

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

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
(Amendment No. 1)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2008**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_  
**Commission File number 001-32959**  
**AIRCASTLE LIMITED**  
(Exact name of registrant as specified in its charter)

**Bermuda**

*(State or other jurisdiction of incorporation or  
organization)*

**98-0444035**

*(IRS Employer Identification No.)*

**c/o Aircastle Advisor LLC  
300 First Stamford Place, 5<sup>th</sup> Floor  
Stamford, CT**

*(Address of principal executive offices)*

**06902**

*(Zip Code)*

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

**Large accelerated**  **Accelerated**  **Non-accelerated filer**  **Smaller reporting**  
**filer**  **filer**  **(Do not check if a smaller reporting**  **company**   
**company)**

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

YES  NO

As of August 1, 2008, there were 78,587,011 outstanding shares of the registrant's common shares, par value \$0.01 per share.

**Table of Contents**

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

Aircastle Limited (the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, originally filed with the Securities and Exchange Commission (the SEC) on August 8, 2008 (the original Form 10-Q) to amend and restate its consolidated statements of cash flows for the three and six months ended June 30, 2007 and 2008.

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

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

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

This Form 10-Q/A includes new certifications as exhibits 31.1, 31.2, 32.1 and 32.2 by our principal executive officer and principal financial officer as required by Rules 12b-15 and 13a-14 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Except for the amended disclosure and reclassification described above, the information in this Form 10-Q/A has not been updated to reflect events that occurred after August 8, 2008, the filing date of our original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following information has been updated to give effect to the restatement:

Part I Item 1 Financial Statements

Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

Part II Item 6 Exhibits

Aircastle Limited and Subsidiaries

**Form 10-Q/A  
Table of Contents**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of December 31, 2007 and June 30, 2008</u>	4
<u>Consolidated Statements of Income for the three and six months ended June 30, 2007 and 2008</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2008 (Restated)</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 4. Controls and Procedures</u>	45
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 6. Exhibits</u>	46
<u>SIGNATURE</u>	47
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32.1: CERTIFICATION</u>	
<u>EX-32.2: CERTIFICATION</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>December 31, 2007</b>	<b>June 30, 2008 (unaudited)</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,546	\$ 76,947
Accounts receivable	4,957	6,688
Debt investments	113,015	20,664
Restricted cash and cash equivalents	161,317	188,141
Flight equipment held for lease, net of accumulated depreciation of \$189,737 and \$285,570	3,807,116	4,080,903
Aircraft purchase deposits and progress payments	245,331	82,258
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of \$1,335 and \$1,709	1,391	1,351
Fair value of derivative assets		2,490
Other assets	80,969	57,052
<b>Total assets</b>	<b>\$ 4,427,642</b>	<b>\$ 4,516,494</b>
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings under credit facilities	\$ 798,186	\$ 255,189
Borrowings from securitizations and term debt financings	1,677,736	2,414,367
Accounts payable, accrued expenses and other liabilities	65,967	66,866
Dividends payable	55,004	19,647
Lease rentals received in advance	31,016	26,698
Repurchase agreements	67,744	
Security deposits	74,661	72,912
Maintenance payments	208,363	244,550
Fair value of derivative liabilities	154,388	99,465
<b>Total liabilities</b>	<b>3,133,065</b>	<b>3,199,694</b>
 Commitments and Contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Preference shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common shares, \$.01 par value, 250,000,000 shares authorized, 78,574,657 shares issued and outstanding at December 31, 2007; and 78,587,011 shares issued and outstanding at June 30, 2008	786	786

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Additional paid-in capital	1,468,140	1,470,090
Dividends in excess of earnings	(48,960)	(21,269)
Accumulated other comprehensive loss	(125,389)	(132,807)
Total shareholders' equity	1,294,577	1,316,800
Total liabilities and shareholders' equity	\$ 4,427,642	\$ 4,516,494

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

4

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**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
<b>Revenues:</b>				
Lease rentals	\$ 81,926	\$ 144,291	\$ 149,284	\$ 277,918
Interest income	2,728	614	5,316	1,905
Other revenue	460	490	519	528
<b>Total revenues</b>	<b>85,114</b>	<b>145,395</b>	<b>155,119</b>	<b>280,351</b>
<b>Expenses:</b>				
Depreciation	27,764	51,605	49,398	99,820
Interest, net	19,345	51,319	36,077	92,330
Selling, general and administrative	10,448	11,354	18,944	22,843
Other expense	380	597	761	1,242
<b>Total operating expenses</b>	<b>57,937</b>	<b>114,875</b>	<b>105,180</b>	<b>216,235</b>
<b>Other income:</b>				
Gain on sale of aircraft		5,126		5,126
Other	1,154	1,328	1,154	1,083
<b>Total other income</b>	<b>1,154</b>	<b>6,454</b>	<b>1,154</b>	<b>6,209</b>
<b>Income from continuing operations before income taxes</b>	<b>28,331</b>	<b>36,974</b>	<b>51,093</b>	<b>70,325</b>
Income tax provision	1,173	1,633	3,078	3,347
<b>Income from continuing operations</b>	<b>27,158</b>	<b>35,341</b>	<b>48,015</b>	<b>66,978</b>
Earnings from discontinued operations, net of income taxes	10,910		11,594	
<b>Net income</b>	<b>\$ 38,068</b>	<b>\$ 35,341</b>	<b>\$ 59,609</b>	<b>\$ 66,978</b>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 0.41	\$ 0.45	\$ 0.77	\$ 0.86
Earnings from discontinued operations, net of income taxes	0.16		0.18	
<b>Net income per share</b>	<b>\$ 0.57</b>	<b>\$ 0.45</b>	<b>\$ 0.95</b>	<b>\$ 0.86</b>

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Diluted earnings per share:				
Income from continuing operations	\$ 0.41	\$ 0.45	\$ 0.77	\$ 0.86
Earnings from discontinued operations, net of income taxes	0.16		0.18	
Net income per share	\$ 0.57	\$ 0.45	\$ 0.95	\$ 0.86
Dividends declared per share	\$ 0.60	\$ 0.25	\$ 1.10	\$ 0.50

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

5

---



**Table of Contents**

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(Restated)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 59,609	\$ 66,978
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):		
Depreciation	50,158	99,712
Amortization of deferred financing costs	3,166	6,787
Amortization of lease premiums and discounts, and other related lease items	(3,493)	(5,216)
Deferred income taxes	(3,109)	2,604
Accretion of purchase discounts on debt investments	(405)	(277)
Non-cash share based payment expense	4,046	3,213
Cash flow hedges reclassified into earnings	(2,110)	595
Ineffective portion of cash flow hedges	(418)	6,027
Gain on sale of flight equipment	(10,219)	(5,126)
Security deposits and maintenance payments included in earnings	(815)	(3,322)
Loss on sale of investments		245
Other	(1,154)	(918)
Changes in certain assets and liabilities:		
Accounts receivable	2,222	(1,731)
Restricted cash and cash equivalents	(22,872)	(26,686)
Other assets	(2,269)	1,318
Accounts payable, accrued expenses and other liabilities	5,187	(2,705)
Payable to affiliates		(200)
Lease rentals received in advance	404	(4,110)
Net cash provided by operating activities	77,928	137,188
<b>Cash flows from investing activities:</b>		
Acquisition and improvement of flight equipment	(1,024,685)	(221,310)
Aircraft purchase deposits and progress payments, net of return deposits	(88,413)	8,974
Proceeds from sale of flight equipment	34,946	21,366
Purchase of debt investments	(15,251)	
Proceeds from sale of debt investments		65,335
Principal repayments on debt investments	13,372	11,467
Margin call payments on derivatives and repurchase agreements	(5,694)	(296,605)
Margin call receipts on derivatives and repurchase agreements	9,382	330,943
Leasehold improvements, furnishings and equipment	(259)	(334)
Net cash used in investing activities	(1,076,602)	(80,164)
<b>Cash flows from financing activities:</b>		

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Issuance of common shares in public offerings, net	493,056	
Issuance, net of repurchases, of common shares to directors and employees	852	(1,263)
Proceeds from securitizations and term debt financings	1,170,000	786,135
Securitization and term debt financing repayments	(10,866)	(49,504)
Restricted cash and cash equivalents related to unreleased securitization and credit facility borrowings	(500,565)	(138)
Deferred financing costs	(11,552)	(17,568)
Credit facility borrowings	1,009,779	482,723
Credit facility repayments	(1,112,902)	(1,025,720)
Security deposits and maintenance payments received	31,960	56,498
Security deposits and maintenance payments returned	(5,686)	(14,066)
Proceeds from terminated cash flow hedges	8,936	
Payments for terminated cash flow hedges		(68,332)
Proceeds from repurchase agreements	894	
Principal repayments on repurchase agreements	(9,425)	(67,744)
Dividends paid	(56,211)	(74,644)
Net cash provided by financing activities	1,008,270	6,377
<b>Net increase in cash and cash equivalents</b>	9,596	63,401
Cash and cash equivalents at beginning of period	58,118	13,546
Cash and cash equivalents at end of period	\$ 67,714	\$ 76,947
<b>Supplemental disclosures of non-cash investing activities</b>		
Security deposits and maintenance payment liabilities assumed in asset acquisitions	\$ 48,204	\$
Lease rentals received in advance assumed in asset acquisitions	\$ 3,200	\$

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

**Table of Contents**

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

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

**Organization**

Aircastle Limited, (Aircastle, the Company, we, us, or our) is a Bermuda exempted company that was incorporated on October 29, 2004 by funds managed by affiliates of Fortress Investment Group LLC and certain of its affiliates (together, the Fortress Shareholders or Fortress, ) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business is investing in aviation assets, including acquiring, selling, managing and leasing 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 or economic ownership interest of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in condensed financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement of 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 six months ended June 30, 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. In February 2008, the FASB issued FASB Staff Position 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. We are currently evaluating the requirements of the deferred provisions of this statement and have not determined the impact, if any, that adoption of the deferred provisions will have on our consolidated financial statements.

**Principles of Consolidation**

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

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Recent Accounting Pronouncements**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( 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 fiscal years beginning after November 15, 2008. We do not expect the adoption of SFAS No. 161 to have a material effect on our consolidated financial statements.

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 Company is currently evaluating the potential impacts of SFAS No. 162 on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position 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 as 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 non-forfeitable 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 is currently evaluating the potential impacts of FSP No. EITF 03-6-1 on its consolidated financial statements.

**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.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

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).

The following table sets forth our financial assets and liabilities as of June 30, 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.

	<b>Fair Value As Of June 30, 2008</b>	<b>Fair Value Measurements at June 30, 2008 Using Fair Value Hierarchy</b>			<b>Valuation Technique</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>					
Cash and cash equivalents	\$ 76,947	\$ 76,947	\$	\$	Market
Restricted cash and cash equivalents	188,141	188,141			Market
Debt investments	20,664	2,686	17,978		Market/Income
Derivative assets	2,490			2,490	Income
<b>Total</b>	<b>\$ 288,242</b>	<b>\$ 267,774</b>	<b>\$ 17,978</b>	<b>\$ 2,490</b>	
<b>Liabilities:</b>					
Derivative liabilities	\$ 99,465	\$	\$ 98,490	\$ 975	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 debt investments included within Level 1 are valued based on quoted market prices in active markets. When quoted prices in an active market are not available, fair values are estimated by using discounted cash flow methodologies, where the inputs to those models are based on observable market inputs of similar securities in active markets. Our derivatives included in level 2 consist of United States dollar denominated interest rate swaps, and their fair values are determined using cash flows discounted at relevant market interest rates in effect at the period close.

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. 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 a premium that is valued on unobservable market inputs.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

The following tables reflects the activity for the major classes of our assets and liabilities measured at fair value using level 3 inputs for the six months ended June 30, 2008:

	<b>Derivative Assets</b>	<b>Derivative Liabilities</b>	<b>Total</b>
Balance as of December 31, 2007	\$	\$	\$
Unrealized gains (losses)	2,490	(975)	1,515
Balance as of June 30, 2008	\$ 2,490	\$ (975)	\$ 1,515

There were no assets and liabilities measured at fair value on a nonrecurring basis.

