

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)**

**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

**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, 5th 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
filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting
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 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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Table of Contents**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 |

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| | | |
|--|--------------|--------------|
| 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 | 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 | 2008 |
| | (Restated) | |
| 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 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, 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 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 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*

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(Dollars in thousands, except per share amounts)
March 31, 2008

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

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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:

| Region | Three Months Ended | |
|------------------------|---------------------------|-------------|
| | March 31, | |
| | 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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March 31, 2008

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

| Region | December 31, 2007 | | March 31, 2008 | |
|------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| | 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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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

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 | |
|--|-------------------------------|---------------------------|------------------------------|-----------------------------|
| | Outstanding Borrowings | Outstanding Borrowings | Interest Rate ⁽¹⁾ | Final Stated Maturity |
| Debt Obligation 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 |
| Total Credit Facilities | 798,186 | 981,592 | | |
| Total | \$ 2,475,922 | \$ 2,643,636 | | |

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

(2) 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 \$250,000 to \$150,000. The Revolving Commitments are further reduced to \$100,000 on June 30, 2008, \$80,000 on August 31, 2008, \$60,000 on September 30, 2008 and \$40,000 on October 31, 2008, with final maturity on December 11, 2008.

- (3) 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 \$1,000,000 to \$500,000, on any future date after which the loans outstanding under Amended Credit Facility No. 2 fall below \$500,000.

- (4) 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 provides for loans in an aggregate amount of up to \$300,000, 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 mature on August 4, 2008 or, if the borrower exercises its extension option, which we refer to as the Extension

Option, then the maturity date will be October 29, 2008.

- (5) On April 10, 2008, we paid the remaining balance of \$31,925.

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 are further reduced to \$100,000 on June 30, 2008, \$80,000 on August 31, 2008, \$60,000 on September 30, 2008 and \$40,000 on October 31, 2008, with final maturity on December 11, 2008. The 2006-B Fourth Amendment also 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.

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At March 31, 2008, there were \$10,000 in outstanding loans and \$5,954 of letters of credit outstanding under the Revolving Credit Facility. The interest rate, including margin, applicable to loans under the Revolving Credit Facility at March 31, 2008 was 4.56%. We expect to modify or replace our Revolving Credit Facility before its current maturity of December 11, 2008.

Amended Credit Facility No. 2

On March 20, 2008, the parties to Amended Credit Facility No. 2 entered into an amendment to Amended Credit Facility No. 2 reducing 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.

At March 31, 2008, we had borrowings of \$846,373 related to 36 aircraft under our Amended Credit Facility No. 2. During the second quarter of 2008, we plan to refinance a majority of these aircraft, as well as three additional aircraft that we expect to acquire during the first half of 2008, with long-term financing using a cost effective debt structure such as a non-recourse securitization or similar bank market financing. We believe that similar bank market financing would be available in a single, diversified portfolio transaction structured like a securitization or would also be available in a series of smaller financings. 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. (See Note 15 Subsequent Events.)

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 provides for loans in an aggregate amount of up to \$300,000, 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 mature on August 4, 2008 or, if the borrower exercises its extension option, which we refer to as the Extension Option, then the maturity date will be October 29, 2008, the outside maturity date following the initial closing of our ACS 2008-1 Credit Facility. (See Note 15 Subsequent Events.) We refer to the period from August 4, 2008 to October 29, 2008 as the Extension Period.

Borrowings under the 2008-A Credit Facility bear interest (a) in the case of loans with an interest rate based on the applicable base rate (the ABR), the ABR plus an applicable margin of 0.50% per annum, increasing to 1.50% per annum during the Extension Period or (b) in the case of loans with an interest rate based on the euro dollar rate (the EDR), the EDR plus an applicable margin of 1.50% per annum, increasing to 2.50% per annum during the Extension Period. Additionally, we are subject to a 0.25% per annum fee, increasing to 0.375% per annum fee during the Extension Period, on any unused portion of the total committed facility. We are also required to pay customary agency fees. The interest rate, including margin, applicable to loans under the 2008-A Credit Facility at March 31, 2008 was 4.32%. As of March 31, 2008, the outstanding borrowings were \$93,294.

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. Borrowings under this facility were used to finance progress payments made to Boeing during the manufacturing of the aircraft and bear interest at one-month LIBOR plus 1.00% per annum, which at March 31, 2008 was 3.82%. 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. As of March 31, 2008, the outstanding borrowings were \$31,925. (See Note 15 Subsequent Events.)

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Note 6. Repurchase Agreements

The outstanding amounts of our repurchase agreements were as follows:

| Debt Obligation | At December 31, 2007 | | At March 31, 2008 | | Final Stated Maturity |
|-------------------------------------|---|-----------------------------------|------------------------------------|--|--------------------------------------|
| | Outstanding Borrowings | Outstanding Borrowings | Interest Rate⁽¹⁾ | | |
| Repurchase Agreement ⁽²⁾ | \$ 60,282 | \$ | 1 M LIBOR + .50% = N/A | | |
| Repurchase Agreement ⁽³⁾ | 4,972 | | 1 M LIBOR + .75% = N/A | | |
| Repurchase Agreement | 2,490 | 2,283 | 1 M LIBOR + .50% = 3.18% | | 6/28/08 |
| Total Repurchase Agreements | \$ 67,744 | \$ 2,283 | | | |

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

(2) In February 2008, we sold the underlying debt investments for \$65,335 plus accrued interest and paid the outstanding amount under this repurchase agreement of \$52,303 plus accrued interest. Additionally, we terminated the related interest rate swap and paid breakage fees and accrued

interest of
approximately
\$1,040.

- (3) In March 2008, we elected not to refinance this purchase agreement upon its maturity on March 15, 2008 and repaid the outstanding balance.

We enter into repurchase agreements to fund a portion of the purchase price of certain of our debt investments (See Note 4 Debt Investments). At December 31, 2007 and March 31, 2008 the repurchase agreements are secured by liens on the debt investments with a fair value of \$85,173 and \$1,561, 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 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.

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 (loss) 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 (loss) 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.

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

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2007 | 2008 |
| Numerator | | |
| Income from continuing operations | \$ 20,857 | \$ 31,637 |
| Earnings from discontinued operations, net of income taxes | 684 | |
| Net income | \$ 21,541 | \$ 31,637 |
| Denominator | | |
| Weighted-average shares used to compute basic earnings per share | 58,864,054 | 77,719,986 |
| Effect of dilutive restricted shares | 291,573 | (a) |
| Weighted-average shares outstanding and dilutive securities used to compute diluted earnings per share | 59,155,627 | 77,719,986 |
| 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 |

(a) For the three months ended March 31, 2008, based on the treasury stock method, we had 913,912 anti-dilutive common share equivalents 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 months ended March 31, 2007 and 2008 were as follows:

| | Three Months Ended March 31, | |
|---------------------|---|-------------|
| | 2007 | 2008 |
| U.S. operations | \$ 445 | \$ 635 |
| Non-U.S. operations | 22,317 | 32,716 |
| Total | \$ 22,762 | \$ 33,351 |

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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 therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries own aircraft that operate to, from or within the U.S. and therefore 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.

