AIR LEASE CORP
Form 10-K
February 28, 2013

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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

For the transition period from to
Commission File Number 001-35121

AIR LEASE CORPORATION

(Exact name of registrant as specified in its charter)

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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock	New York

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The aggregate market value of registrant's voting stock held by non-affiliates was approximately $1,371,557,913 on June 30, 2012, based upon the last reported sales price on the New York Stock Exchange. As of February 22, 2013, there were 99,417,998 shares of Class A Common Stock and 1,829,339 shares of Class B Non-Voting Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of the Proxy Statement relating to registrant's 2013 Annual Meeting of Shareholders have been incorporated by reference into Part III of this report

Table of Contents

Form 10-K
For the Fiscal Year Ended December 31, 2012
INDEX

TABLE OF CONTENTS

Table of Contents

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and other publicly available documents may contain or incorporate statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements appear in a number of places in this Form 10-K and include statements regarding, among other matters, the state of the airline industry, our access to the capital markets, our ability to restructure leases and repossess aircraft, the structure of our leases, regulatory matters pertaining to compliance with governmental regulations and other factors affecting our financial condition or results of operations. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and "should," and variations of these words and similar expressions, are used in many cases to identify these forward-looking statements. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results to vary materially from our future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. Such factors include, among others, general commercial aviation industry, economic and business conditions, which will, among other things, affect demand for aircraft, availability and creditworthiness of current and prospective lessees, lease rates, availability and cost of financing and operating expenses, governmental actions and initiatives, and environmental and safety requirements, as well as the factors discussed under "Item 1A. Risk Factors," in this Annual Report on Form 10-K. We do not intend and undertake no obligation to update any forward-looking information to reflect actual results or future events or circumstances.

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Air Lease Corporation, a Delaware corporation (the "Company", "ALC", "we", "our" or "us"), is an aircraft leasing company that was launched in February 2010 by aircraft leasing industry pioneer Steven F. Udvar-Házy. We are principally engaged in purchasing commercial aircraft which we, in turn, lease to airlines around the world to generate attractive returns on equity. As of December 31, 2012, we owned 155 aircraft of which 82 were new aircraft and 73 were used aircraft and we managed four aircraft. Our fleet is principally comprised of the highest demand and most widely distributed modern technology, fuel efficient single-aisle jet aircraft, twin-aisle widebody aircraft and turboprop aircraft. We manage lease revenues and take advantage of changes in market conditions by acquiring a balanced mix of aircraft types. Our used aircraft are generally less than five years old. All of the aircraft we own were leased as of February 28, 2013. Additionally, as of December 31, 2012 and through February 28, 2013, we had entered into binding purchase commitments to acquire an additional 325 new aircraft through 2023.

Through careful management and diversification of our leases and lessees by geography, lease term, and aircraft age and type, we mitigate the risks of owning and leasing aircraft. We believe that diversification of our leases and lessees reduces the risks associated with individual lessee defaults and adverse geopolitical and regional economic events. We manage lease expirations in our fleet portfolio over varying time periods in order to minimize periods of concentrated lease expirations and mitigate the risks associated with cyclical variations in the airline industry. As of December 31, 2012, the weighted average lease term remaining on our current leases was 6.8 years, and we leased the aircraft in our portfolio to 69 airlines in 40 countries. As of December 31, 2011, the weighted average lease term remaining on our current leases was 6.6 years, and we leased the 102 aircraft in our portfolio to 55 airlines in 33 countries.

We operate our business on a global basis, providing aircraft to airline customers in every major geographical region, including emerging and high-growth markets such as Asia, the Pacific Rim, Latin America, the Middle East and Eastern Europe. According to AVITAS, Inc. ("AVITAS"), a leading advisor to the aviation industry, many of these emerging markets are experiencing increased demand for passenger airline travel and have lower market saturation than more mature markets such as North America and Western Europe. In addition, airlines in some of these emerging markets have fewer financing alternatives, enabling us to command relatively higher lease rates compared to those in more mature markets. With our well-established industry contacts and access to capital, we believe we will be able to continue successfully implementing our business strategy worldwide.

While our primary business is to own and lease aircraft, we also plan to continue growing our fleet management services to third parties for a fee. These services are similar to those we perform with respect to our fleet, including leasing, re-leasing, lease management and sales services. In addition to our leasing activities and management services, and depending on market conditions, we sell aircraft from our fleet to other leasing companies, financial services companies and airlines.

Air Lease Corporation is led by a highly experienced management team that includes Mr. Udvar-Házy, our Chairman and Chief Executive Officer, John L. Plueger, our President and Chief Operating Officer, Grant A. Levy, our Executive Vice President, Carol H. Forsyte, our Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer, Marc H. Baer, our Executive Vice President, Marketing, Alex A. Khatibi, our Executive Vice President, Jie Chen, our Executive Vice President and Managing Director of Asia, Gregory B. Willis, our Senior Vice President and Chief Financial Officer, and John D. Poerschke, our Senior Vice President of Aircraft Procurement

Table of Contents

and Specifications. On average, our senior management team has approximately 22 years of experience in the aviation industry.