**Note 3. Lease Rentals and Flight Equipment Held for Lease**

The components of lease rentals on our consolidated statement of income for the three and six months ended June 30, 2007 and 2008 were as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Lease rental revenue	\$ 80,153	\$ 137,647	\$ 145,852	\$ 268,628
Amortization of lease premiums (discounts)	1,773	2,502	3,432	5,148
Maintenance payments <sup>(1)</sup>		4,142		4,142
Total lease rentals	\$ 81,926	\$ 144,291	\$ 149,284	\$ 277,918

(1) The amount by which maintenance payments received from lessees under leases expiring in the relevant period exceed amounts paid for relevant maintenance events.

Minimum future annual lease rentals contracted to be earned from flight equipment held for lease at June 30, 2008 were as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
Remainder of 2008	\$ 268,032
2009	511,672
2010	459,379

2011	398,190
2012	335,128
2013	235,099
Thereafter	521,289
Total	\$ 2,728,789

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

<b>Region</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Europe	46%	45%	45%	45%
Asia	27%	24%	26%	25%
North America	18%	12%	20%	12%
Latin America	6%	9%	6%	8%
Middle East and Africa	3%	10%	3%	10%
Total	100%	100%	100%	100%

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

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

For the three months ended June 30, 2007, one customer accounted for 13% of lease rental revenue and two additional customers accounted for a combined 13% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the three months ended June 30, 2008, one customer accounted for 8% of lease rental revenue and four additional customers accounted for a combined 21% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue.

For the six months ended June 30, 2007, one customer accounted for 15% of lease rental revenue and three additional customers accounted for a combined 19% of lease rental revenue. No other customer accounted for more than 5% of lease rental revenue. For the six months ended June 30, 2008, one customer accounted for 8% of lease rental revenue and four additional customers accounted for a combined 20% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue.

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

<b>Region</b>	<b>December 31, 2007</b>		<b>June 30, 2008</b>	
	<b>Number of Aircraft</b>	<b>Net Book Value %</b>	<b>Number of Aircraft</b>	<b>Net Book Value %</b>
Europe <sup>(1) (2)</sup>	65	47%	64	47%
Asia <sup>(3)</sup>	35	27%	34	23%
North America <sup>(1) (4)</sup>	13	10%	14	11%
Latin America	12	7%	11	7%
Middle East and Africa	8	9%	10	12%
Off-lease <sup>(5)</sup>		%	2	%
<b>Total</b>	<b>133</b>	<b>100%</b>	<b>135</b>	<b>100%</b>

(1) At December 31, 2007, 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 have an



executed lease post-conversion with a carrier in each of these geographic regions.

- (2) At June 30, 2008, includes one Airbus Model A320-200 aircraft that was undergoing maintenance as of June 30, 2008 for which we have an executed lease and which was delivered during the third quarter of 2008.
  
- (3) Includes one Boeing Model 747-400 aircraft currently on short-term lease in passenger configuration to an airline in Asia. This aircraft was scheduled to go into freighter conversion in the fourth quarter of 2008. In July 2008, we terminated the freighter conversion agreement for this aircraft and have signed an agreement to sell this aircraft to a third party following lease expiry.

(4) At June 30, 2008, includes one Boeing Model 747-400 aircraft in North America which was being converted to freighter configuration for which we have an executed lease post-conversion with a carrier in this geographic region.

(5) At June 30, 2008, includes one off-lease Boeing Model 757-200 aircraft and one off-lease Boeing Model 737-300 for which we have signed letters of intent with new carriers.

As of December 31, 2007 and June 30, 2008, lease premiums included in other assets on the consolidated balance sheets were \$6,891 and \$4,938, respectively, and lease discounts included in other liabilities on the consolidated balance sheets were \$30,923 and \$23,822, respectively.

At December 31, 2007 and June 30, 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 at both December 31, 2007 and June 30, 2008.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Note 4. Debt Investments**

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.

In 2007, we acquired a loan secured by a commercial jet aircraft 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.

As of June 30, 2008, all of our debt investments classified as available-for-sale were U.S. corporate obligations. These debt obligations are interests in pools of loans and are collateralized by interests in commercial aircraft of which \$2,686 are senior tranches and \$17,978 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 \$8,819 at December 31, 2007 and June 30, 2008, respectively.

At June 30, 2008 one of our debt investments has a stated maturity in 2010. One of our debt investments has a stated maturity in 2018. Our other two debt investments have remaining terms to stated maturity in excess of 10 years after June 30, 2008. All of our debt investments provide for the periodic payment of both principal and interest and are subject to prepayment and/or acceleration depending on certain events, including the sale of the underlying collateral aircraft and events of default. Therefore, the actual maturity of our debt investments may be less than the stated maturities.

**Note 5. Securitizations and Borrowings under Credit Facilities**

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

Debt Obligation	At December 31, 2007		At June 30, 2008		Final Stated Maturity
	Outstanding Borrowings	Outstanding Borrowings	Interest Rate <sup>(1)</sup>		
<b>Securitizations and Term Debt Financings:</b>					
Securitization No. 1	\$ 527,397	\$ 500,233	1 M LIBOR + .27% = 2.74%		6/20/31
Securitization No. 2	1,150,339	1,132,074	1 M LIBOR + .26% = 2.71%		6/14/37
Term Financing No. 1		782,060	LIBOR + 1.75% = 4.37% <sup>(2)</sup>		5/11/15
Total Securitizations	1,677,736	2,414,367			
<b>Credit Facilities:</b>					
Revolving Credit Facility					12/11/08

			1 M LIBOR + 2.00% = 4.48%	
Amended Credit Facility No. 2	734,059	255,189	1 M LIBOR + 1.25% = 3.73%	12/15/08
747 PDP Credit Facility	64,127		1 M LIBOR + 1.00% = NA	4/10/08
Total Credit Facilities	798,186	255,189		
Total	\$ 2,475,922	\$ 2,669,556		

(1) London Interbank Offered Rate, or LIBOR, in effect at the applicable reset date.

(2) LIBOR rate was based on two week LIBOR for the first two interest periods ending on July 10, 2008. All subsequent LIBOR resets will be based on 1M LIBOR.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Securitizations and Term Debt Financings:**

*Term Financing No. 1*

On May 2, 2008 two of our subsidiaries, ACS 2008-1 Limited ( ACS Bermuda 3 ) and ACS Aircraft Finance Ireland 3 Limited ( ACS Ireland 3 ), to which we refer together with their subsidiaries as the ACS 3 Group , entered into a seven year, \$786,135 term debt facility to which we refer to as Term Financing No. 1 to finance a portfolio of 28 aircraft ( Portfolio No. 3 ). 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 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 of ACS Bermuda 3 and ACS Ireland 3, as well as by interests in aircraft leases, cash collections and other rights and properties they may hold. Each of ACS Bermuda 3 and ACS Ireland 3 has fully and unconditionally guaranteed the other's obligations under the Term Financing No. 1. However, the loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on May 11, 2015.

We generally retained the right to receive future cash flows from Portfolio No. 3 after the payment of claims that are senior to our rights ( Excess Cash Flow ), 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 Excess Cash Flow from Portfolio No. 3 until May 2, 2013, provided that the ACS 3 Group remains in compliance with its obligations under the Term Financing No. 1 loan documents. After that date, all Excess Cash Flow 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 \$48,900 per year. As of June 30, 2008, the ACS 3 Group had borrowings of \$782,060. 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. The ACS 3 Group 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 counter-parties under these contracts are secured pari passu basis by the same collateral that secures the loans under Term Financing No. 1 and, accordingly, the ACS 3 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging contracts, together with the spread referenced above and other costs of administration, result in a fixed rate cost of 7.30 % per annum, after the amortization of issuance fees and expenses.

Term Financing No. 1 requires the ACS 3 Group to satisfy 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.. The ACS 3 Groups' compliance with these covenants depends substantially upon the appraised value of Portfolio No. 3 and the timely receipt of lease payments from their lessees.

ACS Ireland 3, which had total assets of \$113,372 at June 30, 2008, is a VIE which we consolidate. At June 30, 2008, the assets of ACS Ireland 3 include two aircraft transferred to ACS Ireland 3 in connection with Term Financing No. 1. The operating activities of ACS Ireland 3 are limited to the acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the two aircraft. At June 30, 2008, the outstanding principal amount of the ACS Ireland 3 loans was \$71,991.



**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Credit Facilities**

*Revolving Credit Facility*

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 ) from \$250,000 to \$150,000. The Revolving Commitments were reduced to \$100,000 on June 30, 2008, and will reduce further to \$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 amends the Revolving Credit Facility so that Bear Stearns Corporate Lending Inc. will have no further Revolving Commitments or loans outstanding under the Revolving Credit Facility, with JPMorgan Chase Bank, N.A. and Citicorp North America, Inc. each funding one-half of the Revolving Commitments and the outstanding loans from the date of the 2006-B Fourth Amendment. 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.

At June 30, 2008, there were no outstanding loans and we had no outstanding letters of credit under the Revolving Credit Facility. The interest rate, including margin, applicable to loans under the Revolving Credit Facility at June 30, 2008 was 4.48%.

*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 from \$1,000,000 to \$500,000, on any future date after which the loans outstanding under Amended Credit Facility No. 2 fall below \$500,000.

In June 2008, we refinanced and transferred 26 aircraft from Amended Credit Facility No. 2 into Term Financing No. 1. At June 30, 2008, we had borrowings of \$255,189 related to 11 aircraft under our Amended Credit Facility No. 2. The interest rate, including margin, applicable to loans under the Amended Credit Facility No. 2 at June 30, 2008 was 3.73%. We expect to extend, modify or replace Amended Credit Facility No. 2 before its current maturity of December 15, 2008. 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.

*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.

*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.



**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Note 6. Repurchase Agreements**

As at December 31, 2007 and June 30, 2008, the outstanding amounts of our repurchase agreements were \$67,744 and \$0, respectively.

**Note 7. Dividends**

On March 14, 2007, our board of directors declared a first quarter dividend of \$0.50 per common share or an aggregate of \$33,634, for the three months ended March 31, 2007, which was paid on April 13, 2007 to shareholders of record on March 30, 2007. On June 14, 2007, the Board declared a second quarter dividend of \$0.60 per common share or an aggregate of \$40,460, for the three months ended June 30, 2007, which was paid on July 13, 2007 to shareholders of record on June 29, 2007.

On March 24, 2008, our board of directors declared a first quarter dividend of \$0.25 per common share, or an aggregate of \$19,640, for the three months ended March 31, 2008, which was paid on April 15, 2008 to shareholders of record on March 31, 2008. On June 11, 2008, our board of directors declared a second quarter dividend of \$0.25 per common share, or an aggregate of \$19,647, for the three months ended June 30, 2008, which was paid on July 15, 2008 to shareholders of record on June 30, 2008.

**Note 8. 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.

**Table of Contents**

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

**June 30, 2008**

The calculations of both basic and diluted earnings per share are as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
<b>Numerator</b>				
Income from continuing operations	\$ 27,158	\$ 35,341	\$ 48,015	\$ 66,978
Earnings from discontinued operations, net of income taxes	10,910		11,594	
Net income	\$ 38,068	\$ 35,341	\$ 59,609	\$ 66,978
<b>Denominator</b>				
Weighted-average shares used to compute basic earnings per share	66,554,222	77,743,022	62,730,381	77,731,504
Effect of dilutive restricted shares	269,235	82,917 <sup>(a)</sup>	227,490	56,603 <sup>(a)</sup>
Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share	66,823,457	77,825,939	62,957,871	77,788,107
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 0.41	\$ 0.45	\$ 0.77	\$ 0.86
Earnings from discontinued operations, net of income taxes	0.16		0.18	
Net income per share	\$ 0.57	\$ 0.45	\$ 0.95	\$ 0.86
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ 0.41	\$ 0.45	\$ 0.77	\$ 0.86
Earnings from discontinued operations, net of income taxes	0.16		0.18	
Net income per share	\$ 0.57	\$ 0.45	\$ 0.95	\$ 0.86

(a) For the three and six months ended June 30, 2008, based on the treasury stock method,

we had 813,972  
and 814,455  
anti-dilutive  
common share  
equivalents,  
respectively,  
resulting from  
unvested  
restrictive  
shares.