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

| | Three Months Ended March 31, | |
|--|---|--------------|
| | 2007 | 2008 |
| Notional U.S. federal income tax expense at the statutory rate | \$ 7,967 | \$ 11,672 |
| U.S. state and local income tax, net | 50 | 27 |
| Non-U.S. operations | (6,135) | (9,984) |
| Non-deductible expenses in the U.S. | 14 | 8 |
| Other | 9 | (9) |
| Provision for income taxes | \$ 1,905 | \$ 1,714 |

Note 10. Comprehensive Income (Loss)

Total comprehensive income (loss) 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 securities classified as available-for-sale. Total comprehensive income (loss) for the three months ended March 31, 2007 and 2008 was as follows:

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2007 | 2008 |
| Net income | \$ 21,541 | \$ 31,637 |
| Net change in fair value of derivatives, net of tax benefit of \$0 and \$1,264, respectively | (11,498) | (123,371) |
| Derivative gain reclassified into earnings | (1,007) | (139) |
| Net change in unrealized depreciation of debt investments | 464 | (419) |
| Total comprehensive income (loss) | \$ 9,500 | \$ (92,292) |

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

| Fair Value of | Unrealized Appreciation | Accumulated Other Comprehensive |
|--------------------------|------------------------------------|--|
|--------------------------|------------------------------------|--|

| | Derivatives⁽¹⁾ | Debt Securities | Income (Loss) |
|---|----------------------------------|----------------------------|----------------------|
| December 31, 2007 | \$ (136,222) | \$ 10,833 | \$ (125,389) |
| Net change in fair value of derivatives, net of tax benefit of \$1,264 | (123,371) | | (123,371) |
| Derivative gain reclassified into earnings | (139) | | (139) |
| Net change in unrealized depreciation of debt investments | | (419) | (419) |
| March 31, 2008 | \$ (259,732) | \$ 10,414 | \$ (249,318) |

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

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Note 11. Commitments and Contingencies

In the first quarter of 2008, we completed the purchase of two aircraft under the GAIF Acquisition Agreement, and removed an aircraft, from the GAIF Acquisition Agreement, reducing the total number of aircraft to be acquired to 35. As of March 31, 2008, we have completed the acquisition of 30 of the aircraft for \$1,228,353. We completed the purchase of one Boeing Model 747-400ERF aircraft in April 2008. The remaining aircraft we will acquire under the GAIF Acquisition Agreement are scheduled to be delivered to us through February 2009.

On June 20, 2007, Aircastle entered into an acquisition agreement (the Airbus A330 Agreement) with Airbus SAS (Airbus) under which we agreed to acquire fifteen new Airbus Model A330-200 aircraft (the New A330 Aircraft). Five of the aircraft we will acquire under the Airbus A330 Agreement are scheduled to be delivered in 2010, with the remainder to be delivered in 2011. 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 and Pratt & Whitney pursuant to which we committed to acquire aircraft engines for the New A330 Aircraft. As of March 31, 2008, we have made \$56,029 in deposits and progress payments to Airbus. Under limited circumstances, we have the right to change certain delivery positions from A330-200 freighter configuration aircraft to A330-200 passenger configuration aircraft.

At March 31, 2008, we had letters of intent or purchase agreements to acquire 20 aircraft for an estimated purchase price of \$1,357,831, comprised of the fifteen New A330 Aircraft and the balance of the aircraft to be delivered under the GAIF Acquisition Agreement. The purchase price of certain of the aircraft under these letters of intent or purchase agreements, other than the Airbus A330 Agreement, is subject to variable price provisions that typically reduce the final purchase price if the actual closing occurs beyond an initially agreed upon date. The purchase price for aircraft we are committed to acquire under the Airbus A330 Agreement is subject to adjustment for configuration changes, engine selection and contractual price escalations.

Committed amounts for the purchase of aircraft and related flight equipment and improvements, including the aircraft purchases discussed above, together with estimated amounts for pre-delivery deposits and, based on estimates for engine acquisition cost, contractual price escalation and other adjustments, are approximately \$213,268 in 2008, \$233,355 in 2009, \$408,513 in 2010 and \$440,050 in 2011.

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Note 12. Derivatives

We held the following interest rate derivative contracts as of March 31, 2008:

| Hedged Item | Current/ Starting Notional Amount | Effective Date | Mandatory Early Termination Date | Maturity Date | Future Maximum Notional Amount | Floating Rate | Fixed Rate | Fair Value of Derivative Asset or (Liability) |
|--|--|---------------------------|---|--------------------------|---|--------------------------|-----------------------|--|
| Securitization No. 1 | \$ 521,725 | Jun-06 | N/A | Jun-16 | \$ 521,725 | 1M LIBOR + 0.27% | 5.78% | \$ (53,603) |
| Securitization No. 2 | 1,140,319 | Jun-07 | N/A | Jun-12 | 1,140,319 | 1M LIBOR | 5.25% to 5.36% | (92,417) |
| Revolving Credit Facility | 28,000 | Jun-07 | Dec-11 | Jan-12 | 203,000 | 1M LIBOR | 4.89% | (7,528) |
| Amended Credit Facility No. 2 | 240,000 | Jun-07 | Jun-08 | Feb-13 | 240,000 | 1M LIBOR | 4.88% | (17,256) |
| Amended Credit Facility No. 2 and 747 PDP Credit Facility | 220,000 | Aug-07 | Nov-08 | May-13 | 220,000 | 1M LIBOR | 5.33% | (17,632) |
| Future debt and securitization | 190,000 | Jan-08 | Feb-09 | Feb-19 | 360,000 | 1M LIBOR | 5.16% | (33,180) |
| Future debt and securitization | 5,000 | May-08 | Sep-09 | Mar-14 | 55,000 | 1M LIBOR | 5.41% | (4,818) |
| Future debt and securitization | 46,000 | Apr-10 | Nov-11 | Oct-15 | 231,000 | 1M LIBOR | 5.17% | (8,647) |
| Future debt and securitization | 95,000 | Jan-11 | May-12 | Apr-16 | 238,000 | 1M LIBOR | 5.23% | (7,068) |
| Future debt and securitization | 143,000 | Jul-11 | Oct-12 | Sep-16 | 238,000 | 1M LIBOR | 5.27% | (5,917) |
| Repurchase Agreement ⁽¹⁾ | | N/A | N/A | N/A | | N/A | N/A | (175) |
| Repurchase Agreement | 2,900 | Jun-05 | N/A | Mar-13 | 2,900 | 1M LIBOR | 4.21% | (124) |
| Total | \$ 2,631,944 | | | | \$ 3,449,944 | | | \$ (248,365) |

(1) In March 2008, we terminated this interest rate swap with a notional amount of \$5,000,

which was
settled on
April 1, 2008.

