

AIR LEASE CORP  
Form 10-Q  
May 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2014

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 001-35121

**AIR LEASE CORPORATION**

(Exact name of registrant as specified in its charter)

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

**27-1840403**  
(I.R.S. Employer  
Identification No.)

**2000 Avenue of the Stars, Suite 1000N**  
**Los Angeles, California**  
(Address of principal executive offices)

**90067**  
(Zip Code)

Registrant's telephone number, including area code: **(310) 553-0555**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. (Check one):

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

At May 7, 2014, there were 101,916,736 shares of Air Lease Corporation's Class A Common Stock outstanding.

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**Air Lease Corporation and Subsidiaries**

**Form 10-Q**

**For the Quarterly Period Ended March 31, 2014**

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**NOTE ABOUT FORWARD-LOOKING STATEMENTS**

Statements in this quarterly report on Form 10-Q that are not historical facts may constitute forward-looking statements, including any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance. These statements are often, but not always, made through the use of words or phrases such as anticipate, believes, can, could, may, predicts, should, will, estimate, plans, projects, continuing, ongoing, expects, intends and similar words or phrases. These statements are and involve estimates, known and unknown risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed in such statements, including as a result of the following factors, among others:

- our inability to make acquisitions of, or lease, aircraft on favorable terms;
- our inability to obtain additional financing on favorable terms, if required, to complete the acquisition of sufficient aircraft as currently contemplated or to fund the operations and growth of our business;
- our inability to obtain refinancing prior to the time our debt matures;
- impaired financial condition and liquidity of our lessees;
- deterioration of economic conditions in the commercial aviation industry generally;
- increased maintenance, operating or other expenses or changes in the timing thereof;
- changes in the regulatory environment;
- potential natural disasters and terrorist attacks and the amount of our insurance coverage, if any, relating thereto; and
- the factors discussed under Part I Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2013 and other SEC filings.

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All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations. You are therefore cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Air Lease Corporation and Subsidiaries****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and par value amounts)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 256,078	\$ 270,173
Restricted cash	76,741	87,308
Flight equipment subject to operating leases	8,439,676	8,234,315
Less accumulated depreciation	(693,075)	(621,180)
	7,746,601	7,613,135
Deposits on flight equipment purchases	1,180,171	1,075,023
Deferred debt issue costs less accumulated amortization of \$56,265 and \$51,578 as of March 31, 2014 and December 31, 2013, respectively	90,162	90,249
Other assets	203,552	196,716
<b>Total assets</b>	<b>\$ 9,553,305</b>	<b>\$ 9,332,604</b>
<b>Liabilities and Shareholders Equity</b>		
Accrued interest and other payables	\$ 146,177	\$ 131,223
Debt financing	5,943,096	5,853,317
Security deposits and maintenance reserves on flight equipment leases	593,329	569,847
Rentals received in advance	60,620	61,520
Deferred tax liability	226,575	193,263
<b>Total liabilities</b>	<b>\$ 6,969,797</b>	<b>\$ 6,809,170</b>
<b>Shareholders Equity</b>		
Preferred Stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued or outstanding		
Class A Common Stock, \$0.01 par value; authorized 500,000,000 shares; issued and outstanding 101,916,736 and 101,822,676 shares at March 31, 2014 and December 31, 2013, respectively	1,009	1,009
Class B Non-Voting Common Stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding at March 31, 2014 and December 31, 2013		
Paid-in capital	2,211,302	2,209,566
Retained earnings	371,197	312,859
<b>Total shareholders equity</b>	<b>\$ 2,583,508</b>	<b>\$ 2,523,434</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 9,553,305</b>	<b>\$ 9,332,604</b>

(See Notes to Consolidated Financial Statements)



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## Air Lease Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share amounts)

	2014	Three Months Ended March 31, (unaudited)	2013
<b>Revenues</b>			
Rental of flight equipment	\$	230,391	\$ 190,103
Aircraft sales, trading and other		15,894	1,894
Total revenues		246,285	191,997
<b>Expenses</b>			
Interest		44,358	40,230
Amortization of discounts and deferred debt issue costs		6,490	5,210
Interest expense		50,848	45,440
Depreciation of flight equipment		78,142	63,863
Selling, general and administrative		19,186	14,247
Stock-based compensation		3,400	6,775
Total expenses		151,576	130,325
<b>Income before taxes</b>		94,709	61,672
Income tax expense		(33,312)	(21,676)
<b>Net income</b>	\$	61,397	\$ 39,996
<b>Net income per share of Class A and Class B Common Stock:</b>			
Basic	\$	0.60	\$ 0.39
Diluted	\$	0.57	\$ 0.38
<b>Weighted-average shares outstanding:</b>			
Basic		101,857,176	101,260,614
Diluted		110,037,382	108,346,885

(See Notes to Consolidated Financial Statements)

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## Air Lease Corporation and Subsidiaries

## CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(In thousands, except share amounts)

(unaudited)	Preferred Stock		Class A Common Stock		Class B Non-Voting Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
<b>Balance at December 31, 2013</b>		\$	101,822,676	\$ 1,009		\$	\$ 2,209,566	\$ 312,859	\$ 2,523,434
Issuance of restricted stock units			130,103						
Exercise of stock options			19,500				390		390
Stock based compensation expense							3,400		3,400
Cash dividends (declared \$0.03 per share)								(3,059)	(3,059)
Tax withholding related to vesting of restricted stock units			(55,543)				(2,054)		(2,054)
Net income								61,397	61,397
<b>Balance at March 31, 2014</b>		\$	101,916,736	\$ 1,009		\$	\$ 2,211,302	\$ 371,197	\$ 2,583,508

(See Notes to Consolidated Financial Statements)

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## Air Lease Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	March 31,	
	2014	2013
	(unaudited)	
<b>Operating Activities</b>		
Net income	\$ 61,397	\$ 39,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of flight equipment	78,142	63,863
Stock-based compensation	3,400	6,775
Deferred taxes	33,312	21,676
Amortization of discounts and deferred debt issue costs	6,490	5,210
Gain on aircraft sales, trading and other activity	(14,430)	(1,075)
Changes in operating assets and liabilities:		
Other assets	12,482	7,814
Accrued interest and other payables	347	11,048
Rentals received in advance	(900)	5,834
Net cash provided by operating activities	180,240	161,141
<b>Investing Activities</b>		
Acquisition of flight equipment under operating lease	(176,104)	(323,431)
Payments for deposits on flight equipment purchases	(137,318)	(299,029)
Proceeds from aircraft sales, trading and other activity	61,854	
Acquisition of furnishings, equipment and other assets	(49,771)	(36,708)
Net cash used in investing activities	(301,339)	(659,168)
<b>Financing Activities</b>		
Issuance of common stock	390	
Cash dividends paid	(3,055)	(2,532)
Tax withholdings related to vesting of restricted stock units	(2,054)	(1,742)
Net change in unsecured revolving facilities	(233,000)	25,000
Proceeds from debt financings	520,635	551,030
Payments in reduction of debt financings	(201,953)	(99,953)
Restricted cash	10,567	(4,251)
Debt issue costs	(2,306)	(10,760)
Security deposits and maintenance reserve receipts	34,394	40,333
Security deposits and maintenance reserve disbursements	(16,614)	(11,564)
Net cash provided by financing activities	107,004	485,561
Net decrease in cash	(14,095)	(12,466)
Cash and cash equivalents at beginning of period	270,173	230,089
Cash and cash equivalents at end of period	\$ 256,078	\$ 217,623
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for interest, including capitalized interest of \$10,391 and \$6,899 for the three months ended March 31, 2014 and 2013	\$ 43,256	\$ 30,600
<b>Supplemental Disclosure of Noncash Activities</b>		
Buyer furnished equipment, capitalized interest, deposits on flight equipment purchases and seller financing applied to acquisition of flight equipment	\$ 61,448	\$ 108,493
Cash dividends declared, not yet paid	\$ 3,059	\$
Other assets applied to payments for deposits on flight equipment purchases	\$ 12,980	\$

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(See Notes to Consolidated Financial; Statements)

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**Air Lease Corporation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Company Background and Overview**

Air Lease Corporation together with its subsidiaries (the Company, ALC, we, our or us), is a leading aircraft leasing company that was founded by aircraft leasing industry pioneer, Steven F. Udvar-Házy. We are principally engaged in purchasing new commercial jet transport aircraft directly from the manufacturers, such as The Boeing Company (Boeing) and Airbus S.A.S. (Airbus). We lease these aircraft to airlines throughout the world to generate attractive returns on equity. In addition to our leasing activities, we sell aircraft from our fleet to leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee.

**Note 2. Basis of Preparation**

The Company consolidates financial statements of all entities in which we have a controlling financial interest, including the accounts of any Variable Interest Entity in which we have a controlling financial interest and for which we are determined to be the primary beneficiary. All material intercompany balances are eliminated in consolidation. The accompanying Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The accompanying unaudited consolidated financial statements include all adjustments, including only normal, recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows at March 31, 2014, and for all periods presented. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results expected for the year ending December 31, 2014. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Note 3. Debt Financing**

The Company's consolidated debt as of March 31, 2014 and December 31, 2013 are summarized below (in thousands):

<b>March 31, 2014</b>	<b>December 31, 2013</b>
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<b>Unsecured</b>			
Senior notes	\$	3,579,194	\$ 3,055,620
Revolving credit facilities		575,000	808,000
Term financings		229,966	247,722
Convertible senior notes		200,000	200,000
		4,584,160	4,311,342
<b>Secured</b>			
Warehouse facilities		598,372	828,418
Term financings		703,306	654,369
Export credit financing		69,875	71,539
		1,371,553	1,554,326
<b>Total secured and unsecured debt financing</b>		5,955,713	5,865,668
Less: Debt discount		(12,617)	(12,351)
<b>Total debt</b>	\$	5,943,096	\$ 5,853,317

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The Company's secured obligations as of March 31, 2014 and December 31, 2013 are summarized below (in thousands, except number of aircraft which are reflected in units):

	March 31, 2014		December 31, 2013
Nonrecourse	598,372	\$	847,684
Recourse	773,181		706,642
Total	\$ 1,371,553	\$	1,554,326
Number of aircraft pledged as collateral	44		52
Net book value of aircraft pledged as collateral	\$ 2,214,219	\$	2,454,350

*Unsecured revolving credit facilities*

On May 5, 2014, the Company completed an amendment to its \$2.0 billion senior unsecured revolving credit facility (the "Syndicated Unsecured Revolving Credit Facility"). Pursuant to the amendment, we have increased the aggregate capacity by \$100.0 million to \$2.1 billion and extended the availability period to May 2018.