#### **Note 9. Income Taxes**

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

The sources of income from continuing operations before income taxes for the three and six months ended June 30, 2007 and 2008 were as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
U.S. operations	\$ 931	\$ 353	\$ 1,376	\$ 988
Non-U.S. operations	27,400	36,621	49,717	69,337
Total	\$ 28,331	\$ 36,974	\$ 51,093	\$ 70,325

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

**Table of Contents**

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

**June 30, 2008**

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.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Notional U.S. federal income tax expense at the statutory rate	\$ 9,622	\$ 12,942	\$ 17,589	\$ 24,614
U.S. state and local income tax, net	56	51	106	78
Non-U.S. operations	(8,514)	(11,377)	(14,649)	(21,361)
Non-deductible expenses in the U.S	59	13	73	21
Other	(50)	4	(41)	(5)
<b>Provision for income taxes</b>	<b>\$ 1,173</b>	<b>\$ 1,633</b>	<b>\$ 3,078</b>	<b>\$ 3,347</b>

**Note 10. Comprehensive Income**

Total comprehensive income includes net income, the changes in the fair value and the reclassification into earnings of amounts previously deferred relating to our derivative financial instruments which qualify for hedge accounting in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and the change in unrealized appreciation of debt investments classified as available-for-sale. Total comprehensive income for the three and six months ended June 30, 2007 and 2008 was as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Net income	\$ 38,068	\$ 35,341	\$ 59,609	\$ 66,978
Net change in fair value of derivatives, net of tax expense of \$0 and \$1,453 for the three months ended and \$0 and \$189 for the six months ended June 30, 2007 and 2008, respectively	70,081	117,418	58,583	(5,953)
Derivative (gain) loss reclassified into earnings	(1,103)	688	(2,110)	549
Net change in unrealized depreciation of debt investments	(1,293)	(1,595)	(829)	(2,014)
<b>Total comprehensive income</b>	<b>\$ 105,753</b>	<b>\$ 151,852</b>	<b>\$ 115,253</b>	<b>\$ 59,560</b>

The following table sets forth the components of accumulated other comprehensive income (loss), net of tax where applicable, at December 31, 2007 and June 30, 2008:

<b>Fair Value</b>	<b>Unrealized</b>	<b>Accumulated</b>
<b>of</b>	<b>Appreciation</b>	<b>Other</b>
<b>Debt</b>	<b>Debt</b>	<b>Comprehensive</b>

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	<b>Derivatives<sup>(1)</sup></b>	<b>Securities</b>	<b>Income (Loss)</b>
December 31, 2007	\$ (136,222)	\$ 10,833	\$ (125,389)
Net change in fair value of derivatives, net of tax expense of \$189	(5,953)		(5,953)
Derivative loss reclassified into earnings	549		549
Net change in unrealized depreciation of debt investments		(2,014)	(2,014)
June 30, 2008	\$ (141,626)	\$ 8,819	\$ (132,807)

(1) Net of tax benefit of \$1,928 at December 31, 2007.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Note 11. Commitments and Contingencies**

During the first six months of 2008, we completed the purchase of four aircraft under the GAIF Acquisition Agreement. We also determined not to acquire certain other aircraft, reducing the total number of aircraft to be acquired to 32. As of June 30, 2008, we have completed the acquisition of the 32 aircraft for approximately \$1,385,454.

At June 30, 2008, we had commitments to acquire, convert and modify aircraft for an estimated amount of \$1,249,408, including, where applicable, our estimate of adjustments for configuration changes, engine acquisition costs, contractual price escalations and other adjustments.

Committed amounts for the purchase, conversion and modification of aircraft, together with estimated amounts for pre-delivery deposits and, based on estimates for engine configuration acquisition cost, contractual price escalation and other adjustments, are approximately \$72,104 in 2008, \$234,253 in 2009, \$408,513 in 2010, and \$440,050 in 2011. (See Note 15 Subsequent Events.)

**Note 12. Derivatives**

We held the following interest rate derivative contracts as of June 30, 2008:

<b>Hedged Item</b>	<b>Current/ Starting Notional Amount</b>	<b>Effective Date</b>	<b>Mandatory Termination Date</b>	<b>Maturity Date</b>	<b>Future Maximum Notional Amount</b>	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Fair Value of Derivative Asset or (Liability)</b>
Securitization No. 1	\$ 515,984	Jun-06	N/A	Jun-16	\$ 515,984	1M LIBOR + 0.27%	5.78%	\$ (30,813)
Securitization No. 2	1,130,171	Jun-07	N/A	Jun-12	1,130,171	1M LIBOR	5.25% to 5.36%	(48,433)
Revolving Credit Facility	32,000	Jun-07	Dec-11	Jan-12	203,000	1M LIBOR	4.89%	(3,099)
Amended Credit Facility No. 2	65,932	Jan-08	Feb-09	Feb-19	220,000	1M LIBOR	5.16%	(7,165)
Future debt and securitization	46,000	Apr-10	Nov-11	Oct-15	231,000	1M LIBOR	5.17%	(2,950)
Future debt and securitization	95,000	Jan-11	May-12	Apr-16	238,000	1M LIBOR	5.23%	(3,099)
Future debt and securitization	143,000	Jul-11	Oct-12	Sep-16	238,000	1M LIBOR	5.27%	(2,931)
Term Financing No. 1	710,068	Jun-08	N/A	May-13	710,068	1M LIBOR	4.04%	2,490
Term Financing No. 1	491,718	May-13	N/A	May-15	491,718	1M LIBOR	5.31%	(975)
<b>Total</b>	<b>\$ 3,229,873</b>				<b>\$ 3,977,941</b>			<b>\$ (96,975)</b>

In February 2008, we terminated an interest rate swap, with notional amounts 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 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. For the three and six months ended June 30, 2008, \$1,667 and \$1,885, respectively, were reclassified into interest expense on the consolidated statement of income.

**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

In May 2008, we determined that the interest rate swap that was hedging interest payments related to borrowings under the Revolving Credit Facility 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. Further, all subsequent mark to market adjustments will be charged to other income. For the three months ended June 30, 2008, \$59 of the deferred loss was reclassified into interest expense.

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 \$24,719 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 and future debt and securitizations. For the three months ended June 30, 2008, \$183 of the deferred loss was reclassified into interest expense on the consolidated statement of income. The remaining portions of the two partially terminated swaps were re-designated as cash flow hedges for accounting purposes on June 30, 2008.

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.

For the three months ended June 30, 2007 and 2008, we recognized ineffectiveness gains (losses) of \$459 and \$(2,122), respectively, related to our cash flow hedges. For the three months ended June 30, 2007 and 2008, \$459 and \$(4,029) are included in interest expense and \$0 and \$1,907 are included in other income, respectively. For the six months ended June 30, 2007 and 2008, we recognized ineffectiveness gains (losses) of \$417 and \$(4,120), respectively, related to our cash flow hedges. For the six months ended June 30, 2007 and 2008, \$417 and \$(6,027) are included in interest expense and \$0 and \$1,907 are included in other income, respectively.

As of June 30, 2008, we pledged \$1,541 in cash collateral under our interest rate swaps and our interest rate forward contracts, which is included in other assets on our consolidated balance sheet.

The weighted average interest pay rates of these derivatives at December 31, 2007 and June 30, 2008 were 5.28% and 5.07%, respectively.

**Note 13. Segment Reporting**

Historically we reported separate segment information for the operations of our Aircraft Leasing and Debt Investments segments. Beginning in the first quarter of 2008, in conjunction with the sale of two of our debt investments (See Note 4 Debt Investments), our Chief Operating Decision Maker, who is the Company's Chief Executive Officer, began reviewing and assessing the operating performance of our business on a consolidated basis as the sale caused the operational results and asset levels of our remaining debt investments to be immaterial to our business and operations. As a result, we now operate in a single segment.



**Table of Contents**

**Aircastle Limited and Subsidiaries**  
**Notes to Unaudited Consolidated Financial Statements**  
**(Dollars in thousands, except per share amounts)**  
**June 30, 2008**

**Note 14. Interest, Net**

The following table shows the components of interest, net for the three and six months ended June 30, 2007 and 2008:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Interest expense	\$ 23,467	\$ 54,950	\$ 41,960	\$ 101,272
Less interest income	(4,122)	(2,827)	(5,883)	(4,558)
Less capitalized interest		(804)		(4,384)
Interest, net	\$ 19,345	\$ 51,319	\$ 36,077	\$ 92,330

**Note 15. Subsequent Events***Aviation Assets*

In July 2008, we amended the Airbus A330 Agreement to reduce the number of aircraft to be acquired from fifteen to twelve and to change the Airbus A330 Agreement so that we receive a mix of freighter and passenger aircraft. Seven of the aircraft are scheduled to be delivered as freighters, including three early positions, and five aircraft will be manufactured in passenger configuration. Under certain circumstances, we have the right to change certain aircraft to alternative A330 aircraft models. Four of the 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.

In July 2008, we terminated an agreement to convert one Boeing Model 747-400 from passenger to freighter configuration and have an agreement to sell this aircraft to a third party. Also in July 2008, we sold one Boeing Model 757-200 aircraft that had previously been subject to a forward sales agreement and on lease to one of our customers, to a third party. The lease expired immediately prior to the sale of this aircraft.

As a result of the above two events, our committed amounts for the purchase of aircraft and related flight equipment and improvements, including estimated amounts for pre-delivery deposits, configuration changes, engine acquisition costs, contractual price escalation and other adjustments, will be approximately \$34,181 in 2008, \$163,115 in 2009, \$337,366 in 2010, \$328,683 in 2011 and \$83,870 in 2012.

*Fair Value of Derivatives and Margin Calls*

As of August 1, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$106,499 and we had pledged \$3,295 in cash collateral required under certain of our interest rate swaps and our interest rate forward contracts.

**Note 16. Restatement and Reclassification of Previously Issued Financial Statements**

Subsequent to the filing of the Company's original Form 10-Q, the Company's management determined that the unaudited consolidated statement of cash flows for the six month period ended June 30, 2007 did not properly eliminate non-cash security deposits, maintenance payments and lease rentals received in advance that were assumed in aircraft acquisitions from operating and investing activities. As a result, the consolidated statement of cash flows for the six months ended June 30, 2007 has been restated to correct this misstatement. There was no impact to the consolidated statement of cash flows for the six months ended June 30, 2008. In addition, the Company is reclassifying certain security deposits and maintenance payments collected from and returned to its lessees from operating activities to financing activities to better reflect the nature of these activities. The misstatement and reclassification had no impact on the Company's previously reported consolidated balance sheets, consolidated statements of income, including net income and earnings per share, consolidated statements of changes in shareholders' equity or cash balances for any period.



**Table of Contents**

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

**June 30, 2008**

The table below presents the changes to the consolidated statement of cash flows for the six months ended June 30, 2007 and 2008.

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
<b>Cash flows from Operations</b>		
As Reported	\$ 149,733	\$ 179,620
Correction of misstatement	(45,531)	
Reclassification	(26,274)	(42,432)
Restated	\$ 77,928	\$ 137,188
<b>Cash flows from Investing</b>		
As Reported	\$(1,122,133)	\$ (80,164)
Correction of misstatement	45,531	
Restated	\$(1,076,602)	\$ (80,164)
<b>Cash flows from Financing</b>		
As Reported	\$ 981,996	\$ (36,055)
Reclassification	26,274	42,432
Restated	\$ 1,008,270	\$ 6,377
<b>Net change in cash and cash equivalents</b>		
As Reported	\$ 9,596	\$ 63,401
As Restated	9,596	63,401
Change	\$	\$

## **Table of Contents**

The following information has been adjusted to reflect the restatement and reclassification of our consolidated statements of cash flows which is more fully described in the Explanatory Note on page 1 and Note 16. Restatement and Reclassification of Previously Issued Financial Statements located in the Consolidated Financial Statements elsewhere in this Form 10-Q/A.