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 of \$440,000, resulting in a net deferred loss of \$31,761, 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. For the three months ended March 31, 2008, \$218 was reclassified into in interest expense on the consolidated statement of income.

For the three months ended March 31, 2007 and 2008, we recognized ineffectiveness losses of \$42 and \$1,998 related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of income.

As of March 31, 2008, we pledged \$76,518 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 March 31, 2008 were 5.28% and 5.32%, respectively.

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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.

Note 14. Interest, Net

The following table shows the components of interest, net:

| | Three Months Ended | |
|---------------------------|---------------------------|---------------|
| | March 31, | |
| | 2007 | 2008 |
| Interest expense | \$ 18,491 | \$ 46,322 |
| Less interest income | (1,761) | (1,731) |
| Less capitalized interest | | (3,580) |
| Interest, net | \$ 16,730 | \$ 41,011 |

Note 15. Subsequent Events*Financing*

On April 10, 2008, we took delivery of a 747-400ERF aircraft from the manufacturer and paid down the balance of \$31,925 under the 747 PDP Credit Facility. We financed this aircraft at delivery under the 2008-A Credit Facility.

On May 2, 2008 two of our subsidiaries entered into a seven year, \$786,135 term debt facility (the ACS 2008-1 Credit Facility) to finance a portfolio of 28 aircraft. The loans under the ACS 2008-1 Credit Facility were funded into an aircraft purchase escrow account on May 2, 2008. These loans will be released to us as the financed aircraft transfer into the facility. Proceeds from the financing will be 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 will bear interest on a floating rate basis at a rate of one-month LIBOR plus 1.75% and will mature on May 2, 2015. We estimate that our aggregate up-front costs, including fees payable to the lenders and legal and professional service fees but excluding termination fees on our interest rate hedging contracts, will equal approximately \$16.5 million. We will enter into interest rate hedging arrangements with respect to all or a substantial portion of the principal balance of the loans under the ACS 2008-1 Credit Facility in order to effectively pay interest at a fixed rate on all or a substantial portion of the loans. Our obligations under these hedging arrangements will be secured pari passu with the lenders and, accordingly, we do not expect that we will be obliged to pledge cash collateral to secure any loss in value should interest rates fall.

Fair Value of Derivatives and Margin Calls

As of May 2, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$167,740 and we had pledged \$57,434 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 three month period ended March 31, 2007 did not properly eliminate non-cash security deposits, maintenance liabilities 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 three months ended March 31, 2007 has been restated to correct this misstatement. There was no impact to the

consolidated statement of cash flows for the three months ended March 31, 2008. In addition,

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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.

The table below presents the changes to the consolidated statement of cash flows for the three months ended March 31, 2007 and 2008.

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2007 | 2008 |
| Cash flows from Operations | | |
| As Reported | \$ 60,519 | \$ 79,290 |
| Correction of misstatement | (17,472) | |
| Reclassification | (11,837) | (20,525) |
| Restated | \$ 31,210 | \$ 58,765 |
| Cash flows from Investing | | |
| As Reported | \$(463,237) | \$(86,608) |
| Correction of misstatement | 17,472 | |
| Restated | \$(445,765) | \$(86,608) |
| Cash flows from Financing | | |
| As Reported | \$ 393,608 | \$ 11,123 |
| Reclassification | 11,837 | 20,525 |
| Restated | \$ 405,445 | \$ 31,648 |
| Net change in cash and cash equivalents | | |
| As Reported | \$ (9,110) | \$ 3,805 |
| As Restated | (9,110) | 3,805 |
| Change | \$ | \$ |

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

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.

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. 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.

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We are a global company that acquires and leases high-utility commercial jet aircraft to passenger and cargo airlines throughout the world. High-utility aircraft are generally modern, operationally efficient jets with a large operator base and long useful lives. As of March 31, 2008, our aircraft portfolio consisted of 136 aircraft that were leased to 59 lessees located in 31 countries, including two aircraft being converted to freighter configuration, one of which is subject to a lease that will commence upon completion of the conversion, and managed through our offices in the United States, Ireland and Singapore. The weighted average (by net book value) age of the aircraft in the portfolio from the date of original delivery by manufacturer to March 31, 2008, was 10.2 years. The weighted average (by net book value) remaining lease term for aircraft we owned at March 31, 2008 was 5.2 years with scheduled expirations ranging from 2008 through 2020. Typically, our aircraft are subject to net operating leases whereby the lessee 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. We also make investments in other aviation assets, including debt investments secured by commercial jet aircraft. As of May 2, 2008, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$4.3 billion and \$1.3 billion, respectively, for a total of approximately \$5.6 billion. Our revenues and income from continuing operations for the three months ended March 31, 2008 were \$135.0 million and \$31.6 million, respectively.

Our acquisition strategy is flexible and allows us to take advantage of the best 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) managed funds or other entities to invest in aircraft,
- (2) investing in aircraft when we can add value and produce above average risk-adjusted returns; and
- (3) investing in our own securities, if appropriate.

We intend to pay regular quarterly dividends to our shareholders. On March 24, 2008, our board of directors declared a regular quarterly 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 holders of record on March 31, 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 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. The amount of rent we receive depends on various factors, including the type, size and age of the aircraft in our portfolio. Lease rental revenue is recognized on a straight-line basis over the term of the lease. Our aircraft lease agreements generally provide for the 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

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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 had 14 aircraft that we owned at December 31, 2007 with leases originally scheduled to expire in 2008 and, as of May 2, 2008, we had executed leases or renewals, with respect to all 14 of these aircraft. 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 14% higher than the previous rentals. Additionally, two aircraft with lease expiration dates in 2008 are committed for sale upon return from the existing lessee.

