

Aircastle LTD  
Form 10-Q  
November 14, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(mark one)

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

For the quarterly period ended September 30, 2006

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 organisation)  
300 First Stamford Place, 5<sup>th</sup> Floor, Stamford, CT  
(Address of principal executive offices)

98-0444035  
(IRS Employer  
Identification No.)  
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 or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Number of shares outstanding as of November 13, 2006: 51,507,252 common shares, par value \$0.01 per share.

Aircastle Limited and Subsidiaries

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Part I. – Financial Information

Item 1. Financial Statements

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

	December 31, 2005	September 30, 2006 (unaudited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 79,943	\$ 38,970
Accounts receivable	3,115	5,489
Debt securities, available for sale	26,907	120,271
Restricted cash and cash equivalents	40,652	106,714
Flight equipment held for sale	54,917	—
Flight equipment held for lease, net of accumulated depreciation of \$14,685 and \$52,267	746,124	1,509,443
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of \$165 and \$547	1,529	1,494
Fair value of derivative assets	3,608	308
Aircraft purchase deposits	3,465	2,000
Other assets	7,272	23,770
Total assets	\$ 967,532	\$ 1,808,459
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings under credit facilities	\$ 490,588	\$ 351,226
Borrowings from securitization	—	554,733
Accounts payable, accrued expenses and other liabilities	12,038	29,829
Payable to affiliates	105	179
Lease rentals received in advance	6,241	10,233
Repurchase agreements	8,665	83,839
Security deposits and maintenance payments	37,089	111,190
Fair value of derivative liabilities	1,870	18,869
Total liabilities	556,596	1,160,098
Commitments and Contingencies – Note 12		
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, \$.01 par value, 100,000,000 shares authorized, 40,000,000 shares issued and outstanding at December 31, 2005; and 51,507,252 shares issued and outstanding at September 30, 2006	400	515
Additional paid-in capital	400,009	629,238
(Accumulated deficit) retained earnings	(1,237)	9,405
Accumulated other comprehensive income	11,764	9,203
Total shareholders' equity	410,936	648,361
Total liabilities and shareholders' equity	\$ 967,532	\$ 1,808,459

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2006	2005	2006
Revenues				
Lease rentals	\$ 6,850	\$ 50,415	\$ 13,047	\$ 121,413
Interest income	943	2,487	2,225	6,588
Other revenue	65	153	65	153
Total revenues	7,858	53,055	15,337	128,154
Expenses				
Depreciation	3,182	16,419	6,644	38,182
Interest (net of interest income of \$333 and \$1,830 for the three months ended and \$537 and \$4,394 for the nine months ended September 30, 2005 and 2006, respectively)	1,604	14,177	3,217	35,058
Selling, general and administrative (including non-cash share based payment expense of \$158 and \$1,044 for the three months and \$249 and \$7,729 for the nine months ended September 30, 2005 and 2006, respectively)	4,103	5,179	7,950	21,219
Other expenses	367	312	921	1,229
Total expenses	9,256	36,087	18,732	95,688
Income (loss) from continuing operations before income taxes	(1,398)	16,968	(3,395)	32,466
Income tax provision	208	1,786	461	4,453
Income (loss) from continuing operations	(1,606)	15,182	(3,856)	28,013
Earnings from discontinued operations net of income taxes	—	—	—	3,399
Net income (loss)	\$ (1,606)	\$ 15,182	\$ (3,856)	\$ 31,412
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.04)	\$ .32	\$ (.10)	\$ .64
Earnings from discontinued operations, net of income taxes	—	—	—	.08
Net income (loss) per share	\$ (.04)	\$ .32	\$ (.10)	\$ .72
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (.04)	\$ .32	\$ (.10)	\$ .63
Earnings from discontinued operations, net of income taxes	—	—	—	.08
Net income (loss) per share	\$ (.04)	\$ .32	\$ (.10)	\$ .71
Dividends paid per share	\$ —	\$ .506	\$ —	\$ .506

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)

	Nine Months ended September 30,	
	2005	2006
Cash flows from Operating activities		
Adjustments to reconcile net (loss) income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):	\$ (3,856)	\$ 31,412
Depreciation	6,644	38,182
Amortization	1,497	2,981
Deferred income taxes	38	2,239
Accretion of purchase discounts on debt securities	(524)	(619)
Non-cash share based payment expense	249	7,729
Cash flow hedges reclassified into earnings	—	(1,197)
Ineffective portion of cash flow hedges	(38)	(815)
Gain on the sale of flight equipment held for sale	—	(2,240)
Changes on certain assets and liabilities:		
Accounts receivable	(917)	(2,374)
Restricted cash and cash equivalents	(11,046)	(66,062)
Other assets	(4,111)	(818)
Accounts payable, accrued expenses and other liabilities	3,907	848
Payable to affiliates	(785)	74
Lease rentals received in advance	1,493	3,992
Security deposits and maintenance payments	8,215	74,101
Net cash provided by operating activities	766	87,433
Cash flows from investing activities		
Acquisition and improvement of flight equipment	(173,293)	(746,081)
Disposition of flight equipment held for sale	—	57,157
Purchase of debt securities	(22,981)	(92,726)
Margin call on derivative	—	(1,555)
Leasehold improvements, furnishings and equipment	(618)	(347)
Aircraft purchase deposits	(5,280)	(40,997)
Principal repayments on debt securities	312	3,589
Proceeds from sale of debt securities	3,294	—
Net cash used in investing activities	(198,566)	(820,960)
Cash flows from financing activities		
Issuance of common shares	—	279,156
Transaction costs from issuance of common shares	—	(20,609)
Repurchase of shares	—	(36,932)