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

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under Item 1A. Risk Factors in the Company's September 30, 2008 Quarterly Report on Form 10-Q filed on the date hereof, and elsewhere in this report. Please see "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" in the Company's September 30, 2008 Quarterly Report on Form 10-Q filed on the date hereof, for a discussion of the uncertainties, risks and assumptions associated with these statements.

### **WEBSITE AND ACCESS TO COMPANY'S REPORTS**

The Company's Internet website can be found at [www.aircastle.com](http://www.aircastle.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under Investors SEC Filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

The information on the Company's website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

### **OVERVIEW**

We are a global company that acquires, sells, manages and leases high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of June 30, 2008, our aircraft portfolio consisted of 135 aircraft and we had 58 lessees located in 30 countries. At June 30, 2008, the average age of the aircraft in the portfolio was 10.1 years and the average remaining lease term was 5.5 years, in each case weighted by net book value. Our revenues and income from continuing operations for the three and six months ended June 30, 2008 were \$151.9 million and \$35.3 million and \$286.1 million and \$67.0 million, respectively.

Our acquisition strategy is flexible and allows us to take advantage of available market opportunities and funding structures. Going forward, we are evaluating initiatives which leverage our extensive experience acquiring and managing aviation investments and include:

- (1) investing in aircraft when we can add value and produce above average risk-adjusted returns;
- (2) investing in our own securities, if appropriate; and
- (3) managed funds or other entities to invest in aircraft;

We intend to pay regular quarterly dividends to our shareholders. On March 24, 2008, our board of directors declared a first quarter dividend of \$0.25 per common share, or an aggregate of \$19.6 million, for the three months ended March 31, 2008, which was paid on April 15, 2008 to shareholders of record on March 31, 2008. On June 11, 2008, our board of directors declared a second quarter dividend of \$0.25 per common share, or an aggregate of \$19.6 million, for the three months ended June 30, 2008, which was paid on July 15, 2008 to shareholders of record on June 30, 2008. These dividends may not be indicative of the amount of any future dividends.

### **Segments**

Historically we reported separate segment information for the operations of our Aircraft Leasing and Debt Investments segments. Beginning in the first quarter of 2008, in conjunction with the sale of two of our debt

## **Table of Contents**

investments as described below, our Chief Operating Decision Maker, who is the Company's Chief Executive Officer, began reviewing and assessing the operating performance of our business on a consolidated basis as the sale caused the operational results and asset levels of our remaining debt investments to be immaterial to our business and operations. As a result, we now operate in a single segment.

In February 2008, we sold two of our debt investments for \$65.3 million, plus accrued interest. We repaid the outstanding balance of \$52.3 million, plus accrued interest, under the related repurchase agreement. Additionally, we terminated the related interest rate swap, with notional amounts of \$39.0 million at December 31, 2007 and \$33.0 million as of the termination date, related to the repurchase agreement and paid breakage fees and accrued interest of approximately \$1.0 million, resulting in a loss of \$0.9 million, which is included in interest expense on the consolidated statement of income.

Our reduction in debt investments was done in order to deploy our capital more efficiently and to reduce short-term repurchase agreement borrowings and interest rate exposure on our hedged repurchase agreements related to these debt investments.

### **Revenues**

Revenues are comprised primarily of operating lease rentals on flight equipment held for lease. Typically, our aircraft are subject to net operating leases whereby the lessee pays rentals and is generally responsible for maintaining the aircraft, and paying operational, maintenance and insurance costs, although in a majority of cases we are obligated to pay a portion of specified maintenance or modification costs. The amount of rent we receive depends on various factors, including the type, size and age of the aircraft in our portfolio. Lease payments are typically denominated in U.S. dollars. Lease rental revenue is recognized on a straight-line basis over the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease. However, the amount of rent we receive may vary due to several factors, including the credit worthiness of our lessees and the occurrence of delinquencies and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues. We also earn interest income from our debt investments.

We owned 14 aircraft at December 31, 2007 with leases originally scheduled to expire in 2008 and, as of August 1, 2008, we had executed leases or renewals, with respect to all 14 of these aircraft. In the second quarter of 2008, a lessee took delivery of an aircraft and subsequently defaulted. We terminated the lease for that aircraft and a second aircraft scheduled to be delivered to that customer in the third quarter of 2008. We signed a letter of intent to lease these aircraft to another customer and expect to have the aircraft in revenue service in the third quarter of 2008. We estimate that for these 14 aircraft, the weighted average lease term for the new leases or renewals will be more than six years with monthly lease rates that will be approximately 12% higher than the previous rentals. Additionally, two Boeing Model 757 aircraft with lease expiration dates in 2008 are committed for sale upon return from the existing lessee and the sale of one of these aircraft was completed in the third quarter of 2008.

For our 20 owned aircraft originally having lease expiries in 2009, we have executed lease renewals, or commitments to lease or renew, on 16 aircraft and are actively marketing the remaining aircraft.

Since June 2007, we purchased three off-lease Boeing Model 747-400 aircraft. In June 2007, we also entered into a passenger to freighter conversion agreement for these aircraft. The freighter conversion process for the first aircraft was completed at the end of March 2008 and it was delivered to a lessee on a long-term lease at the end of the first quarter of 2008. The second aircraft was placed on a short-term interim lease and began its freighter conversion process during the second quarter of 2008. We have executed a long-term, post-conversion lease for this aircraft upon completion of its freighter conversion process, currently scheduled for the fourth quarter of 2008. We cancelled the freighter conversion contract for the third aircraft and signed an agreement to sell it upon completion of an interim lease.

In the first quarter of 2008, we acquired one off-lease aircraft. This aircraft was subject to a lease that we entered into in 2007; however, the lessee failed to accept delivery of the aircraft and we terminated the lease in March 2008. In April 2008, we entered into a new lease for this aircraft with another customer and we delivered the aircraft under

the

**Table of Contents**

new lease in the second quarter of 2008. We also acquired an aircraft in satisfaction of a debt instrument and leased the aircraft to a follow-on lessee during the first quarter of 2008; however, in April 2008, the follow-on lessee defaulted under the lease and later filed for bankruptcy protection in the U.S. We recovered possession of the aircraft in May 2008 and signed a letter of intent to lease this aircraft to another customer and expect to have the aircraft in revenue service in the third quarter of 2008.

In the second quarter of 2008, we acquired one off-lease aircraft, which at June 30, 2008 was undergoing maintenance, and we delivered the aircraft under the new lease in the third quarter of 2008.

Revenues from operating lease rentals for the three and six months ended June 30, 2007 were \$81.9 million and \$149.3 million, respectively, as compared to \$144.3 million and \$277.9 million, respectively, for the three and six months ended June 30, 2008. Our operating lease revenues increased significantly from 2007 to 2008 primarily as a result of continued aircraft acquisitions during the balance of 2007 and the first six months of 2008 which caused our aircraft fleet to grow from 100 aircraft at June 30, 2007, to 135 aircraft at June 30, 2008, all but two of which were on lease as of June 30, 2008.

Revenues from interest income on our debt investments are recognized using the effective interest method. Certain investments which represent residual interests are accounted for using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest. Interest income from our debt investments for the three and six months ended June 30, 2007 was \$2.7 million and \$5.3 million, respectively, as compared to \$0.6 million and \$1.9 million for the three and six months ended June 30, 2008. The decrease in interest income of \$2.1 million and \$3.4 million, respectively, for the three and six months ended June 30, 2008 as compared to the same periods in 2007 was primarily due to the sale of two of our debt investments in early February 2008.

**Operating Expenses**

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, or SG&A, and other expenses.

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

**Income Tax Provision**

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in or earn income in jurisdictions that impose income taxes, primarily Ireland and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and 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.

**Acquisitions and Dispositions**

We believe the large and growing aircraft market generates additional acquisition opportunities. Our approach is predicated on sourcing investments we believe to be accretive to shareholders. Currently, our investment focus is primarily on high-utility commercial jet aircraft for the passenger and freighter markets, although we also intend to continue to explore investment opportunities for asset-backed aviation assets, such as debt investments. Our business strategy has been to pursue acquisitions through multiple channels across the world, such as sale-leasebacks with

**Table of Contents**

airlines and purchases from operating lessors, banks and other aircraft owning entities. We also explore opportunities to purchase aircraft from manufacturers. Going forward, we may seek to make investments through investment vehicles involving third party investors. Our ability to successfully and efficiently acquire and integrate additional aviation assets on favorable terms, including our ability to source capital to fund acquisitions, will significantly impact our financial results and growth prospects.

We evaluate our portfolio on a regular basis in order to manage our investments in a way we believe will maximize shareholder value. As part of our active portfolio management, we will sell aircraft or debt investments in order to manage exposures, to reflect our views of evolving market conditions, and in cases where we believe we can earn better returns, by selling aircraft and investing our capital in other ways. In addition, we analyze each aircraft as its lease expiration or other milestones approach, to determine whether to offer it for sale, re-lease, or in the case of passenger aircraft, to reconfigure the aircraft as a freighter, and then lease it. Although our focus is not on trading assets to generate short-term gains, asset sales are a fundamental part of our ongoing portfolio management.

On January 22, 2007, we entered into the GAIF Acquisition Agreement, pursuant to which we agreed to acquire 38 aircraft for an aggregate base purchase price of approximately \$1.595 billion, subject to certain agreed adjustments. In November 2007, we agreed with GAIF to remove two aircraft from the GAIF Acquisition Agreement. In March 2008, we agreed to remove one additional aircraft from the GAIF Acquisition Agreement and in June 2008 we determined that we would not acquire three additional aircraft from the GAIF Acquisition Agreement, reducing the total number of aircraft to be acquired to 32, with an aggregate base purchase price of approximately \$1.412 billion. For certain of the aircraft, we agreed to make accelerated payments to the relevant sellers and acquire their rights and obligations under the seller's purchase or freighter conversion agreements, with final payment and delivery of the aircraft to us being made upon delivery by the manufacturer or seller, or completion of the conversion process. In June 2008, we decided not to acquire three of these aircraft and will not recover the accelerated payments we previously made for these aircraft, although these accelerated payments were offset by fees paid to us by the aircraft seller for the right to put the aircraft to us in 2013 and 2014 for a reduced purchase price. We acquired 28 of these aircraft in 2007 and four of these aircraft during the first six months of 2008. As of June 30, 2008, we have completed the acquisition of the 32 aircraft for approximately \$1.385 billion.

On June 20, 2007, we entered into the Airbus A330 Agreement, under which we agreed to acquire from Airbus fifteen new A330-200 aircraft, or the New A330 Aircraft. Pre-delivery payments for each aircraft are payable to Airbus and are refundable to us only in limited circumstances. We agreed to separate arrangements with Rolls-Royce PLC, or Rolls-Royce, and Pratt & Whitney, or P&W, pursuant to which we committed to acquire aircraft engines for the New 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 to reduce the number of New A330 aircraft to be acquired from fifteen to twelve and to change the Airbus A330 Agreement so that we receive a mix of freighter and passenger aircraft. Seven of the New A330 aircraft are scheduled to be delivered as freighters, including three early positions, and five New A330 aircraft will be manufactured in passenger configuration. 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.

In May 2008, we sold three Boeing Model 737-500 aircraft that were on lease to one of our customers, which resulted in a pre-tax gain of \$5.1 million and is included in other income on our consolidated statement of income. In July 2008, we sold one Boeing Model 757-200 aircraft that had previously been subject to a forward sales agreement and on lease to one of our customers, to a third party. The lease expired immediately prior to the sale of this aircraft.



**Table of Contents**

The following table sets forth certain information with respect to the aircraft acquired by us as of June 30, 2008:  
**AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)**

	<b>Owned Aircraft as of June 30, 2008<sup>(1)</sup></b>
Flight Equipment Held for Lease	\$4,081
Number of Aircraft	135
Number of Lessees	58
Number of Countries	30
Weighted Average Age Passenger (years) <sup>(3) (5)</sup>	10.5
Weighted Average Age Freighter (years) <sup>(3) (5)</sup>	8.8
Weighted Average Age Combined (years) <sup>(3) (5)</sup>	10.1
Weighted Average Remaining Passenger Lease Term (years) <sup>(3) (4)</sup>	4.1
Weighted Average Remaining Cargo Lease Term (years) <sup>(3) (4)</sup>	9.0
Weighted Average Remaining Combined Lease Term (years) <sup>(3) (4)</sup>	5.5
Weighted Average Fleet Utilization during Second Quarter 2008 <sup>(6)</sup>	99%

(1) Calculated using net book value.