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

Since June 2007, we purchased three off-lease Boeing 747-400 aircraft. In June 2007, we also entered in a passenger to freighter conversion agreement for these aircraft. The first two aircraft were purchased in June and August 2007, and were placed on short-term interim leases until their scheduled freighter conversion processes begin during the second and fourth quarters of 2008, respectively. We purchased the third aircraft during the fourth quarter of 2007, and its freighter conversion process was completed at the end of March 2008 and it was delivered to a lessee. We have executed a long-term, post-conversion lease for one of the remaining aircraft, and are actively marketing the third aircraft for lease upon completion of its freighter conversion process, currently scheduled for February 2009.

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 expect to deliver the aircraft under the 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 lease 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 are actively marketing this aircraft. For the balance of 2008, we have commitments to acquire three additional off-lease aircraft, for which we have lease commitments or letters of intent for all of these aircraft.

Revenues from operating lease rentals for the three months ended March 31, 2007 and 2008 were \$67.4 million and \$133.7 million, respectively. Our operating lease revenues increased significantly from 2007 to 2008 primarily as a result of continued aircraft acquisitions during 2007 and 2008 which caused our aircraft fleet to grow from 77 aircraft at March 31, 2007, to 136 aircraft at March 31, 2008, all but one of which were on lease.

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 months ended March 31, 2007 were \$2.6 million as compared to \$1.3 million for the three months ended March 31, 2008. The decrease in interest income of \$1.3 million 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. As we continue to grow, we expect that depreciation of flight equipment held for lease and interest expense will grow with revenue growth. We also expect that SG&A will decline as a percentage of our total assets and of our revenues as we leverage our existing infrastructure over a greater revenue base.

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

Income Tax Provision

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to us or to any of our operations or to our shares,

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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 therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries own aircraft that operate to, from or within the U.S. and therefore 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

As of May 2, 2008, we had acquired and committed to acquire aviation assets having an aggregate purchase price equal to \$4.3 billion and \$1.3 billion, respectively, or a total of approximately \$5.6 billion.

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 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 periodically with a view to deploying capital in a manner that we expect will maximize shareholder value. Although our focus is not on trading assets, from time to time we may sell aircraft or debt investments in order to manage our portfolio exposure and in cases where we believe that capital can be better deployed. We analyze each aircraft as its lease expiration approaches to determine whether to offer it for sale or lease and also analyze aircraft sale opportunities on a portfolio-wide basis as market conditions evolve.

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 and in March 2008, we removed one additional aircraft from the GAIF Acquisition Agreement, reducing the total number of aircraft to be acquired to 35, with an aggregate base purchase price of approximately \$1.452 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. We acquired 28 aircraft in 2007, two aircraft during the first quarter of 2008 and one in April 2008 related to this transaction and, of the remaining four aircraft, we expect to acquire three in 2008 and one in February 2009. We have made accelerated payments to the relevant GAIF seller in relation to all of the aircraft remaining to be delivered in 2008 and 2009.

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. The New A330 Aircraft are scheduled for delivery between June 2010 and November 2011, with five scheduled for delivery in 2010. Under limited circumstances, we have the right to change certain delivery positions from A330-200 freighter configuration aircraft to A330-200 passenger configuration aircraft.

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The following table sets forth certain information with respect to the aircraft acquired or to be acquired by us as of March 31, 2008:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

| | Owned Aircraft as of March 31, 2008⁽¹⁾ | Aircraft Committed to be Acquired as of March 31, 2008⁽²⁾⁽⁵⁾ | Total |
|---|--|--|--------------|
| Flight Equipment Held for Lease | \$ 3,981 | \$ 195 | \$4,176 |
| Number of Aircraft | 136 | 5 | 141 |
| Number of Lessees | 59 | 2 | 61 |
| Number of Countries | 31 | 2 | 32 |
| Weighted Average Age Passenger (years) ⁽³⁾⁽⁶⁾ | 10.3 | 16.8 | 10.4 |
| Weighted Average Age Freighter (years) ⁽³⁾⁽⁶⁾ | 9.7 | | 8.4 |
| Weighted Average Age Combined (years) ⁽³⁾⁽⁶⁾ | 10.2 | 4.5 | 9.9 |
| Weighted Average Remaining Passenger Lease Term (years) ⁽⁴⁾⁽⁶⁾ | 4.1 | 5.0 | 4.1 |
| Weighted Average Remaining Cargo Lease Term (years) ⁽⁴⁾⁽⁶⁾ | 8.7 | 12.0 | 9.2 |
| Weighted Average Remaining Combined Lease Term (years) ⁽⁴⁾⁽⁶⁾ | 5.2 | 10.1 | 5.4 |

(1) Calculated using net book value.

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

(3) Weighted average age (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of March 31, 2008. The age of any aircraft not yet acquired is measured as of

its expected acquisition date.

- (4) Weighted average remaining lease term (years) by net book value, or in the case of aircraft not yet acquired, base purchase price, is as of March 31, 2008. Remaining lease term for any aircraft not yet acquired is measured as of the expected acquisition date.
- (5) Calculated using base purchase price which represents the purchase price subject to certain agreed upon adjustments.
- (6) Two Boeing Model 747-400 aircraft currently on short-term leases in passenger configuration are included as Passenger aircraft; the remaining lease term for one of these aircraft, for which we have an executed lease post-conversion, is measured based on the ten-year term of that post-conversion

lease, while the remaining lease term for the other is measured based on the 2008 expiry date on the existing short-term passenger configuration leases.

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| Aircraft Type | Owned Aircraft as of March 31, 2008 | | Aircraft Committed to be Acquired as of March 31, 2008 ⁽¹⁾ % of Base | | Total % of Net Book Value plus Base | |
|---------------------------------|--|---------------------------|---|----------------------------------|---|-------------------|
| | Number of Aircraft | % of Net Book Value | Number of Aircraft | Purchase Price ⁽²⁾ | Number of Aircraft | Purchase Price |
| Passenger: | | | | | | |
| Narrowbody | 94 | 49% | 4 | 27% | 98 | 48% |
| Midbody | 24 | 24% | | % | 24 | 23% |
| Widebody ⁽³⁾ | 3 | 4% | | % | 3 | 4% |
| Total Passenger | 121 | 77% | 4 | 27% | 125 | 75% |
| Freighter | 15 | 23% | 1 | 73% | 16 | 25% |
| Total | 136 | 100% | 5 | 100% | 141 | 100% |
| Manufacturer | | | | | | |
| Boeing | 95 | 66% | 1 | 73% | 96 | 67% |
| Airbus | 41 | 34% | 4 | 27% | 45 | 33% |
| Total | 136 | 100% | 5 | 100% | 141 | 100% |
| Regional Diversification | | | | | | |
| Europe | 64 | 45% | 1 | 73% | 65 | 46% |
| Asia ⁽⁴⁾ | 35 | 25% | 4 | 27% | 39 | 25% |
| North America | 14 | 11% | | % | 14 | 10% |
| Latin America | 12 | 7% | | % | 12 | 7% |
| Middle East and Africa | 10 | 12% | | % | 10 | 12% |
| Off-lease | 1 | % | | % | 1 | % |
| Total | 136 | 100% | 5 | 100% | 141 | 100% |

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

- (2) Base purchase price represents the purchase price subject to certain agreed upon adjustments.
- (3) Two Boeing Model 747-400 aircraft currently on short-term leases in passenger configuration are included as Passenger aircraft.
- (4) Includes two Boeing Model 747-400 aircraft currently on short-term lease in passenger configuration to airlines in Asia. These aircraft will be converted to freighter configuration in 2008 and 2009 and we have executed a lease with a carrier in North America for one of these aircraft post-conversion.

