

In May 2006, two of our operating subsidiaries entered into service agreements to provide certain leasing, remarketing, administrative and technical services to a Fortress entity with respect to four aircraft owned by the Fortress entity and leased to third parties. As of December 31, 2006, 2007 and 2008, we had earned $209, $596 and

$117, respectively, in fees due from the Fortress entity. Total fees paid to us for the years ended December 31, 2006, 2007 and 2008 were $156, $632 and $117, respectively. Our responsibilities include remarketing the aircraft for lease or sale, invoicing the lessees for expenses and rental payments, reviewing maintenance reserves, reviewing the credit of lessees, arranging for the periodic inspection of the aircraft and securing the return of the aircraft when necessary. The agreements also provide that the Fortress entity will pay us 3.0% of the collected rentals with respect to leases of the aircraft, plus expenses incurred during the service period, and will pay us

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2.5% of the gross sales proceeds from the sale of any of the aircraft, plus expenses incurred during the service period. We believe that the scope of services and fees under these service agreements were concluded on an arms-length basis. In May 2007, we sold two aircraft owned by Fortress and Fortress paid us a fee in the amount of $403 for the remarketing of these two aircraft. The service agreements have an initial term which expired on December 31, 2008, but will continue thereafter unless one party terminates the agreement by providing the other with advance written notice. As of December 31, 2007 and 2008, we had a $17 and a $58 receivable, respectively, from Fortress.

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

For the years ended December 31, 2006, 2007 and 2008, Aircastle paid $1,124, $560 and $552, respectively, for legal fees related to the establishment and financing activities of our Bermuda subsidiaries, and, for the years ended December 31, 2006, 2007, and 2008, Aircastle paid $120, $162 and $156 for Bermuda corporate services related to our Bermuda companies to a law firm and a corporate secretarial services provider affiliated with a Bermuda resident director serving on certain of our subsidiaries board of directors. The Bermuda resident director serves as an outside director of these subsidiaries.

Note 16. Derivatives

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate swaps and interest rate forward contracts to hedge the current and expected future interest rate payments on our variable rate debt. Interest rate swaps are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. An interest rate forward contract is an agreement to make or receive a payment at the end of the period covered by the contract, with reference to a change in interest rates. The notional amount on a swap or forward contract is not exchanged. Our swap transactions typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment and debt investments. We held the following interest rate derivative contracts as of December 31, 2008:

Hedged Item	Current Notional Amount	Effective Date	Mandatory Early Termination Date	Maturity Date	Future Maximum Notional Amount	Floating Rate	Fixed Rate	Fair Value of Derivative Asset or (Liability)
Securitization No. 1	$ 504,293	Jun-06	N/A	Jun-16	$ 504,293	1M LIBOR + 0.27%	5.78%	$ (84,089)
Securitization No. 2	1,094,338	Jun-07	N/A	Jun-12	1,094,338	1M LIBOR	5.25% to 5.36%	(121,411)
Term Financing No. 1	687,863	Jun-08	N/A	May-13	687,863	1M LIBOR	4.04%	(51,809)
		May-13	N/A	May-15	491,718	1M LIBOR	5.31%	(14,512)

Term Financing No. 1								
Term Financing No. 2	132,832	Oct-08	N/A	Sep-13	132,832	3M LIBOR	3.17%	(4,580)
Total	$ 2,419,326				$ 2,911,044			$ (276,401)

As of December 31, 2008, all of our derivatives are held with counterparties or guarantors of these counterparties who are considered highly rated (rated A1 or above by Moody s).

In February 2008, we terminated an interest rate swap, with a notional amount of $39,000 as of December 31, 2007 and $33,000 as of the termination date, related to a repurchase agreement we repaid when the underlying debt investments were sold, resulting in a loss of $878, which is included in

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interest expense on the consolidated statement of income. Similarly, in March 2008, we terminated an interest rate swap with a notional amount of $5,000 related to a repurchase agreement we repaid, resulting in a loss of $144, which is included in interest expense on the consolidated statement of income.

In March 2008, we terminated an interest rate swap with a notional amount of $150,000 and partially terminated an interest rate swap with a notional amount of $440,000, resulting in a net deferred loss of $31,761, which will be amortized into interest expense using the interest rate method. In June 2008, the remaining portion of the swap that had been partially terminated was fully terminated, resulting in an additional net deferred loss of $9,800 being amortized into interest expense using the interest rate method. These swaps were hedging interest payments related to borrowings under Amended Credit Facility No. 2 and Term Financing No. 1.