(2) Weighted average age (years) by net book value is as of June 30, 2008.

(3) Weighted average remaining lease term (years) by net book value is as of June 30, 2008.

(4) One Boeing Model 747-400 aircraft that was scheduled to go into freighter conversion in the fourth quarter of 2008 is currently on a short-term lease in passenger configuration is

included as

Passenger aircraft. In July 2008, we terminated the freighter conversion contract for this aircraft and have signed an agreement to sell this aircraft to a third party following lease expiry.

- (5) One Boeing Model 747-400 aircraft currently being converted to freighter configuration is included as Freighter aircraft; the remaining lease term for this aircraft, for which we have an executed lease post-conversion, is measured based on the ten-year term of that post-conversion lease.

- (6) Aircraft on-lease days as a percent of total days in period weighted by net book value, excluding aircraft in conversion.

Our owned aircraft portfolio as of June 30, 2008 is listed in Exhibit 99.1 in the original Form 10-Q. Approximately 86% of the total aircraft and 92% of the freighters we owned as of June 30, 2008 are what we consider to be the most current technology for the relevant airframe and engine type and airframe size, as listed under the headings Latest Generation Narrowbody Aircraft, Latest Generation Midbody Aircraft, Latest Generation Widebody Aircraft and

Latest Generation Widebody Freighter Aircraft in Exhibit 99.1 in the original Form 10-Q.

**Table of Contents****PORTFOLIO DIVERSIFICATION**

	<b>Owned Aircraft as of June 30, 2008</b>	
	<b>Number of Aircraft</b>	<b>% of Net Book Value</b>
<b>Aircraft Type</b>		
Passenger:		
Narrowbody	92	47%
Midbody	24	23%
Widebody <sup>(1)</sup>	2	3%
Total Passenger	118	73%
Freighter <sup>(2)</sup>	17	27%
<b>Total</b>	<b>135</b>	<b>100%</b>
<b>Manufacturer</b>		
Boeing	93	67%
Airbus	42	33%
<b>Total</b>	<b>135</b>	<b>100%</b>
<b>Regional Diversification</b>		
Europe <sup>(3)</sup>	64	47%
Asia <sup>(4)</sup>	34	23%
North America <sup>(5)</sup>	14	11%
Latin America	11	7%
Middle East and Africa	10	12%
Off-lease <sup>(6)</sup>	2	%
<b>Total</b>	<b>135</b>	<b>100%</b>

(1) One Boeing Model 747-400 aircraft that was scheduled to go into freighter conversion in the fourth quarter of 2008 currently on short-term lease in passenger

configuration is included as a

Passenger aircraft. In July 2008, we terminated the freighter conversion agreement for this aircraft and have signed an agreement to sell this aircraft to a third party following lease expiry.

(2) One Boeing Model 747-400 aircraft currently being converted to freighter configuration is included as Freighter aircraft.

(3) Includes one Airbus Model A320-200 aircraft that was undergoing maintenance as of June 30, 2008 for which we have an executed lease and which was delivered during the third quarter of 2008.

(4) Includes one Boeing Model 747-400 aircraft currently on short-term lease in passenger configuration to an airline in

Asia. This aircraft was scheduled to go into freighter conversion in the fourth quarter of 2008. In July 2008, we terminated the freighter conversion agreement for this aircraft and have signed an agreement to sell this aircraft to a third party following lease expiry.

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

(6) At June 30, 2008, includes one off-lease Boeing Model 757-200 aircraft and one off-lease Boeing Model 737-300 for which we have signed letters of intent with new carriers.

**Table of Contents**

Our top 15 customers for aircraft we owned at June 30, 2008, representing 63 aircraft and 59% of the net book value of flight equipment held for lease, are as follows:

<b>Percent of Net Book Value</b>	<b>Customer</b>	<b>Country</b>	<b>Number of Aircraft</b>
Greater than 6% per customer	Martinair	Netherlands	5
	Emirates	United Arab Emirates	2
3% to 6% per customer	US Airways	USA	8
	Sterling Airlines	Denmark	7
	Iberia Airlines	Spain	6
	Jet Airways	India	8
	Airbridge Cargo	Russia	1
	VRG Linhas Aereas/GOL Transportes Aereos (1)	Brazil	7
	KLM Royal Dutch Airlines	Netherlands	1
Less than 3% per customer	Swiss International Air Lines	Switzerland	2
	China Eastern Airlines	China	4
	World Airways (2)	USA	2
	Korean Air	South Korea	2
	Malaysia Airlines	Malaysia	2
	Hainan Airlines	China	6

(1) VRG Linhas Aereas and GOL Transportes Aereos are shown combined in the above table.

(2) Includes one Boeing Model 747-400 aircraft currently being converted to freighter configuration and scheduled for delivery in the fourth

quarter of 2008.

**Finance**

We have typically financed the initial purchase of aircraft using committed short-term credit arrangements and cash on hand. These arrangements and our long-term financings are typically secured by the acquired aircraft and related leases, and recourse to the Company is limited. We believe such financing is available on reasonable terms given the loan to value profile we have pursued.

On May 2, 2008 two of our subsidiaries entered into a seven year, \$786.1 million 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 funded into an aircraft purchase escrow account on May 2, 2008. These loans were released to us as the financed aircraft transferred into the facility. Proceeds from the financing were used to repay related outstanding amounts for the aircraft under the Company's Amended Credit Facility No. 2 and 2008-A Credit Facility. The loans bear interest on a floating rate basis at a rate of one-month LIBOR plus 1.75% and mature on May 11, 2015. Our aggregate up-front costs, including fees payable to the lenders and legal and professional service fees but excluding termination fees on certain of our existing interest rate hedging contracts, were approximately \$15.0 million. We entered into new 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 counter-parties under these contracts are secured pari passu basis by the same collateral that secures the loans under Term Financing No. 1 and, accordingly, we have no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall.

During the second quarter of 2008, we refinanced and transferred 26 aircraft from Amended Credit Facility No. 2 into the Term Financing No. 1. At June 30, 2008, we had borrowings of \$255.2 million related to 11 aircraft under our Amended Credit Facility No. 2. On June 3, 2008, we paid the remaining balance of \$187.3 million on the 2008-A



**Table of Contents**

Credit Facility with proceeds from the refinancing, transferred the two aircraft into Term Financing No. 1 and terminated the 2008-A Credit Facility.

To the extent that we acquire aircraft directly, we intend to continue funding aircraft acquisitions initially through borrowings under our short-term credit facilities and cash on hand, and to repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

To the extent we acquire aircraft through any future investment vehicles, we will seek to establish separate financings for such projects in a manner broadly consistent with the approach we have used previously. We also intend to extend, modify or replace our short-term credit facilities during the remainder of 2008 and we intend to pursue debt financing for a portion of the pre-delivery payments for the New A330 Aircraft. However, the level of new investment activity and, in turn, financing requirements, will be driven by the attractiveness of new investment opportunities available in the marketplace and financial market conditions. Decisions by investors and lenders to enter into such transactions with us will depend upon a number of factors, such as our historical and projected performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and the relative attractiveness of alternative investments. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Securitizations and Term Debt Financings and Credit Facilities.

**RESULTS OF OPERATIONS**

*Comparison of the three months ended June 30, 2007 to the three months ended June 30, 2008*

<b>(Dollars in thousands)</b>	<b>Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
<b>Revenues:</b>		
Lease rentals	\$ 81,926	\$ 144,291
Interest income	2,728	614
Other revenue	460	490
 Total revenues	 85,114	 145,395
 <b>Expenses:</b>		
Depreciation	27,764	51,605
Interest, net	19,345	51,319
Selling, general and administrative	10,448	11,354
Other expense	380	597
 Total operating expenses	 57,937	 114,875
 <b>Other income:</b>		
Gain on sale of aircraft		5,126
Other	1,154	1,328
 Total other income	 1,154	 6,454

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Income from continuing operations before income taxes	28,331	36,974
Income tax provision	1,173	1,633
Income from continuing operations	27,158	35,341
Earnings from discontinued operations, net of income taxes	10,910	
Net income	\$ 38,068	\$ 35,341

**Table of Contents****Revenues:**

Total revenues increased by 70.8% or \$60.3 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007, primarily as a result of the following:

*Lease Rentals.* The increase in lease rentals of \$62.4 million for the three months ended June 30, 2008 as compared to the same period in 2007 was primarily due to the increase in our owned aircraft portfolio, increasing from 100 aircraft on lease at June 30, 2007 to 135 aircraft at June 30, 2008, two of which were off-lease, and revenue from maintenance payments related to lease expirations in the amount of \$4.1 million that were recognized during the second quarter of 2008.

*Interest Income.* The decrease in interest income of \$2.1 million was primarily due to the sale of two of our debt investments in February 2008, which we owned during the second quarter of 2007.

**Operating Expenses:**

Total operating expenses increased by 98.3% or \$56.9 million for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 primarily as a result of the following:

*Depreciation expense* increased by \$23.8 million for the second quarter of 2008 over the same period in 2007 as a result of an increase in our owned aircraft portfolio from 100 aircraft at June 30, 2007 to 135 aircraft at June 30, 2008 reflecting the \$1.53 billion paid to purchase 35 incremental aircraft.

*Interest, net* consisted of the following :

<b>(Dollars in thousands)</b>	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>
Interest expense	\$ 23,467	\$ 54,950
Less interest income	(4,122)	(2,827)
Less capitalized interest		(804)
Interest, net	\$ 19,345	\$ 51,319

*Interest, net* increased by \$32.0 million, or 165.3% over the second quarter of 2007. The increase reflects a higher average debt balance of \$3.0 billion during the second quarter of 2008 as compared to \$1.4 billion in the same period during 2007. In addition, during the second quarter of 2008, interest expense was impacted by charges for hedge breakage and ineffectiveness of \$4.0 million and the write off of \$0.8 million of debt issuance costs related to the reduction in the commitments of the lenders under our Amended Credit Facility No. 2 and the early termination of the 2008-A Credit facility. We also recorded lower interest income on our cash and cash equivalents of \$1.3 million resulting from a lower interest rate environment during the three months ended June 30, 2008 as compared to the same period in 2007. This was partially offset by \$0.8 million in capitalized interest related to accelerated payments and progress payments made in respect to flight equipment on forward order under the GAIF Acquisition Agreement and the Airbus A330 Agreement. We did not capitalize any interest during the three months ended June 30, 2007.

*Selling, general and administrative expenses, or SG&A,* for the second quarter of 2008 increased by \$0.9 million, or 8.7% over the second quarter of 2007. This increase was due mainly to an increase of \$0.2 million in professional fees, consisting primarily of auditing and tax compliance fees, an increase of \$0.3 million in travel expenses, an increase of \$0.3 million in office expenses, consisting primarily of office and equipment rent, communication expenses and other office expenses, an increase of \$0.2 million in business insurance expense and \$0.1 million in other SG&A expenses. These increases were partially offset by a decrease in personnel costs of \$0.2 million, consisting primarily of salary and non-cash share based payments, primarily as a result of lower share based payments in the second quarter of 2008 as compared to the same period in 2007. For the three months ended June 30, 2007, non-cash share based expense was \$2.8 million, including \$1.7 million due to the acceleration of unvested shares for a former employee; non-cash share based expenses was \$1.6 million for the three months ended June 30, 2008. We expect that there will



**Table of Contents**

be quarter-to-quarter variations in SG&A throughout the year driven, in part, by the timing of certain professional fees incurred during the year.

*Other expense* increased by \$0.2 million primarily as a result of an increase in flight equipment insurance.

**Other Income:**

Total other income increased \$5.3 million during the three months ended June 30, 2008 versus the same period in 2007 primarily due to a \$5.1 million gain on the sale of three aircraft recorded during the second quarter of 2008.