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Our top 15 customers for aircraft we owned at March 31, 2008, representing 66 aircraft and 59% of the net book value of flight equipment held for lease, are as follows:

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

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

Our owned aircraft portfolio as of March 31, 2008 is listed in Exhibit 99.1 in the original Form 10-Q. Approximately 86% of the aircraft we owned as of March 31, 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.

Finance

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

On May 2, 2008 two of our subsidiaries entered into a seven year, \$786.1 million term debt facility (the ACS 2008-1 Credit Facility) to finance a portfolio of 28 aircraft. The loans under the ACS 2008-1 Credit Facility were funded into an aircraft purchase escrow account on May 2, 2008. These loans will be released to us as the financed aircraft transfer into the facility. Proceeds from the financing will be 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 will bear interest

on a floating rate basis at a rate of one-month LIBOR plus 1.75% and will mature on May 2, 2015. We estimate that our aggregate up-front costs, including fees payable to the lenders and legal and professional service fees but excluding termination fees on our interest rate hedging contracts, will equal approximately \$16.5 million. We will enter into interest rate hedging arrangements with respect to all or a substantial portion of the principal balance of the loans under the ACS 2008-1 Credit Facility in order to effectively pay interest at a fixed rate on all or a substantial portion of the loans. Our obligations under these hedging arrangements will be secured pari passu with the lenders and, accordingly, we do not expect that we will be obliged to pledge cash collateral to secure any loss in value should interest rates fall.

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After transferring all of the 28 aircraft into the ACS 2008-1 Credit Facility, we expect to have ten aircraft with outstanding borrowings of \$249,963 in our Amended Credit Facility No. 2 and we expect to repay the outstanding balance under the 2008-A Credit Facility and terminate this 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 and additional equity offerings. 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 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 Credit Facilities, Securitizations, and Equity Offerings.

RESULTS OF OPERATIONS***Comparison of the three months ended March 31, 2007 to the three months ended March 31, 2008***

| (Dollars in thousands) | Three Months Ended March 31, | |
|--|---|---------------|
| | 2007 | 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 |

Revenues:

Total revenues increased by 92.8% or \$65.0 million for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007, primarily as a result of the following:

Lease Rental Revenue. The increase in lease rental revenue of \$66.3 million for the three months ended March 31, 2008 over the same period in 2007 was primarily due to the increase in our owned aircraft portfolio, increasing from 77 aircraft on lease at March 31, 2007 to 136 aircraft at March 31, 2008, all but one of which were on-lease, and an average 14% increase in lease rental rates for lease renewals which occurred during the first quarter of 2008.

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Interest Income. The decrease in interest income of \$1.3 million was primarily due to the sale of two of our debt investments in February 2008.

Expenses:

Total expenses increased by 115.1% or \$54.4 million for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 primarily as a result of the following:

Depreciation expense increased \$26.6 million for the first quarter of 2008 over the same period in 2007 as a result of an increase in our owned aircraft portfolio from 77 aircraft at March 31, 2007 to 136 aircraft at March 31, 2008 reflecting the \$1.92 billion paid to purchase 59 incremental aircraft.

Interest, net consisted of the following:

| (Dollars in thousands) | Three Months Ended March 31, | |
|---------------------------|---------------------------------|-----------|
| | 2007 | 2008 |
| Interest expense | \$ 18,491 | \$ 46,322 |
| Less interest income | (1,761) | (1,731) |
| Less capitalized interest | | (3,580) |
| Interest, net | \$ 16,730 | \$ 41,011 |

Interest, net increased due to additional interest expense of \$27.8 million primarily as a result of a weighted average increase of \$1.53 billion of additional borrowings under Securitization No. 2, which was completed on June 8, 2007, and under our various credit facilities for the three months ended March 31, 2008 as compared to the same period in 2007. This additional expense was partially offset by \$3.6 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 March 31, 2007.

Selling, general and administrative expenses, or SG&A, for the first quarter of 2008 increased \$3.0 million, or 35.2% over the first quarter of 2007. This increase was due primarily to an increase in personnel costs of \$1.7 million, consisting primarily of salary and non-cash share based payments, as the number of employees increased from 52 at March 31, 2007 to 68 at March 31, 2008, an increase in professional fees of \$0.8 million, consisting primarily of auditing and tax compliance fees, and an increase of \$0.5 million in other expenses. Non-cash share based expense was \$1.3 million and \$1.6 million, respectively, for the three months ended March 31, 2007 and 2008. SG&A as a percentage of total assets was 0.3% for the three months ended March 31, 2008, as compared with 0.4% for the same period in 2007. We expect SG&A as a percentage of total assets to continue to decrease as we grow our assets and expect that there will be quarter-to-quarter variations throughout the year driven by the timing of certain professional fees incurred during the year.

Other expenses increased \$0.5 million during the three months ended March 31, 2008 primarily as a result of the loss on the sale of two of our debt investments of \$0.2 million during the first quarter of 2008, and an increase in flight equipment insurance of \$0.3 million as compared to the same period in 2007.

Income Tax Provision

Our provision for income taxes for the three months ended March 31, 2007 and 2008 was \$1.9 million and \$1.7 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 decrease in our income tax provision of approximately \$0.2 million for the three months ended March 31, 2008 as compared to the same period in 2007 was primarily attributable to the decrease 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 therefore typically are not subject to U.S. federal, state or local income taxes. However, certain of these non-U.S. subsidiaries

own aircraft that operate to, from or within the U.S. and therefore may be subject to federal, state and local income

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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 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.

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.

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; and

Principal and interest payments from our debt investments.

