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

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File number 001-32959

AIRCASTLE LIMITED

(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of May 2, 2008, there were 78,559,976 outstanding shares of the registrant s common shares, par value $0.01 per share.

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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 March 31, 2008, originally filed with the Securities and Exchange Commission (the SEC) on May 9, 2008 (the original Form 10-Q) to amend and restate its consolidated statements of cash flows for the three months ended March 31, 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 May 9, 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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2007	March 31, 2008 (unaudited)
ASSETS		
Cash and cash equivalents	$ 13,546	$ 17,351
Accounts receivable	4,957	5,899
Debt investments	113,015	22,374
Restricted cash and cash equivalents	161,317	179,289
Flight equipment held for lease, net of accumulated depreciation of $189,737 and $237,708	3,807,116	3,980,634
Aircraft purchase deposits and progress payments	245,331	170,638
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of $1,335 and $1,526	1,391	1,390
Other assets	80,969	122,648
Total assets	$ 4,427,642	$ 4,500,223
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Borrowings under credit facilities	$ 798,186	$ 981,592
Borrowings from securitizations	1,677,736	1,662,044
Accounts payable, accrued expenses and other liabilities	65,967	73,302
Dividends payable	55,004	19,640
Lease rentals received in advance	31,016	26,669
Repurchase agreements	67,744	2,283
Security deposits	74,661	72,398
Maintenance payments	208,363	230,585
Fair value of derivative liabilities	154,388	248,365
Total liabilities	3,133,065	3,316,878
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
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 78,559,976 shares issued and outstanding at March 31, 2008	786	786
Additional paid-in capital	1,468,140	1,468,840

Dividends in excess of earnings	(48,960)	(36,963)
Accumulated other comprehensive loss	(125,389)	(249,318)
Total shareholders equity	1,294,577	1,183,345
Total liabilities and shareholders equity	$ 4,427,642	$ 4,500,223

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

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
Revenues:		
Lease rentals	$ 67,358	$ 133,627
Interest income	2,588	1,291
Other revenue	58	38
Total revenues	70,004	134,956
Expenses:		
Depreciation	21,633	48,215
Interest, net	16,730	41,011
Selling, general and administrative (including non-cash share based payment expense of $1,258 and $1,598, respectively)	8,497	11,489
Other expenses	382	890
Total expenses	47,242	101,605
Income from continuing operations before income taxes	22,762	33,351
Income tax provision	1,905	1,714
Income from continuing operations	20,857	31,637
Earnings from discontinued operations, net of income taxes	684	
Net income	$ 21,541	$ 31,637
Basic earnings per share:		
Income from continuing operations	$ 0.35	$ 0.41
Earnings from discontinued operations, net of income taxes	0.01	
Net income per share	$ 0.36	$ 0.41
Diluted earnings per share:		
Income from continuing operations	$ 0.35	$ 0.41
Earnings from discontinued operations, net of income taxes	0.01	
Net income per share	$ 0.36	$ 0.41
Dividends declared per share	$ 0.50	$ 0.25

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

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

	Three Months Ended March 31, 2007 (Restated)	Three Months Ended March 31, 2008
Cash flows from Operating activities:		
Net income	$ 21,541	$ 31,637
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations) Depreciation	22,394	48,162
Amortization of deferred financing costs	1,514	2,584
Amortization of lease premiums and discounts, and other related lease items	(1,701)	(2,713)
Deferred income taxes	1,892	1,061
Accretion of purchase discounts on debt investments	(208)	(149)
Non-cash share based payment expense	1,258	1,598
Cash flow hedges reclassified into earnings	(1,007)	(139)
Ineffective portion of cash flow hedges	42	1,998
Loss on sale of investments		245
Security deposits and maintenance payments revenue		(566)
Changes in certain assets and liabilities:		
Accounts receivable	4,180	(942)
Restricted cash and cash equivalents	(15,373)	(17,972)
Other assets	(458)	574
Accounts payable, accrued expenses and other liabilities	(5,056)	(2,081)
Payable to affiliates		(185)
Lease rentals received in advance	2,192	(4,347)
Net cash provided by operating activities	31,210	58,765
Cash flows from investing activities:		
Acquisition and improvement of flight equipment	(428,918)	(117,027)
Aircraft purchase deposits and progress payments	(8,600)	(5,312)
Purchase of debt investments	(15,251)	
Proceeds from sale of debt investments		65,335
Principal repayments on debt investments	12,664	11,224
Margin call payments on derivatives and repurchase agreements	(5,660)	(198,882)
Margin call receipts on derivatives and repurchase agreements		158,244
Leasehold improvements, furnishings and equipment		(190)
Net cash used in investing activities	(445,765)	(86,608)
Cash flows from financing activities:		
Issuance of common shares in public offerings, net	493,056	
Repurchase of shares from directors and employees	(210)	(898)
Securitization repayments	(5,400)	(15,692)

Deferred financing costs	(1,227)	(2,571)
Credit facility borrowings	486,584	325,608
Credit facility repayments	(552,961)	(142,202)
Security deposits and maintenance payments received	14,045	26,977
Security deposits and maintenance payments returned	(2,208)	(6,452)
Proceeds from repurchase agreements	140	
Principal repayments on repurchase agreement	(3,790)	(65,461)
Payments for terminated cash flow hedges		(32,657)
Dividends paid	(22,584)	(55,004)
Net cash provided by financing activities	405,445	31,648
Net decrease in cash and cash equivalents	(9,110)	3,805
Cash and cash equivalents at beginning of period	58,118	13,546
Cash and cash equivalents at end of period	$ 49,008	$ 17,351
Supplemental disclosures of non-cash investing activities		
Security deposits and maintenance payment liabilities assumed in asset acquisitions	$ 16,688	$
Lease rentals received in advance assumed in asset acquisitions	$ 784	$

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

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
March 31, 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 incorp 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, managing and leasing commercial jet aircraft to airlines throughout the world and investing in aircraft related debt investments.