**Income Tax Provision**

Our provision for income taxes for the three months ended June 30, 2007 and 2008 was \$1.2 million and \$1.6 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of approximately \$0.4 million for the three months ended June 30, 2008 as compared to the same period in 2007 was primarily attributable to the increase in our operating revenue subject to tax in Ireland and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and 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.

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.

**Comparison of the six months ended June 30, 2007 to the six months ended June 30, 2008**

(Dollars in thousands)	Six Months Ended June 30,	
	2007	2008
<b>Revenues:</b>		
Lease rentals	\$ 149,284	\$ 277,918
Interest income	5,316	1,905
Other revenue	519	528
Total revenues	155,119	280,351
<b>Expenses:</b>		
Depreciation	49,398	99,820
Interest, net	36,077	92,330
Selling, general and administrative	18,944	22,843
Other expense	761	1,242
Total operating expenses	105,180	216,235
<b>Other income:</b>		
Gain on sale of aircraft		5,126
Other	1,154	1,083

Total other income	1,154	6,209
Income from continuing operations before income taxes	51,093	70,325
Income tax provision	3,078	3,347
Income from continuing operations	48,015	66,978
Earnings from discontinued operations, net of income taxes	11,594	
Net income	\$ 59,609	\$ 66,978

**Table of Contents****Revenues:**

Total revenues increased by 80.7% or \$125.2 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007, primarily as a result of the following:

*Lease Rentals.* The increase in lease rentals of \$128.6 million for the six months ended June 30, 2008 as compared to the same period in 2007 was primarily due to the increase in our owned aircraft portfolio, increasing from 100 aircraft on lease at June 30, 2007 to 135 aircraft at June 30, 2008, two of which were off-lease, and an average 12% increase in lease rental rates for lease renewals which occurred during the six months ended June 30, 2008, and revenue from maintenance payments related to lease expirations in the amount of \$4.1 million that were recognized during the second quarter of 2008.

*Interest Income.* The decrease in interest income of \$3.4 million was primarily due to the sale of two of our debt investments in February 2008, which we owned during the six months ended June 30, 2007.

**Operating Expenses:**

Total operating expenses increased by 105.6% or \$111.1 million for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 primarily as a result of the following:

*Depreciation expense* increased by \$50.4 million for the first six months of 2008 over the same period in 2007 as a result of an increase in our owned aircraft portfolio from 100 aircraft at June 30, 2007 to 135 aircraft at June 30, 2008 reflecting the \$1.53 billion paid to purchase 35 incremental aircraft.

*Interest, net* consisted of the following :

(Dollars in thousands)	Six Months Ended June 30,	
	2007	2008
Interest expense	\$ 41,960	\$ 101,272
Less interest income	(5,883)	(4,558)
Less capitalized interest		(4,384)
Interest, net	\$ 36,077	\$ 92,330

*Interest, net* increased \$56.3 million, or 155.9%, over the six months ended June 30, 2007. The increase reflects a higher average debt balance of \$2.8 billion during the six months ended June 30, 2008 as compared to \$1.3 billion in the same period in 2007. In addition, during the six months ended June 30, 2008, interest expense was impacted by charges for hedge breakage and ineffectiveness of \$6.0 million and the write off \$0.8 million of debt issuance costs related to the reduction in the commitments of the lenders under our Amended Credit Facility No. 2 and the early termination of the 2008-A Credit facility. We also recorded lower interest income on our cash and cash equivalents of \$1.3 million resulting from a lower interest rate during the six months ended June 30, 2008 as compared to the same period in 2007. This was partially offset by \$4.4 million in capitalized interest related to accelerated payments and progress payments made in respect to flight equipment on forward order under the GAIF Acquisition Agreement and the Airbus A330 Agreement. We did not capitalize any interest during the six months ended June 30, 2007.

*Selling, general and administrative expenses, or SG&A,* for the first six months of 2008 increased by \$3.9 million, or 20.6% over the first six months of 2007. This increase was due mainly to an increase in personnel costs of \$1.5 million, related to increased headcount from 59 at June 30, 2007 to 73 at June 30, 2008, an increase in professional fees of \$1.0 million, consisting primarily of auditing and tax compliance fees, and an increase of \$1.4 million in other expenses. Non-cash share based expense was \$4.0 million, including \$1.7 million due to the acceleration of unvested shares for a former employee, and \$3.2 million, respectively, for the six months ended June 30, 2007 and 2008. SG&A as of percentage of total assets was 0.5% for both the six months ended June 30, 2007 and 2008. We expect that there will be quarter-to-quarter variations in SG&A throughout the year driven, in part, by the timing of certain professional fees incurred during the year.

**Table of Contents**

*Other Expense* increased \$0.5 million primarily as a result of an increase in flight equipment insurance.

**Other Income:**

Total other income increased \$5.1 million during the six months ended June 30, 2008 versus the same period in 2007 primarily due to a \$5.1 million gain on the sale of three aircraft recorded during the second quarter of 2008.

**Income Tax Provision**

Our provision for income taxes for the six months ended June 30, 2007 and 2008 was \$3.1 million and \$3.3 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The increase in our income tax provision of approximately \$0.2 million for the six months ended June 30, 2008 as compared to the same period in 2007 was primarily attributable to the increase in our operating revenue subject to tax in Ireland and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and 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.

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.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board ( FASB ) Statement of 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 of 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 six months ended June 30, 2008. Therefore, the adoption of SFAS No. 159 had no impact on the Company's consolidated financial statements.

In addition, effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (See Note 2 Fair Value Measurements to the Company's unaudited consolidated financial statements included elsewhere in this report). This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 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. We are currently evaluating the requirements of the deferred provisions of this statement and have not determined the impact, if any, that adoption of the deferred provisions will have on our consolidated financial statements.

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 fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of adopting this pronouncement.

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,



**Table of Contents**

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 Company is currently evaluating the potential impacts of SFAS No. 162 on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position 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 is currently evaluating the potential impacts of FSP No. EITF 03-6-1 on its consolidated financial statements.

**LIQUIDITY AND CAPITAL RESOURCES**

We have been able to meet our liquidity and capital resource requirements by utilizing several sources, including: lines of credit, our securitizations, and other secured borrowings;

our public offerings of common shares;

prior to our initial public offering, equity contributions from funds managed by affiliates of Fortress;

aircraft lease revenues and maintenance payments;

principal and interest payments from our debt investments; and

asset sales.

During the six months ended June 30, 2008, we acquired commercial jet aircraft and made capital improvements to our aircraft portfolio totaling \$221.3 million. We expect to fund approximately \$175.2 million of purchase obligations for aircraft pre-delivery and conversion payments during the next twelve months. In addition, at June 30, 2008, we expect capital expenditures and lessee maintenance payment draws on our owned and committed aircraft portfolio to be approximately \$129.9 million, excluding freighter conversion payments (see Purchase Obligations in Contractual Obligations below) and we expect maintenance payment collections from lessees on our owned aircraft portfolio of approximately \$120.1 million over the next twelve months. There can be no assurance that we will be able to acquire the additional aircraft described above, and no assurance regarding the time and amount of such acquisition. In addition, there can be no assurance that the capital expenditures described above will not be greater than expected or that our expected maintenance payment collections will equal our current estimates.

We believe that funds available from operations and our credit facilities, including Term Financing No. 1 and future extensions, replacements and re-financings of our existing credit facilities, will be sufficient to satisfy our liquidity needs over the next twelve months and enable us to pay dividends to our common shareholders.

**Cash Flows (Restated)**

	Six Months Ended	
	June 30,	
(Dollars in thousands)	2007	2008
	(Restated)	
Net cash flow provided by operating activities	\$ 77,928	\$ 137,188

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Net cash flow used in investing activities	(1,076,602)	(80,164)
Net cash flow provided by financing activities	1,008,270	6,377

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34

**Table of Contents**

Operating activities provided net cash flow of \$77.9 million and \$137.2 million for the six months ended June 30, 2007 and June 30, 2008, respectively. Cash flow from operations increased \$59.3 million for the six months ended June 30, 2008 versus the same period in 2007 as a result of increases in net income of \$7.4 million, depreciation of \$49.6 million and a net increase in other operating items of \$14.9 million. The increase in depreciation was due to the increase in the number of aircraft owned from 100 at June 30, 2007 to 135 at June 30, 2008. Partially offsetting these increases were reductions in amounts collected for lease rentals received in advance of \$4.5 million and accounts payable and accrued liabilities decreased \$8.1 million for the six months ended June 30, 2008 compared with the same period in 2007.

Net cash flow used in investing activities totaled \$1.08 billion and \$80.2 million for the six months ended June 30, 2007 and 2008, respectively. During the six months ended June 30, 2008 we made a net investment of \$221.3 million in the acquisition and improvement of flight equipment as compared to our net investment of \$1.02 billion during the six months ended June 30, 2007. The decrease in the acquisition of flight equipment resulted from fewer aircraft acquisitions during the six months ended June 30, 2008 (five aircraft) as compared to the same period in 2007 (32 aircraft), and as a result of progress payments made during the second half of 2007 for aircraft acquired during the first six months of 2008. We invested \$15.3 million in debt investments during the six months ended June 30, 2007. We did not sell any debt investments during the six months ended June 30, 2007. During the six months ended June 30, 2008, we did not invest in any debt investments and we sold \$65.3 million of debt investments. We received \$13.4 million of principal payments on our debt investments during the six months ended June 30, 2007 as compared to \$11.5 million during the six months ended June 30, 2008. We paid \$88.4 million in deposits on aircraft purchased during the six months ended June 30, 2007, as compared to the receipt of refunds for progress payments previously made for aircraft of \$9.0 million during the six months ended June 30, 2008. Net cash collateral posted with our derivative counterparties decreased \$34.3 million for the six months ended June 30, 2008 as a result of decreased mark-to-market losses and lower interest rates as compared to December 31, 2007. For the six months ended June 30, 2007, we posted \$3.7 million with our derivative counterparties. During the six months ended June 30, 2007, we received \$34.9 million in proceeds from the sale of an aircraft that had been classified on the balance sheet as flight equipment held for sale. During the six months ended June 30, 2008, we received \$21.4 million from the sale of three aircraft during the second quarter of 2008.

Net cash flow from financing activities totaled \$1.01 billion for the six months ended June 30, 2007 and \$6.4 million for the six months ended June 30, 2008, respectively. During the six months ended June 30, 2007, we closed Securitization No. 2 in June 2007 and received proceeds of \$1.17 billion. In February 2007, we completed a follow-on public offering of 15,525,000 common shares at a price of \$33.00 per share, raising \$512.3 million before offering costs. The net proceeds of the offering, after our payment of \$17.9 million in underwriting discounts and commissions and \$1.3 million in offering expenses, were \$493.1 million. In addition, during the six months ended June 30, 2007, we borrowed \$1.01 billion under our credit facilities and received \$8.9 million in proceeds from terminated cash flow hedges. Net cash flows from financing activities also reflects net proceeds of \$26.3 million from security and maintenance deposits for the six months ended June 30, 2007. These increases for the six months ended June 30, 2007 were offset by the payments of \$1.11 billion under our credit facilities, and \$500.6 million of restricted cash related to the purchase of the remaining aircraft under Securitization No. 2 which was held by the ACS 2 Group at June 30, 2007. We also paid \$56.2 million in dividends, \$10.9 million of payments under our Securitization No. 1 and \$9.4 million of payments under our repurchase agreements.

During the six months ended June 30, 2008, we borrowed \$786.1 million under our Term Financing No. 1 and \$482.7 million under our credit facilities. Net cash flows from financing activities also reflects net proceeds of \$42.4 million from security and maintenance deposits for the six months ended June 30, 2007. These increases were offset by payments of \$1.03 billion under our credit facilities, \$67.7 million under our repurchase agreements as a result of the sale of our debt investments, \$74.6 million in dividends, \$68.3 million to terminate certain cash flow hedges on our credit facilities and repurchase agreements, and \$49.5 million under our Securitizations and term debt financings.