During the three months ended March 31, 2008, we acquired commercial jet aircraft and made capital improvements to our aircraft portfolio totaling \$35.5 million (excluding assets not yet earning revenue of \$48.0 million, comprising deposits and progress payments and the acquisition of one off-lease aircraft as of March 31, 2008). We expect to acquire approximately \$195.0 million of aircraft (including \$49.0 million of purchase deposits paid as of March 31, 2008) during the next twelve months. In addition, at March 31, 2008, we expect capital expenditures and lessee maintenance payment draws on our owned and committed aircraft portfolio to be approximately \$145.2 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 \$105.8 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 the 2008-A Credit Agreement, the ACS 2008-1 Credit Facility and future extensions, replacements and refinancings 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)

| (Dollars in thousands) | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2007 | 2008 |
| | (Restated) | |
| Net cash flow provided by operating activities | \$ 31,210 | \$ 58,765 |
| Net cash flow used in investing activities | (445,765) | (86,608) |
| Net cash flow provided by financing activities | 405,445 | 31,648 |

Operating activities provided net cash flow of \$31.2 million and \$58.8 million for the three months ended March 31, 2007 and March 31, 2008, respectively. Cash flow from operations is primarily generated from rents received pursuant to the lease agreements on our aircraft. It is reduced by interest paid on our borrowings and by selling, general and administrative expenses. The amount of rent we receive depends on various factors, including the size, age and composition of our aircraft portfolio. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease. However, the amount of rent we receive may vary due to several factors, including the credit worthiness of our lessees and the occurrence of delinquencies and defaults. It is also affected by the

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extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases. Our success in re-leasing aircraft is affected by market conditions for our aircraft and by general industry trends. At March 31, 2007, all 77 of our aircraft were on-lease. At March 31, 2008, all but one of our 136 aircraft were on-lease. Cash flow provided by operations is also affected by the interest expense we pay on our credit facilities and by our decisions to hedge the risk of changing interest rates. All of our debt is currently floating rate and varies with changes in the London Interbank Offered Rate, or LIBOR. To the extent interest rates increase, we may be liable for more interest payments to our lenders. Our practice has been to hedge the expected future interest payments on a substantial portion of our floating rate liabilities by entering into derivative contracts. However, we remain exposed to changes in interest rates to the extent we decide to remain un-hedged and the degree to which our hedges are not perfectly correlated to the hedged future cash flows.

Net cash flow used in investing activities totaled \$445.8 million and \$86.6 million for the three months ended March 31, 2007 and 2008, respectively. During the three months ended March 31, 2008 we made a gross investment of \$117.4 million in the acquisition and improvement of flight equipment, or \$117.0 million net of accrued liabilities as compared to our gross investments of \$436.5 million, or \$428.9 million net of accrued liabilities during the three months ended March 31, 2007. The decrease in the acquisition of flight equipment resulted from fewer aircraft acquisitions during the three months ended March 31, 2008 (three aircraft) as compared to the same period in 2007 (nine aircraft), and as a result of progress payments made during the second half of 2007 for aircraft acquired during the first quarter of 2008. We invested \$15.3 million in debt investments during the three months ended March 31, 2007. We did not sell any debt investments during the three months ended March 31, 2007. During the three months ended March 31, 2008, we did not invest in any debt investments and we sold \$65.3 million of debt investments. We received \$12.7 million of principal payments on our debt investments during the three months ended March 31, 2007 as compared to \$11.2 million during the three months ended March 31, 2008. We paid \$8.6 million in deposits on aircraft purchased during the three months ended March 31, 2007, as compared to \$5.3 million during the three months ended March 31, 2008. Net cash collateral posted with our derivative counterparties increased \$40.6 million for the three months ended March 31, 2008 as a result of increased mark-to-market losses and lower interest rates as compared to December 31, 2007. For the three months ended March 31, 2007, we posted \$5.7 million with our derivative counterparties.

Net cash flow from financing activities totaled \$405.4 million and \$31.6 million for the three months ended March 31, 2007 and 2008, respectively. During the three months ended March 31, 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 three months ended March 31, 2007, we borrowed \$486.6 million under our credit facilities. Net cash flows from financing activities also reflects net proceeds of \$11.8 million from security and maintenance deposits for the three months ended March 31, 2007. These increases for the three months ended March 31, 2007 were offset by the payments of \$553.0 million under our credit facilities, including the payments of \$398.1 million to repay borrowings under Amended Credit Facility No. 2 and \$75.0 million to repay borrowings under the Revolving Credit Facility from the net proceeds of our follow-on public offering on February 13, 2007. We also paid \$22.6 million in dividends which were declared in the fourth quarter of 2006, \$5.4 million under our Securitization No. 1 and \$3.8 million under our repurchase agreements.

During the three months ended March 31, 2008, we borrowed \$325.6 million under our credit facilities and received net proceeds of \$20.5 million from security and maintenance deposits. These increases were offset by payments of \$142.2 million under our credit facilities, \$65.5 million under our repurchase agreements as a result of the sale of our debt investments, \$55.0 million in dividends which were declared in the fourth quarter of 2007, \$32.7 million to terminate certain cash flow hedges on our credit facilities and repurchase agreements, and \$15.7 million under our Securitization No. 1 and No. 2.

Table of Contents**Debt Obligations**

The following table provides a summary of our credit facilities at March 31, 2008:

| Debt Obligation | Collateral | Commitment | Outstanding Borrowing | Interest Rate⁽¹⁾ | Final Stated Maturity |
|--|--|-------------------|----------------------------------|--|--------------------------------------|
| (Dollars in thousands) | | | | | |
| Securitization No. 1 | Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests | \$ 521,725 | \$ 521,725 | 1M LIBOR + 0.27% = 3.09% | 6/20/31 |
| Securitization No. 2 | Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests | 1,140,319 | 1,140,319 | 1M LIBOR + 0.26% = 3.32% | 6/14/37 |
| Revolving Credit Facility ⁽²⁾ | Beneficial interests in subsidiaries | 150,000 | 10,000 | 1M LIBOR + 2.00% = 4.56% | 12/11/08 |
| Amended Credit Facility No. 2 ⁽³⁾ | Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests | 1,000,000 | 846,373 | 1M LIBOR + 1.25% = 4.07% | 12/15/08 |
| 2008-A Credit Facility ⁽⁴⁾ | Interests in aircraft leases, beneficial interests in aircraft owning entities and related interests | 300,000 | 93,294 | 1M LIBOR + 1.50% = 4.32% | 8/04/08 |
| 747 PDP Credit Facility ⁽⁵⁾ | Interests in aircraft leases, rights under aircraft purchase contract, beneficial interest in entities and related interests | 31,925 | 31,925 | 1M LIBOR + 1.00% = 3.82% | 4/15/08 |
| Repurchase Agreements | Securities available for sale | 2,283 | 2,283 | 1M LIBOR | 6/28/08 |

+
0.50% =
3.18%

Total \$ 3,146,252 \$ 2,645,919

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

- (2) 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 are further reduced to \$100.0 million on June 30, 2008, \$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.