*Senior unsecured notes*

During the quarter ended March 31, 2014, the Company issued \$525.0 million in aggregate principal amount of senior unsecured notes. On January 22, 2014, the Company issued \$25.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.85%. On March 11, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2021 that bear interest at a rate of 3.875%.

*Warehouse facilities*

On March 27, 2014, the Company refinanced a portfolio of secured debt facilities including our non-recourse \$192.8 million senior secured warehouse facility (the "2012 Warehouse Facility"). We reduced the aggregate principal amount outstanding under the portfolio of loans from \$178.5 million to \$101.0 million, reduced the interest rate from LIBOR plus 2.25% to LIBOR plus 1.55% and modified the amortization schedule of the loans, which now have final maturities in March 2019.

*Maturities*

Maturities of debt outstanding as of March 31, 2014 are as follows (in thousands):

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Years ending December 31,

2014	\$	150,206
2015		256,005
2016		943,082
2017		1,421,293
2018		1,203,098
Thereafter		1,982,029
Total(1)(2)	\$	5,955,713

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(1) As of March 31, 2014, the Company had \$598.4 million of debt outstanding under our secured revolving credit facility (The 2010 Warehouse Facility ). The Company is able to draw on the facility during an availability period that ends in June 2015 with a subsequent term out option, through 2018 which is reflected in the maturity schedule above.

(2) As of March 31, 2014, the Company had \$575.0 million of debt outstanding under our unsecured revolving credit facilities. The outstanding drawn balances may be rolled until the maturity date of each respective facility and have been presented as such in the maturity schedule above. Maturities of outstanding drawn balances under the Syndicated Unsecured Revolving Credit Facility have been presented as amended on May 5, 2014.

Table of Contents**Note 4. Commitments and Contingencies***Aircraft Acquisition*

As of March 31, 2014 we had commitments to acquire a total of 331 new aircraft for delivery as follows:

Aircraft Type	2014	2015	2016	2017	2018	Thereafter	Total
Airbus A321-200(1)	11	6					17
Airbus A320/321 NEO			3	12	15	20	50
Airbus A330-300	1						1
Airbus A350-900/1000(2)					1	29	30
Boeing 737-800	10	21	15	11			57
Boeing 737-8/9 MAX(3)					8	96	104
Boeing 777-300ER	5	8	2				15
Boeing 787-9/10				1	7	37	45
ATR 72-600	4	2	5	1			12
Total	31	37	25	25	31	182	331

- (1) All of our Airbus A321-200 aircraft will be equipped with sharklets.
- (2) As of March 31, 2014, five of the Airbus A350-1000 aircraft were subject to reconfirmation.
- (3) As of March 31, 2014, 10 of the Boeing 737-8 MAX aircraft were subject to reconfirmation.

Commitments for the acquisition of these aircraft and other equipment at an estimated aggregate purchase price (including adjustments for inflation) of approximately \$27.4 billion at March 31, 2014 are as follows (in thousands):

Years ending December 31,	
2014	\$ 1,939,366
2015	2,246,445
2016	1,437,709
2017	1,632,751
2018	2,781,520
Thereafter	17,330,093
Total	\$ 27,367,884

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of \$1.2 billion and \$1.1 billion as of March 31, 2014 and December 31, 2013, respectively, which are subject to manufacturer performance commitments. If we are unable to satisfy our purchase commitments, we may forfeit our deposits. Further, we would be subject to breach of contract claims by our lessees and manufacturers.



Table of Contents**Note 5. Net Earnings Per Share**

Basic net earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock; however, potential common equivalent shares are excluded if the effect of including these shares would be anti-dilutive. The Company's two classes of common stock, Class A and Class B Non-Voting, have equal rights to dividends and income, and therefore, basic and diluted earnings per share are the same for each class of common stock.

Diluted net earnings per share takes into account the potential conversion of stock options, restricted stock units, and warrants using the treasury stock method and convertible notes using the if-converted method. For the three months ended March 31, 2013, the Company excluded 150,000 shares related to stock options which were potentially dilutive securities from the computation of diluted earnings per share because including these shares would be anti-dilutive. In addition, the Company excluded 1,789,586 and 2,192,931 shares related to restricted stock units for which the performance metric had yet to be achieved as of March 31, 2014 and 2013, respectively.

The following table sets forth the reconciliation of basic and diluted net income per share (in thousands, except share amounts):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Basic net income per share:</b>		
Numerator		
Net income	\$ 61,397	\$ 39,996