Operations to Date

Current Fleet

As of December 31, 2012, our fleet consisted of 155 aircraft, comprised of 118 single-aisle narrowbody jet aircraft, 27 twin-aisle widebody jet aircraft and 10 turboprop aircraft, with a weighted average age of 3.5 years. As of December 31, 2011, our fleet consisted of 102 aircraft, comprised of 81 single-aisle narrowbody jet aircraft, 19 twin-aisle widebody jet aircraft and two turboprop aircraft, with a weighted average age of 3.6 years. As of December 31, 2010, our fleet consisted of 40 aircraft, comprised of 36 single-aisle narrowbody jet aircraft and four twin-aisle widebody jet aircraft, with a weighted average age of 3.8 years.

Geographic Diversification

Over 90% of our aircraft are operated internationally based on net book value. The following table sets forth the net book value and percentage of the net book value of our aircraft portfolio operating in the indicated regions as of December 31, 2012 and 2011:

Region	December 31, 2012 Net book value	December 31, 2012 % of total	December 31, 2011 Net book value	December 31, 2011 % of total
	(dollars in thousands)			
Europe	$ 2,398,531	38.4%	$ 1,782,949	42.1%
Asia/Pacific	2,245,002	35.9%	1,355,432	32.0%
Central America, South America and Mexico	788,189	12.6%	515,145	12.2%
U.S. and Canada	457,546	7.3%	386,101	9.1%
The Middle East and Africa	362,595	5.8%	197,789	4.6%
Total	$ 6,251,863	100.0%	$ 4,237,416	100.0%

At December 31, 2012 and 2011, we leased aircraft to customers in the following regions:

Region	December 31, 2012 Number of customers(1)	December 31, 2012 % of total	December 31, 2011 Number of customers(1)	December 31, 2011 % of total
Europe	17	24.6%	13	23.6%
Asia/Pacific	28	40.6%	22	40.0%
Central America, South America and Mexico	9	13.0%	8	14.6%
U.S. and Canada	8	11.6%	7	12.7%
The Middle East and Africa	7	10.2%	5	9.1%
Total	69	100.0%	55	100.0%

(1) A customer is an airline with its own operating certificate.

Table of Contents

The following table sets forth the dollar amount and percentage of our rental of flight equipment revenues attributable to the indicated regions based on each airline's principal place of business:

Region	Year Ended December 31, 2012 Amount of rental revenue	Year Ended December 31, 2012 % of total	Year Ended December 31, 2011 Amount of rental revenue	Year Ended December 31, 2011 % of total	For the period from Inception to December 31, 2010 Amount of rental revenue	For the period from Inception to December 31, 2010 % of total
	(dollars in thousands)					
Europe	$ 253,376	39.2%	$ 151,566	45.6%	$ 31,157	54.6%
Asia/Pacific	215,537	33.4%	93,237	28.0%	11,933	20.9%
Central America, South America and Mexico	84,341	13.1%	30,714	9.2%	4,953	8.7%
U.S. and Canada	53,201	8.2%	39,350	11.8%	6,309	11.0%
The Middle East and Africa	39,398	6.1%	17,852	5.4%	2,723	4.8%
Total	$ 645,853	100.0%	$ 332,719	100.0%	$ 57,075	100.0%

As our aircraft portfolio grows, we anticipate that a growing percentage of our aircraft will be located in the Asia/Pacific, the Central America, South America and Mexico, and the Middle East and Africa regions.

The following table sets forth the revenue attributable to individual countries representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Country	Year Ended December 31, 2012 Amount of rental revenue	Year Ended December 31, 2012 % of total	Year Ended December 31, 2011 Amount of rental revenue	Year Ended December 31, 2011 % of total	For the period from Inception to December 31, 2010 Amount of rental revenue	For the period from Inception to December 31, 2010 % of total
	(dollars in thousands)					
China	$ 75,451	11.7%	$ 39,603	11.9%	$ 6,091	10.7%
Italy	$ 71,007	11.0%				
France	$ 67,411	10.4%	$ 62,240	18.7%	$ 8,598	15.1%
Germany					$ 15,153	26.5%

The following table sets forth the revenue attributable to individual airlines representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Customer(1)	Year Ended December 31, 2012 Amount of rental revenue	Year Ended December 31, 2012 % of total	Year Ended December 31, 2011 Amount of rental revenue	Year Ended December 31, 2011 % of total	For the period from Inception to December 31, 2010 Amount of rental revenue	For the period from Inception to December 31, 2010 % of total
	(dollars in thousands)					
Alitalia(2)	$ 71,007	11.0%				
Air France			$ 45,444	13.7%	$ 8,598	15.1%
Air Berlin					$ 15,153	26.5%

(1) A customer is an airline with its own operating certificate.