- (3) 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.
- (4) 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 provides 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 mature on August 4, 2008 or, if the borrower exercises its extension option, which we refer to as the Extension Option, then the maturity date will be October 29, 2008. We refer to the period from August 4, 2008 to October 29, 2008 as the Extension Period.

- (5) On April 10, 2008, we paid the remaining balance of \$31.9 million.

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 are further reduced to \$100.0 million on June 30, 2008, \$80.0 million on August

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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 March 31, 2008, there were \$10.0 million in loans. The interest rate, including margin, applicable to loans under the Revolving Credit Facility at March 31, 2008 was 4.56% and we had \$6.0 million of letters of credit outstanding 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. We expect to modify or replace our Revolving Credit Facility before its current maturity of December 11, 2008.

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. The interest rate, including margin, applicable to loans under Amended Credit Facility No. 2 at March 31, 2008 was 4.07%.

At March 31, 2008, we had borrowings of \$846.4 million related to 36 aircraft under our Amended Credit Facility No. 2. During the second quarter of 2008, we plan to refinance a majority of these aircraft, as well as three additional aircraft that we expect to acquire during the first half of 2008, with long-term financing using a cost effective debt structure such as a non-recourse securitization or similar bank market financing. We believe that similar bank market financing would be available in a single, diversified portfolio transaction structured like a securitization or would also be available in a series of smaller financings. 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 provides 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 mature on August 4, 2008 or, if the borrower exercises its extension option, then the maturity date will be October 29, 2008, the outside maturity date following closing of the ACS 2008-1 Credit Facility (as defined below). We refer to the period from August 4, 2008 to October 29, 2008 as the Extension Period. Borrowings under the 2008-A Credit Facility bear interest (a) in the case of loans with an interest rate based on the applicable base rate, or ABR, the ABR plus an applicable margin of 0.50% per annum, increasing to 1.50% per annum during the Extension Period or (b) in the case of loans with an interest rate based on the Eurodollar rate, or EDR, the EDR plus an applicable margin of 1.50% per annum, increasing to 2.50% per annum during the Extension Period. Additionally, we are subject to a 0.25% per annum fee, increasing to 0.375% per annum fee during the Extension Period, on any unused portion of the total committed facility. We are also required to pay customary agency fees. The interest rate, including margin, applicable to loans under the 2008-A Credit Facility at March 31, 2008 was 4.32%.

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 and bear interest at one-month LIBOR plus 1.00% per annum, which at March 31, 2008 was 3.82%. 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.

On May 2, 2008 two of our subsidiaries entered into a seven year, \$786.1 million term debt facility (the ACS 2008-1 Credit Facility) to finance a portfolio of 28 aircraft. The loans under the ACS 2008-1 Credit Facility were funded into an aircraft purchase escrow account on May 2, 2008. These loans will be released to us as the financed aircraft transfer into the facility. Proceeds from the financing will be 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 will bear interest on a floating rate basis at a rate of one-month LIBOR plus 1.75% and will mature on May 2, 2015. We estimate that our aggregate up-front costs, including fees payable to the lenders and legal and professional service fees but

excluding termination fees on our interest rate hedging contracts, will equal approximately \$16.5 million. We will enter into interest rate hedging arrangements with respect to all or a substantial portion of the principal balance of the loans under the ACS 2008-1 Credit Facility in order to effectively pay interest at a fixed rate on all or a substantial portion of the

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loans. Our obligations under these hedging arrangements will be secured pari passu with the lenders and, accordingly, we do not expect that we will be obliged to pledge cash collateral to secure any loss in value should interest rates fall.

After transferring all of the 28 aircraft into the ACS 2008-1 Credit Facility, we expect to have ten aircraft with outstanding borrowings of \$250.0 million in our Amended Credit Facility No. 2 and we expect to repay the outstanding balance under the 2008-A Credit Facility and terminate 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. At March 31, 2008, we had one outstanding repurchase agreement totaling \$2.3 million which provides for the payment of interest at one-month LIBOR plus 0.50%, or 3.18% per annum. The repurchase agreement provides for an original term to maturity of three months. If we cannot renew or replace this repurchase agreement as it matures, we will be required to repay it from internal funds or find alternative sources of financing, as to which no assurance can be given.

Our debt obligations contain various customary non-financial loan covenants. Such covenants do not, in management's opinion, materially restrict our investment strategy or our ability to raise capital. We are in compliance with all of our loan covenants as of March 31, 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 \$4.29 billion at March 31, 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 quarter of 2008

Repayment of debt outstanding under our 747 PDP Credit Facility and our repurchase agreements;

The reduction of future amounts owed under our purchase obligations.

These reductions were partially offset by an increase in amounts outstanding under Amended Credit Facility No. 2, our 2008-A Credit Facility and our Revolving Credit Facility.

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The following table presents our actual contractual obligations and their payment due dates as of March 31, 2008:

| Contractual Obligations | Total | Payments Due By Period as of March 31, 2008 | | | |
|--|---------------------|---|-------------------|-------------------|----------------------|
| | | Less than 1 year | 2-3 years | 4-5 years | More than 5 years |
| | | (Dollars in thousands) | | | |
| Securitization No. 1 ⁽¹⁾ | \$ 601,527 | \$ 39,385 | \$ 79,958 | \$ 205,999 | \$ 276,185 |
| Securitization No. 2 ⁽²⁾ | 1,378,443 | 93,663 | 170,776 | 245,323 | 868,681 |
| Revolving Credit Facility ⁽³⁾ | 10,343 | 10,343 | | | |
| Amended Credit Facility No. 2 ⁽³⁾ | 872,329 | 872,329 | | | |
| 2008-A Credit Facility ⁽³⁾ | 94,884 | 94,884 | | | |
| 747 PDP Credit Facility ⁽³⁾⁽⁴⁾ | 32,006 | 32,006 | | | |
| Repurchase agreements ⁽³⁾ | 2,304 | 2,304 | | | |
| Operating leases ⁽⁵⁾ | 5,800 | 1,161 | 2,112 | 1,831 | 696 |
| Purchase obligations ⁽⁶⁾ | 1,295,186 | 267,676 | 689,918 | 337,592 | |
| Total | \$ 4,292,822 | \$ 1,413,751 | \$ 942,764 | \$ 790,745 | \$ 1,445,562 |

(1) Includes interest on variable rate, LIBOR-based instruments at the March 31, 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 March 31, 2008 rate and principal payments based on amortization schedules through February 2018 that require the securitizations 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 March 31, 2008 rate.
- (4) On April 10, 2008, we paid the remaining balance.
- (5) Represents contractual payments on our office leases in Stamford, Connecticut, Dublin, Ireland and Singapore.
- (6) At March 31, 2008, we had purchase agreements or binding letters of intent to acquire 20 aircraft, including 15 from Airbus. Purchase agreements and binding letters of intent are subject to certain conditions to closing and there can be no assurance that such conditions will be satisfied and these

acquisitions
consummated.