Pursuant to a Shareholders Agreement executed November 24, 2004, the Fortress Shareholders committed to contribute $400,000 in initial equity to Aircastle. As of December 31, 2005, the Fortress Shareholders had completed making their initial $400,000 cash capital contribution. In conjunction with the second follow-on public offering of our common shares completed in October 2007, certain Fortress Shareholders sold 11,000,000 secondary common shares in the public offering.

Basis of Presentation

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle owns, directly or indirectly, all of the outstanding common shares 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 Accountings 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 three months ended March 31, 2008. Therefore, the adoption of SFAS No. 159 had no impact on the Company s consolidated financial statements.

Also effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (See Note 2 Fair Value Measurements). This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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 two Variable Interest Entities in accordance with FASB Interpretation No. 46, *Consolidation of Variable*

Aircastle Limited and Subsidiaries
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(Dollars in thousands, except per share amounts)
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Interest Entities (FIN 46) of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Recent Accounting Pronouncements

In 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.

Note 2. Fair Value Measurements

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

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

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

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

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

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

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

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

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

	Fair Value As Of March 31, 2008	Fair Value Measurements at March 31, 2008 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique

Assets:								
Debt investments	$	22,374	$ 3,012	$	19,362	$		Market/Income
Liabilities:								
Derivative liabilities	$	248,365	$	$	248,365	$		Income

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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 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.

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

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

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

Year Ending December 31,	Amount
Remainder of 2008	$ 392,578
2009	490,528
2010	429,441
2011	362,746
2012	298,491
2013	200,471
Thereafter	406,613
Total	$ 2,580,868

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

	Three Months Ended March 31,	
Region	**2007**	**2008**
Europe	43%	45%
Asia	25%	26%
North America	22%	12%
Latin America	5%	8%
Middle East and Africa	5%	9%
Total	100%	100%

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

For the three months ended March 31, 2007, one customer accounted for 17% of lease rental revenue and three additional customers accounted for a combined 22% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue. For the three months ended March 31, 2008, one customer accounted for 8% of lease rental revenue and three additional customers accounted for a combined 15% of lease rental revenue. No other customer accounted for more than 4% of lease rental revenue.

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

	December 31, 2007		March 31, 2008	
Region	**Number of Aircraft**	**Net Book Value %**	**Number of Aircraft**	**Net Book Value %**
Europe[1]	65	47%	64	45%
Asia	35	27%	35	25%
North America[1]	13	10%	14	11%
Latin America	12	7%	12	7%
Middle East and Africa	8	9%	10	12%
Off-lease[2]		%	1	%
Total	133	100%	136	100%

(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) As of April 11, 2008, we had executed a lease

for this aircraft, which we expect to commence in the second quarter of 2008.

At December 31, 2007 and March 31, 2008, lease acquisition costs included in other assets on the consolidated balance sheets were $417 and $394, respectively. Prepaid lease incentive costs included in other assets on the consolidated balance sheets were $586 at both December 31, 2007 and March 31, 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.

As of March 31, 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 $3,012 are senior tranches and $19,362 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 $10,414 at December 31, 2007 and March 31, 2008, respectively.

At March 31, 2008 one of our debt investments has a stated maturity in 2010. One of our debt investments has a stated maturity in 2017. Our other two debt investments have remaining terms to stated maturity in excess of 10 years after March 31, 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.

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March 31, 2008

Note 5. Securitizations and Borrowings under Credit Facilities

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

	At December 31, 2007	At March 31, 2008		
Debt Obligation	**Outstanding Borrowings**	**Outstanding Borrowings**	**Interest Rate[1]**	**Final Stated Maturity**
Securitizations:				
Securitization No. 1	$ 527,397	$ 521,725	1 M LIBOR + .27% = 3.09%	6/20/31
Securitization No. 2	1,150,339	1,140,319	1 M LIBOR + .26% = 3.32%	6/14/37
Total Securitizations	1,677,736	1,662,044		
Credit Facilities:				
Revolving Credit Facility[2]		10,000	1 M LIBOR + 2.00% = 4.56%	12/11/08
Amended Credit Facility No. 2[3]	734,059	846,373	1 M LIBOR + 1.25% = 4.07%	12/15/08
2008-A Credit Facility[4]		93,294	1 M LIBOR + 1.50% = 4.32%	8/04/08
747 PDP Credit Facility[5]	64,127	31,925	1 M LIBOR + 1.00% = 3.82%	4/10/08