(2) As we continue to grow our fleet through 2013, we anticipate that Alitalia will not represent 10% or more of our rental of flight equipment revenue for the year ended December 31, 2013.

Table of Contents

Aircraft Acquisition Strategy

Our long term aircraft asset acquisition strategy is focused on acquiring the highest demand and most widely distributed modern technology, fuel efficient single-aisle narrowbody jet aircraft, twin-aisle widebody jet aircraft and turboprop aircraft. Our business model is based on ordering these or similar types of aircraft directly from the manufacturers and directly leasing these new aircraft to our customers. We will opportunistically supplement our fleet with secondary purchases from other owners of aircraft and participate in sale-leaseback transactions with airlines; however, our primary strategy is to acquire new aircraft from the manufacturers.

In determining the needs of our lessees or prospective airline customers, we evaluate each potential new and used aircraft acquisition to determine if it supports our primary objective of generating profits while maintaining desired fleet characteristics. Our due diligence process takes into account:

- the needs of our airline customers at the time of acquisition and their anticipated needs at the end of typical leasing cycles;
- an aircraft's fit within our focused fleet based on its type, price, age, market value, specifications and configuration, condition and maintenance history, operating efficiency and potential for future redeployment; and
- an aircraft model's reliability, long-term utility for airline customers, and appeal to a large segment of the industry.

For used aircraft, we perform detailed technical reviews of both the physical aircraft and its maintenance history to minimize our risk of acquiring an aircraft with defects or other service issues. In the case of new aircraft, we work directly with the manufacturers to outfit and configure the aircraft with our airline customers' needs in mind. Our inspection of new aircraft is focused on ensuring that our customers' required specifications and modifications have been met.

We pursue acquisitions of additional aircraft through our relationships with aircraft operators, manufacturers, financial institutions, private investors and third-party lessors. We may also acquire aircraft for lease directly from manufacturers in the secondary market or pursuant to sale-leaseback transactions with aircraft operators. For new aircraft deliveries, we will often separately source many components, including seats, safety equipment, avionics, galleys, cabin finishes, engines and other equipment, from the same providers used by aircraft manufacturers at a lower cost. Manufacturers such as The Boeing Company ("Boeing") and Airbus S.A.S. ("Airbus") will install this buyer furnished equipment in our aircraft during the final assembly process at their facilities. Through this use of our purchasing strategy, we are better able to modify the aircraft to meet our customer's configuration requirements and enhance lease and residual values.

Leasing Process

Our management team identifies prospective lessees based upon industry knowledge and long-standing industry relationships. We seek to meet the specific needs of our airline customers by working closely with potential lessees and, where appropriate, developing innovative lease structures specifically tailored to address those needs. While we structure aircraft leases with our airline customers' needs in mind, we, nevertheless, anticipate that most of our leases will share some common characteristics, including the following:

- most of our leases will be for fixed terms, although, where mutually beneficial, we may provide for purchase options or termination or extension rights;
- most of our leases will require advance monthly payments;
- most of our leases will generally provide that the lessee's payment obligations are absolute and unconditional;

- our lessees will typically be required to make lease payments without deducting any amounts that we may owe to the lessee or any claims that the lessee may have against us;

- most of our leases will also require lessees to gross up lease payments to cover tax withholdings or other tax obligations, other than withholdings that arise out of transfers of the aircraft to or by us or due to our corporate structure; and

- our leases will also generally require that our lessees indemnify us for certain other tax liabilities relating to the leases and the aircraft, including, in most cases, value-added tax and stamp duties.

We may, in connection with the lease of used aircraft, agree to contribute specific additional amounts to the cost of certain first major overhauls or modifications, which usually reflect the usage of the aircraft prior to the commencement of the lease, and which are covered by the prior operator's usage fees. We may be obligated under the leases to make reimbursements of maintenance reserves previously received to lessees for expenses incurred for certain planned major maintenance. We also, on occasion, may contribute towards aircraft modifications (e.g., winglets and new interiors) and recover any such costs over the life of the lease.

The lessee is responsible for compliance with applicable laws and regulations with respect to the aircraft. We require our lessees to comply with the standards of either the U.S. Federal Aviation Administration ("FAA") or its equivalent in foreign jurisdictions. Generally, we receive a cash deposit as security for the lessee's performance of obligations under the lease and the condition of the aircraft upon return. In addition, most leases contain extensive provisions regarding our remedies and rights in the event of a default by a lessee. The lessee generally is required to continue to make lease payments under all circumstances, including periods during which the aircraft is not in operation due to maintenance or grounding.