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 three months ended March 31, 2007 and 2008, we incurred a total of \$1.3 million and \$6.1 million, respectively, of capital expenditures related to the acquisition of aircraft.

As of March 31, 2008, the weighted average (by net book value) age of our aircraft was approximately 10.2 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 March 31, 2008, we held \$230.6 million of maintenance reserves. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by, or on behalf of, the lessee.

Actual maintenance payments by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance

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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 March 31, 2008.

Foreign Currency Risk and Foreign Operations

At March 31, 2008, all of our leases are 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 March 31, 2008, 11 of our 68 employees were based in Ireland and three employees were based in Singapore. For the three months ended March 31, 2008, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately \$2.1 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 months ended March 31, 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 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 also can affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

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As of March 31, 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 \$3.0 million on an annualized basis, net of amounts received from our interest rate hedges.

Margin Calls

Our repurchase agreements and 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 March 31, 2008, we had margin deposits in the amount of \$35.9 million and \$76.5 million, respectively. As of May 2, 2008, the aggregate fair value of our interest rate swaps and our interest rate forward contracts was a liability of \$167.7 million and we had pledged \$57.4 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 March 31, 2008, we had pledged \$76.5 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 \$0.8 million to satisfy margin calls under our interest rate hedging arrangements.

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We held the following interest rate derivative contracts as of March 31, 2008 (in thousands of dollars):

| Hedged Item | Current/ Starting Notional | Mandatory Early Termination Effective Date | Maturity Date | Future Maximum Notional | Floating Rate | Fixed Rate | Fair Value of Derivative Asset or (Liability) |
|--|----------------------------------|---|---------------|-------------------------------|---------------------|------------------------|--|
| | Amount | Date | Date | Amount | Rate | Rate | |
| Securitization No. 1 | \$ 521,725 | Jun-06 | N/A | Jun-16 | \$ 521,725 | 1M LIBOR + 0.27% | 5.78% \$ (53,603) |
| Securitization No. 2 | 1,140,319 | Jun-07 | N/A | Jun-12 | 1,140,319 | 1M LIBOR | 5.25% to 5.36% (92,417) |
| Revolving Credit Facility | 28,000 | Jun-07 | Dec-11 | Jan-12 | 203,000 | 1M LIBOR | 4.89% (7,528) |
| Amended Credit Facility No. 2 | 240,000 | Jun-07 | Jun-08 | Feb-13 | 240,000 | 1M LIBOR | 4.88% (17,256) |
| Amended Credit Facility No. 2 and 747 PDP Credit Facility | 220,000 | Aug-07 | Nov-08 | May-13 | 220,000 | 1M LIBOR | 5.33% (17,632) |
| Future debt and securitization | 190,000 | Jan-08 | Feb-09 | Feb-19 | 360,000 | 1M LIBOR | 5.16% (33,180) |
| Future debt and securitization | 5,000 | May-08 | Sep-09 | Mar-14 | 55,000 | 1M LIBOR | 5.41% (4,818) |
| Future debt and securitization | 46,000 | Apr-10 | Nov-11 | Oct-15 | 231,000 | 1M LIBOR | 5.17% (8,647) |
| Future debt and securitization | 95,000 | Jan-11 | May-12 | Apr-16 | 238,000 | 1M LIBOR | 5.23% (7,068) |
| Future debt and securitization | 143,000 | Jul-11 | Oct-12 | Sep-16 | 238,000 | 1M LIBOR | 5.27% (5,917) |
| Repurchase Agreement ⁽¹⁾ | | N/A | N/A | N/A | | N/A | N/A (175) |
| Repurchase Agreement | 2,900 | Jun-05 | N/A | Mar-13 | 2,900 | 1M LIBOR | 4.21% (124) |
| Total | \$ 2,631,944 | | | | \$ 3,449,944 | | \$ (248,365) |

(1) In March 2008, we terminated this interest rate swap with a notional amount of \$5,000, which was settled on April 1, 2008.

Of the \$248.4 million fair value of our derivative liability at March 31, 2008, \$179.5 million of the liability is counterparties or guarantors of these counterparties rated AA3 or above by Standard & Poors and \$68.9 million is with counterparties rated Baa3 Baa1 by Standard & Poors. The total current/starting notional amount with counterparties or guarantors of these counterparties rated AA3 or above is \$1.85 billion and \$777.0 million with counterparties rated Baa3 Baa1.

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 whose underlying securities 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 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. These swaps were hedging interest payments related to borrowings under Amended Credit Facility No. 2. For the three months ended March 31, 2008, \$0.2 million was reclassified into interest expense on the consolidated statement of income.

For the three months ended March 31, 2007 and 2008, we recognized ineffectiveness losses of \$0 million and \$2.0 million related to our cash flow hedges. These amounts are included in interest expense on the consolidated statements of income.

As of March 31, 2008, we had pledged \$76.5 million in cash collateral under our interest rate swaps and our interest rate forward contracts, which is included in other assets on our consolidating balance sheet.

We will enter into interest rate hedging arrangements with respect to all or a substantial portion of the principal balance of the loans under the ACS 2008-1 Credit Facility in order to effectively pay interest at a fixed rate on all or a substantial portion of the loans. Our obligations under these hedging arrangements will be secured pari passu with the lenders and, accordingly, we do not expect that we will be obliged to pledge cash collateral to secure any loss in value should interest rates fall.

Table of Contents**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.

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 months ended March 31, 2007 and 2008.

| (Dollars in thousands) | Three Months Ended March | |
|--|---------------------------------|-------------------|
| | 2007 | 2008 |
| Net income | \$ 21,541 | \$ 31,637 |
| Depreciation | 21,633 | 48,215 |
| Amortization | (1,659) | (2,646) |
| Interest, net | 16,730 | 41,011 |
| Income tax provision | 1,905 | 1,714 |
| Earnings from discontinued operations, net of income taxes | (684) | |
| EBITDA | \$ 59,466 | \$ 119,931 |

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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 March 31, 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 as of March 31, 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 March 31, 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, 2008, 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 March 31, 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.

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Item 6. Exhibits

| Exhibit No. | Description of Exhibit |
|--------------------|---|
| 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 |

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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

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