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

The following table provides a summary of our credit facilities at June 30, 2008:

<b>Debt Obligation (Dollars in thousands)</b>	<b>Collateral</b>	<b>Commitment</b>	<b>Outstanding Borrowing</b>	<b>Interest Rate<sup>(1)</sup></b>	<b>Final Stated Maturity</b>
Securitization No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	\$ 500,233	\$ 500,233	1M LIBOR + 0.27% = 2.74%	6/20/31
Securitization No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	1,132,074	1,132,074	1M LIBOR + 0.26% = 2.71%	6/14/37
Term Financing No. 1	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	782,060	782,060	LIBOR + 1.75% = 4.37% <sup>(2)</sup>	5/11/15
Revolving Credit Facility	Beneficial interests in subsidiaries	100,000		1M LIBOR + 2.00% = 4.48%	12/11/08
Amended Credit Facility No. 2	Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests	500,000	255,189	1M LIBOR + 1.25% = 3.73%	12/15/08
Total		\$ 3,014,367	\$ 2,669,556		

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

(2) LIBOR rate was based on 2 week LIBOR for the first two interest periods ending

on July 10,  
2008. All  
subsequent  
LIBOR resets  
will be based on  
1M LIBOR.

**Securitized and Term Debt Financings**

On May 2, 2008 two of our subsidiaries, ACS 2008-1 Limited, or ACS Bermuda 3, and ACS Aircraft Finance Ireland 3 Limited, or ACS Ireland 3, to which we refer together with their subsidiaries as the ACS 3 Group, entered into a seven year, \$786.1 million term debt facility to which we refer to as Term Financing No. 1 to finance a portfolio of 28 aircraft, or Portfolio No. 3. 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 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 of ACS Bermuda 3 and ACS Ireland 3, as well as by interests in aircraft leases, cash collections and other rights and properties they may hold. Each of ACS Bermuda 3 and ACS Ireland 3 has fully and unconditionally guaranteed the other's obligations under

**Table of Contents**

Term Financing No. 1. However, the loans are neither obligations of, nor guaranteed by, Aircastle Limited. The loans mature on May 11, 2015, but we expect to refinance the loans on or before May 2, 2013.

We generally retained the right to receive future cash flows from Portfolio No. 3 after the payment of claims that are senior to our rights ( Excess Cash Flow ), 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 Excess Cash Flow from Portfolio No. 3 until May 2, 2013, provided that the ACS 3 Group remains in compliance with its obligations under the Term Financing No. 1 loan documents. After that date, all Excess Cash Flow 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 \$48,900 per year. As of June 30, 2008, the ACS 3 Group had borrowings of \$782,060. The Loans may be prepaid upon notice, subject to certain conditions, the payment of expenses, if any, and the payment of a prepayment premium on amounts prepaid on or before May 2, 2010. The ACS 3 Group 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 counter-parties under these contracts are secured pari passu basis by the same collateral that secures the loans under Term Financing No. 1 and, accordingly, the ACS 3 Group has no obligation to pledge cash collateral to secure any loss in value of the hedging contracts if interest rates fall. These hedging contracts, together with the spread referenced above and other costs of administration, result in a fixed rate cost of 7.30% per annum, after the amortization of issuance fees and expenses.

Term Financing No. 1 requires the ACS 3 Group to satisfy 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. The ACS 3 Groups' compliance with these covenants depends substantially upon the appraised value of Portfolio No. 3 and the timely receipt of lease payments from their lessees.

**Credit Facilities**

On March 20, 2008, the parties to the Revolving Credit Facility entered into a fourth amendment to the Revolving Credit Facility, extending the Stated Termination Date (as defined therein) to December 11, 2008, and reducing the commitments of the lenders to make loans thereunder, or the Revolving Commitments, from \$250.0 million to \$150.0 million. The Revolving Commitments were reduced to \$100.0 million on June 30, 2008, and will reduce further to \$80.0 million on August 31, 2008, \$60.0 million on September 30, 2008 and \$40.0 million on October 31, 2008, with final maturity on December 11, 2008. The fourth amendment also amends the Revolving Credit Facility so that Bear Stearns Corporate Lending Inc. will have no further Revolving Commitments or loans outstanding under the Revolving Credit Facility, with JPMorgan Chase Bank, N.A. and Citicorp North America, Inc. each funding one-half of the Revolving Commitments and the outstanding loans from the date of the fourth amendment. At June 30, 2008, there were no outstanding loans. The interest rate, including margin, applicable to loans under the Revolving Credit Facility at June 30, 2008 was 4.48% and we had no outstanding letters of credit under the Revolving Credit Facility. We are not permitted to pay dividends on our common shares to the extent a default or an event of default exists under our Revolving Credit Facility.

On March 20, 2008, the parties to Amended Credit Facility No. 2 entered into an amendment reducing the commitments of the lenders to make loans thereunder from \$1.0 billion to \$500.0 million, on any future date after which the loans outstanding under Amended Credit Facility No. 2 fall below \$500.0 million. Amended Credit Facility No. 2 matures on December 15, 2008. During the second quarter of 2008, we refinanced and transferred 26 aircraft from this facility into Term Financing No. 1. At June 30, 2008, we had borrowings of \$255.2 related to 11 aircraft under our Amended Credit Facility No. 2. The interest rate, including margin, applicable to loans under Amended

Credit Facility No. 2 at June 30, 2008 was 3.73%. In connection with the reduced commitments of the lenders and the  
37

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**Table of Contents**

loans outstanding under Amended Credit Facility No. 2 falling below \$500.0 million in the second quarter of 2008, we wrote off \$0.6 million of debt issuance costs which is reflected in interest expense on the consolidated statement of income. In addition, we expect to extend, modify or replace Amended Credit Facility No. 2 with a similar aircraft acquisition facility before its current maturity of December 15, 2008.

On February 5, 2008, we entered into a senior secured credit agreement with two banks, or the 2008-A Credit Agreement, 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 \$300.0 million, with borrowings under this credit facility being used to finance a portion of the purchase price of certain aircraft. Loans under the 2008-A Credit Facility were due to mature on August 4, 2008. On May 15, 2008, we reduced our total credit commitment under the 2008-A Credit Facility to \$188.0 and on June 3, 2008, the facility matured when we paid the remaining balance of \$187.3 million with proceeds from the refinancing and transferred the two aircraft into Term Financing No. 1. As a result of the repayment of the 2008-A Credit Facility, during the second quarter of 2008 we wrote off \$0.2 million of debt issuance costs which is reflected in interest expense on the consolidated statement of income.

On July 26, 2007, we made an accelerated payment to the relevant GAIF seller under our acquisition agreement with GAIF for three Boeing Model 747-400ERF and assumed a credit facility related to such 747-400ERF aircraft. Borrowings under this facility were used to finance progress payments made to Boeing during the manufacturing of the aircraft. The facility matured upon the delivery of the third and final 747-400ERF aircraft in April 2008 when we paid the remaining balance of \$31.9 million under this facility.

From time to time, we also enter into repurchase agreements to finance certain of our securities available for sale. Repurchase agreements are agreements to sell securities to a counterparty with the simultaneous agreement to repurchase the same or substantially identical securities from the same counterparty at a later date with accrued interest. Repurchase agreements normally do not constitute economic sales and are therefore treated as collateralized financing transactions and are carried at the amount of cash received with the underlying securities sold continuing to be recognized as securities available for sale. Interest incurred on repurchase agreements is reported in interest expense.

Our debt obligations contain various customary financial and non-financial loan covenants. Such covenants do not, in management's opinion, materially restrict our investment strategy or our ability to raise capital. We are in compliance with all of our loan covenants as of June 30, 2008.

**Contractual Obligations**

Our contractual obligations consist of principal and interest payments on variable rate liabilities, obligations under binding letters of intent to purchase aircraft and rent payments pursuant to our office leases. Total contractual obligations decreased from \$4.60 billion at December 31, 2007 to approximately \$4.27 billion at June 30, 2008 due primarily to:

the reduction of amounts owed under our Securitizations No. 1 and No. 2 due to principal payments made during the first six months of 2008;

repayment of debt outstanding under our Amended Credit Facility No. 2, our 2008-1 Credit Facility, our Revolving Credit Facility, our 747 PDP Credit Facility and our repurchase agreements; and

the reduction of future amounts owed under our purchase obligations.

These reductions were partially offset by an increase in amounts outstanding under our new Term Financing No. 1.



**Table of Contents**

The following table presents our actual contractual obligations and their payment due dates as of June 30, 2008:

Contractual Obligations	Total	Payments Due By Period as of June 30, 2008			
		Less than 1 year	2-3 years	4-5 years	More than 5 years
		(Dollars in thousands)			
Securitization No. 1 <sup>(1)</sup>	\$ 565,475	\$ 36,071	\$ 80,009	\$ 209,428	\$ 239,967
Securitization No. 2 <sup>(2)</sup>	1,321,151	79,919	157,522	259,414	824,296
Term Financing No. 1 <sup>(3)</sup>	965,228	82,559	158,619	156,039	568,011
Amended Credit Facility No. 2 <sup>(4)</sup>	262,397	262,397			
Operating leases <sup>(5)</sup>	5,510	1,165	2,072	1,632	641
Purchase obligations <sup>(6)</sup>	1,154,920	175,162	778,203	201,555	
<b>Total</b>	<b>\$ 4,274,681</b>	<b>\$ 637,273</b>	<b>\$ 1,176,425</b>	<b>\$ 828,068</b>	<b>\$ 1,632,915</b>

(1) Includes interest on variable rate, LIBOR-based instruments at the June 30, 2008 rate and principal payments based on amortization schedules through October 2015 that require the securitization cash flows be applied to the outstanding principal balance of the indebtedness so that the loan to assumed aircraft values are held constant until the securitization's fifth anniversary, after which all excess cash flow is required to reduce the principal

balances of the indebtedness. We expect that the securitization principal balance will be refinanced in full on or before June 2011.

- (2) Includes interest on variable rate, LIBOR-based instruments at the June 30, 2008 rate and principal payments based on amortization schedules through February 2018 that require the securitization cash flows be applied to the outstanding principal balance of the indebtedness so that the loan to assumed aircraft values are held constant until the securitization's fifth anniversary, after which all excess cash flow is required to reduce the principal balances of the indebtedness. We expect that the securitization principal balance will be

refinanced in full on or before June 2012.

- (3) Includes interest on variable rate, LIBOR-based instruments at the June 30, 2008 rate and principal payments based on amortization schedules through May 2013 that require the securitization cash flows be applied to the outstanding principal balance of the indebtedness so that the loan to assumed aircraft values are held constant until the fifth anniversary, after which all excess cash flow is required to reduce the principal balances of the indebtedness. We expect that Term Financing No. 1 principal balance will be refinanced in full on or before May 2013.
- (4) Includes interest on variable rate, LIBOR-based instruments at the June 30, 2008 rate.

- (5) Represents contractual payments on our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.
- (6) At June 30, 2008, we had aircraft purchase agreements and freighter conversion agreements, including the acquisition of 15 Airbus A330 aircraft from Airbus. In July 2008, we amended the Airbus A330 Agreement to reduce the number of aircraft to be acquired from fifteen to twelve and to change the Airbus A330 Agreement so that we receive a mix of freighter and passenger aircraft. Also in July 2008, we terminated an agreement to convert one Boeing Model 747-400 from passenger to freighter configuration. As a result of these two events, our

committed amounts for the purchase of aircraft and related flight equipment and improvements, including estimated amounts for pre-delivery deposits, engine acquisition costs, contractual price escalation and other adjustments, will be approximately \$947.2 million (\$107.4 million less than one year, \$657.5 million 2-3 years and \$182.3 million 4-5 years).

Our hedging transactions that use derivative instruments also involve counterparty credit risk. The counterparties to our derivative arrangements are major financial institutions with high credit ratings. As a result, we do not anticipate that any of these counterparties will fail to meet their obligations.

However, there can be no assurance that we will be able to adequately protect against this risk and will ultimately realize an economic benefit from our hedging strategies or recover the full value of the securities underlying our repurchase agreements in the event of a default by a counterparty.

#### **Capital Expenditures**

We make capital expenditures from time to time in connection with improvements made to our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the six months ended June 30, 2007 and 2008, we incurred a total of \$3.9 million and \$19.2 million, respectively, of capital expenditures related to the acquisition of aircraft.