In May 2008, we determined that the interest rate swap that was hedging interest payments related to future debt borrowings was no longer highly effective and no longer qualified for hedge accounting under SFAS No. 133 and, accordingly, a deferred loss in the amount of $2,728 for this swap will be amortized into interest expense using the cash flow method. In December 2008, this interest rate swap was terminated. All mark to market adjustments have been charged to other income (expense). The loss charged to other income (expense) through December 31, 2008 was $6,096.

In June 2008, we terminated an interest rate swap with a notional amount of $2,900 related to a repurchase agreement we repaid, resulting in a gain of $19, which is included in interest expense on the consolidated statement of income. Also in June 2008, we terminated interest rate swaps with notional amounts of $190,000 and $5,000 and partially terminated interest rate swaps with notional amounts of $330,000 and $46,000, resulting in a net deferred loss of $23,500, which will be amortized into interest expense using the interest rate method. These swaps were hedging interest payments related to borrowings under Amended Credit Facility No. 2, Term Financing No. 1, Term Financing No. 2, and future debt and securitizations. The remaining portions of the two partially terminated swaps were re-designated as cash flow hedges for accounting purposes on June 30, 2008 and were subsequently fully terminated in October 2008 and December 2008, respectively, resulting in an additional net deferred loss of $27,154 which will be amortized into interest expense using the interest rate method.

On June 6, 2008, we entered into two amortizing interest rate swap contracts with a balance guarantee notional and initial notional amounts of $710,068 and $491,718. The balance guarantee notional has a lower and upper notional band that adjusts to the outstanding principle balance on Term Financing No. 1. We entered into these interest rate hedging arrangements in connection with Term Financing No. 1 in order to effectively pay interest at a fixed rate on a substantial portion of the loans under this facility. These interest rate swaps were designated as cash flow hedges for accounting purposes on June 30, 2008.

In October 2008, we entered into a series of interest rate forward rate contracts with an initial notional amount of $139,180. Although we entered into this arrangement to hedge the variable interest payments in connection with Term Financing No. 2, this instrument has not been designated as a cash flow hedge for accounting purposes. All mark to market adjustments related to these contracts are being charged directly to other income (expense) on the consolidated statement of income. The loss charged to other income (expense) through December 31, 2008 was $4,581.

In December 2008, we terminated interest rate swaps with notional amounts of $95,000 and $143,000, resulting in a net deferred loss of $36,685, which will be amortized into interest expense using the interest rate method. These swaps were hedging interest payments related to borrowings under future debt and securitizations. For the twelve months ended December 31, 2008, none of the deferred loss was reclassified into interest expense on the consolidated statement of income due to the fact that

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the hedged interest payments were related to the anticipated long-term financing of our New A330 Aircraft purchase commitment, which were not scheduled to begin until 2010.

Generally, our interest rate derivative contracts are hedging current interest payments on debt and future interest payments on long-term debt. In the past, we have entered into forward-starting interest rate derivative contracts to hedge the anticipated interest payment on long-term financings. These forward-starting contracts were terminated and new, specifically tailored hedging arrangements were entered into upon closing of the relevant long-term financing. We have also early terminated interest rate derivative contracts in an attempt to manage our exposure to collateral calls. The following table summarizes the deferred (gains) and losses and related amortization into interest expense for our terminated interest rate derivative contracts for the years ended December 31, 2006, 2007, and 2008.

Ar De (C I Ex

Item	Original Maximum Notional Amount	Effective Date	Maturity Date	Fixed Rate %	Termination Date	Deferred (Gain) or Loss Upon Termination	Amount of Deferred (Gain) or Loss Amortized (Including Accelerated Amortization) into Interest Expense For the Year Ended December 31, 2006	2007	2008	Am Ov N T M
zation No. 1	$ 400,000	Dec-05	Aug-10	4.61	Jun-06	$ (13,397)	$ (1,880)	$ (3,373)	$ (3,214)	$
zation No. 1	200,000	Dec-05	Dec-10	5.03	Jun-06	(2,541)	(333)	(597)	(892)	
zation No. 2	500,000	Mar-06	Mar-11	5.07	Jun-07	(2,687)		(432)	(746)	
zation No. 2	200,000	Jan-07	Aug-12	5.06	Jun-07	(1,850)		(223)	(386)	
zation No. 2	410,000	Feb-07	Apr-17	5.14	Jun-07	(3,119)		(224)	(487)	
ase Agreement	74,000	Feb-06	Jul-10							