## **Table of Contents**

As of June 30, 2008, the weighted average (by net book value) age of our aircraft was approximately 10.1 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft.

Under our leases, the lessee is primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft or a lessee fails to meet its maintenance obligations under the lease agreement. At June 30, 2008, we held \$244.5 million of maintenance reserves. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by, or on behalf of, the lessee.

Actual maintenance payments by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. If lessees are unable to fund their maintenance requirements on our aircraft, our cash flow and our ability to meet our debt obligations or to pay dividends on our common shares could be adversely affected.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of June 30, 2008.

### **Foreign Currency Risk and Foreign Operations**

At June 30, 2008, all of our leases were payable to us in U.S. dollars. However, we incur Euro and Singapore dollar-denominated expenses in connection with our subsidiary in Ireland and branch office in Singapore. As of June 30, 2008, 11 of our 73 employees were based in Ireland and three employees were based in Singapore. For the six months ended June 30, 2008, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$4.3 million in U.S. dollar equivalents and represented approximately 19% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the three and six months ended June 30, 2007 and 2008, we incurred insignificant net gains and losses on foreign currency transactions.

### **Interest Rate Risk**

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

Changes in interest rates may also impact our net book value as our debt investments and derivatives are periodically marked-to-market through stockholders' equity. Generally, as interest rates increase the value of our fixed

## **Table of Contents**

rate debt investments decreases. The magnitude of the decrease is a function of the difference between the coupon rate and the current market rate of interest, the average life of the securities and the face amount of the securities. We are also exposed to loss on (i) our fixed pay interest rate swaps to the extent interest rates decrease below the contractual fixed rates of our swaps and (ii) our other derivative instruments. In general, we would expect that over time, decreases in the value of our debt investments attributable to interest rate changes will be offset to some degree by increases in the value of our derivative instruments, and vice versa. However, our policy is to hedge only a portion of the variable rate interest payments on our outstanding and/or expected future debt obligations rather than hedge the amount of our investments; therefore, our assets remain partially un-hedged. Furthermore, the relationship between spreads on debt investments and spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

As of June 30, 2008, if interest rates were to increase by 100 basis points, we would expect the annual interest expense on our credit facilities to increase by approximately \$2.2 million on an annualized basis, net of amounts received from our interest rate hedges.

### **Margin Calls**

Our interest rate derivative instruments are, in some cases, subject to margin calls based on the value of the underlying security and the level of interest rates. Margin calls resulting from decreases in the value of our debt instruments or mark-to-market losses on our derivative instruments due to decreasing interest rates could require that we post additional collateral. Management believes that we maintain adequate cash reserves and liquidity to meet any reasonably possible margin calls resulting from these risks, but can make no assurances that we will have adequate additional collateral under all potential scenarios. At December 31, 2007 and June 30, 2008, we had margin deposits in the amount of \$35.9 million and \$1.5 million, respectively. As of August 1, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$106.5 million and we had pledged \$3.3 million in cash collateral required under certain of our interest rate swaps and our interest rate forward contracts.

### **Hedging**

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates. Accordingly, we have entered into a number of interest rate swaps and interest rate forward contracts to hedge the current and expected future interest rate payments on our variable rate debt. Interest rate swaps are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. An interest rate forward contract is an agreement to make or receive a payment at the end of the period covered by the contract, with reference to a change in interest rates. The notional amount on a swap or forward contract is not exchanged. Our swap transactions typically provide that we make fixed rate payments and receive floating rate payments to convert our floating rate borrowings to fixed rate obligations to better match the largely fixed rate cash flows from our investments in flight equipment and debt investments. Similarly, our interest rate forward contracts typically provide for us to receive payment if interest rates increase and make a payment if they decrease. However, we can give no assurance that our net income will not be adversely affected during any period as a result of changing interest rates.

As of June 30, 2008, we had pledged \$1.5 million to satisfy margin calls under our hedging contracts, and if interest rates were to decrease by one basis point, we would expect to be required to pledge an additional approximately \$0.4 million to satisfy margin calls under our interest rate hedging arrangements.

**Table of Contents**

We held the following interest rate derivative contracts as of June 30, 2008 (in thousands of dollars):

<b>Hedged Item</b>	<b>Current/ Starting Notional Amount</b>	<b>Effective Date</b>	<b>Mandatory Early Termination Date</b>	<b>Maturity Date</b>	<b>Future Maximum Notional Amount</b>	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Fair Value of Derivative Asset or (Liability)</b>
Securitization No. 1	\$ 515,984	Jun-06	N/A	Jun-16	\$ 515,984	1M LIBOR + 0.27%	5.78%	\$ (30,813)
Securitization No. 2	1,130,171	Jun-07	N/A	Jun-12	1,130,171	1M LIBOR	5.25% to 5.36%	(48,433)
Revolving Credit Facility	32,000	Jun-07	Dec-11	Jan-12	203,000	1M LIBOR	4.89%	(3,099)
Amended Credit Facility No. 2	65,932	Jan-08	Feb-09	Feb-19	220,000	1M LIBOR	5.16%	(7,165)
Future debt and securitization	46,000	Apr-10	Nov-11	Oct-15	231,000	1M LIBOR	5.17%	(2,950)
Future debt and securitization	95,000	Jan-11	May-12	Apr-16	238,000	1M LIBOR	5.23%	(3,099)
Future debt and securitization	143,000	Jul-11	Oct-12	Sep-16	238,000	1M LIBOR	5.27%	(2,931)
Term Financing No. 1	710,068	Jun-08	N/A	May-13	710,068	1M LIBOR	4.04%	2,490
Term Financing No. 1	491,718	May-13	N/A	May-15	491,718	1M LIBOR	5.31%	(975)
<b>Total</b>	<b>\$ 3,229,873</b>				<b>\$ 3,977,941</b>			<b>\$ (96,975)</b>

Of the \$97.0 million fair value of our derivative liability at June 30, 2008, \$84.9 million of the liability is with counterparties or guarantors of these counterparties rated AA3 or above by Moody's and \$12.1 million is with counterparties rated Baa3-Baa1 by Moody's. The total current/starting notional amount with counterparties or guarantors of these counterparties rated AA3 or above is \$2.9 billion and \$316.0 million with counterparties rated Baa3-Baa1. As of August 1, 2008, all counterparties are considered highly rated with a Moody's rating of AA3 or better.

In February 2008, we terminated an interest rate swap, with notional amounts of \$39.0 million as of December 31, 2007 and \$33.0 million as of the termination date, related to a repurchase agreement we repaid when the underlying debt investments were sold, resulting in a loss of \$0.9 million, 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 \$150.0 million and partially terminated an interest rate swap with a notional amount of \$440.0 million, resulting in a net deferred loss of \$31.8 million, 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 \$9.8 million 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. For the three and six months ended June 30, 2008, \$1.7 million and \$1.9 million, respectively, were reclassified into interest expense on the consolidated statement of income.

In May 2008, we determined that the interest rate swap that was hedging interest payments related to borrowings under the Revolving Credit Facility was no longer highly effective and no longer qualified for hedge accounting under



SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and accordingly, a deferred loss in the amount of \$2.7 million for this swap will be amortized into interest expense using the cash flow method. Further, all subsequent mark to market adjustments will be charged to other income. For the three months ended June 30, 2008, \$0.1 million of the deferred loss was reclassified into interest expense.

In June 2008, we terminated an interest rate swap with a notional amount of \$2.9 million related to a repurchase agreement we repaid, resulting in a gain of \$19 thousand 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 \$190.0 million and \$5.0 million and partially terminated interest rate swaps with notional amounts of \$330.0 million and \$46.0 million, resulting in a net deferred loss of \$24.7 million 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 and future debt and securitizations. For the three months ended June 30, 2008, \$0.2 million of the deferred loss was reclassified into interest expense on the consolidated statement of income. The remaining

**Table of Contents**

portions of the two partially terminated swaps were re-designated as cash flow hedges for accounting purposes on June 30, 2008.

On June 6, 2008, we entered into two amortizing interest rate swap contracts with a balance guarantee notional and initial notional amounts of \$710.1 million and \$491.7 million. 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.

For the three months ended June 30, 2007 and 2008, we recognized ineffectiveness gains (losses) of \$0.5 million and \$(2.1) million, respectively related to our cash flow hedges. For the three months ended June 30, 2007 and 2008, \$0.5 million and \$(4.0) million are included in interest expense and \$0 million and \$1.9 million are included in other income, respectively. For the six months ended June 30, 2007 and 2008, we recognized ineffectiveness gains (losses) of \$0.4 million and \$(4.1) million, respectively related to our cash flow hedges. For the six months ended June 30, 2007 and 2008, \$0.4 million and \$(6.0) million are included in interest expense and \$0 million and \$1.9 million are included in other income, respectively.

As of June 30, 2008, we had pledged \$1.5 million in cash collateral under our interest rate swaps and our interest rate forward contracts, which is included in other assets on our consolidated balance sheet.

The weighted average interest pay rates of these derivatives at December 31, 2007 and June 30, 2008 were 5.28% and 5.07%, respectively.

**Management's Use of EBITDA**

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-GAAP measure is helpful in identifying trends in our performance.

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

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. EBITDA is one of the metrics used by senior management and the board of directors to review the consolidated financial performance of our business.

**Limitations of EBITDA**

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

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures; and

the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results.

**Table of Contents**

An investor or potential investor may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of EBITDA to GAAP net income (loss), along with our consolidated financial statements included elsewhere in this quarterly report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the EBITDA measure, as presented in this quarterly report, may differ from, and may not be comparable to, similarly titled measures used by other companies. The table below shows the reconciliation of net income (loss) to EBITDA for the three and six months ended June 30, 2007 and 2008.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Net income	\$ 38,068	\$ 35,341	\$ 59,609	\$ 66,978
Depreciation	27,764	51,605	49,398	99,820
Amortization of lease premiums (discounts)	(1,773)	(2,502)	(3,432)	(5,148)
Interest, net	19,345	51,319	36,077	92,330
Income tax provision	1,173	1,633	3,078	3,347
Earnings from discontinued operations, net of income taxes	(10,910)		(11,594)	
<b>EBITDA</b>	<b>\$ 73,667</b>	<b>\$ 137,396</b>	<b>\$ 133,136</b>	<b>\$ 257,327</b>

**Table of Contents**

**Item 4. Controls and Procedures**

**Restatement of Previously Issued Financial Statements**

In connection with the restatement of our unaudited consolidated financial statements, which is more fully described in the Explanatory Note on page 1 and Note 16. Restatement and Reclassification of Previously Issued Financial Statements located in the Unaudited Consolidated Financial Statements elsewhere in this Form 10-Q/A, and under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, we reevaluated our disclosure controls and procedures and identified a material weakness in our internal control over financial reporting with respect to the presentation of non-cash activities in the consolidated statement of cash flows. Solely as a result of this material weakness, as described below in Changes in Internal Control over Financial Reporting, we concluded that our disclosure controls and procedures were not effective as of June 30, 2008.

**Evaluation of Disclosure Controls and Procedures**

As a result of the restatement described above, the Company has reevaluated, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as of June 30, 2008. Based upon this reevaluation, management, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2008 solely as a result of this material weakness in the Company's internal control over financial reporting relating to the consolidated statement of cash flows, as described below in Changes in Internal Control over Financial Reporting.

**Changes in Internal Control over Financial Reporting**

As disclosed in our Form 10-K/A for the year ended December 31, 2007, filed on November 17, 2008, our management identified a material weakness in the Company's internal control over financial reporting resulting from the failure to maintain effective controls over the preparation of the Company's consolidated statement of cash flows.

As previously reported, there were no additional changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Remediation Steps to Address Material Weakness**

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

**Table of Contents**

**Item 6. Exhibits**

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

**Table of Contents**

**SIGNATURE**

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

Dated: November 17, 2008

**AIRCASTLE LIMITED**

(Registrant)

By: /s/ Aaron Dahlke  
Aaron Dahlke  
Chief Accounting Officer and  
Authorized Officer

47