Some foreign countries have currency and exchange laws regulating the international transfer of currencies. When necessary, we may require, as a condition to any foreign transaction, that the lessee or purchaser in a foreign country obtains the necessary approvals of the appropriate government agency, finance ministry or central bank for the remittance of all funds contractually owed in U.S. dollars. We attempt to minimize our currency and exchange risks by negotiating the designated payment currency in our leases to be U.S. dollars; although, where appropriate, we may agree to leases with payments denominated in other currencies. All guarantees obtained to support various lease agreements are denominated for payment in the same currency as the lease. To meet the needs of certain of our airline customers, a relatively small number of our leases may designate the payment currency to be Euros. As the Euro to U.S. dollar exchange rate fluctuates, airlines' interest in entering into Euro-denominated lease agreements will change. After we agree to the rental payment currency with an airline, the negotiated currency typically remains for the term of the lease. We occasionally may enter into contracts to mitigate our foreign currency risk, but we expect that the economic risk arising from foreign currency denominated leases will be immaterial to us.

Management obtains and reviews relevant business materials from all prospective lessees and purchasers before entering into a lease or extending credit. Under certain circumstances, the lessee may be required to obtain guarantees or other financial support from an acceptable financial institution or other third parties. During the life of the lease, situations may lead us to restructure leases with our lessees. When we repossess an aircraft leased in a foreign country, we generally expect to export the aircraft from the lessee's jurisdiction. In some very limited situations, the lessees may not fully cooperate in returning the aircraft. In those cases, we will take legal action in the appropriate jurisdictions, a process that we expect would ultimately delay the return and export of the aircraft. In addition, in connection with the repossession of an aircraft, we may be required to pay outstanding mechanics' liens, airport charges, and navigation fees and other amounts secured by liens on the repossessed aircraft. These charges could relate to other aircraft that we do not own but were operated by the lessee.

Table of Contents

Monitoring

During the term of a lease, we monitor the operating performance and the financial health of the lessee. Our net operating leases generally require the lessee to pay for maintenance, insurance, taxes and all other aircraft operating expenses during the lease term.

We also closely follow the operating and financial performance of our lessees so that we can identify early on those lessees that may be experiencing operating and financial difficulties. This assists us in assessing the lessee's ability to fulfill its obligations under the lease for the remainder of the term and, where appropriate, restructure the lease prior to the lessee's insolvency or the initiation of bankruptcy or similar proceedings, at which time we would have less control over, and would most likely incur greater costs in connection with, the restructuring of the lease or the repossession of the aircraft. To accomplish this objective, we maintain a high level of communication with the lessee and frequently evaluate the state of the market in which the lessee operates, including the impact of changes in passenger air travel and preferences, new government regulations, regional catastrophes and other unforeseen shocks to the relevant market.

Re-leasing or Disposition of Aircraft

Our lease agreements are generally structured to require lessees to notify us nine to 12 months in advance of the lease's expiration if a lessee desires to renew or extend the lease. Requiring lessees to provide us with such advance notice provides our management team with an extended period of time to consider a broad set of alternatives with respect to the aircraft, including assessing general market and competitive conditions and preparing to re-lease or sell the aircraft. If a lessee fails to provide us with notice, the lease will automatically expire at the end of the term, and the lessee will be required to return the aircraft pursuant to the conditions in the lease. Our leases contain detailed provisions regarding the required condition of the aircraft and its components upon redelivery at the end of the lease term.

Insurance

We require our lessees to carry those types of insurance that are customary in the air transportation industry, including comprehensive liability insurance, aircraft all-risk hull insurance and war-risk insurance covering risks such as hijacking, terrorism (but excluding coverage for weapons of mass destruction and nuclear events), confiscation, expropriation, seizure and nationalization. We generally require a certificate of insurance from the lessee's insurance broker prior to delivery of an aircraft. Generally, all certificates of insurance contain a breach of warranty endorsement so that our interests are not prejudiced by any act or omission of the lessee. Lease agreements generally require hull and liability limits to be in U.S. dollars, which are shown on the certificate of insurance.

Insurance premiums are to be paid by the lessee, with coverage acknowledged by the broker or carrier. The territorial coverage, in each case, should be suitable for the lessee's area of operations. We generally require that the certificates of insurance contain, among other provisions, a provision prohibiting cancellation or material change without at least 30 days' advance written notice to the insurance broker (who would be obligated to give us prompt notice), except in the case of hull war insurance policies, which customarily only provide seven days' advance written notice for cancellation and may be subject to shorter notice under certain market conditions. Furthermore, the insurance is primary and not contributory, and we require that all insurance carriers be required to waive rights of subrogation against us.

The stipulated loss value schedule under aircraft hull insurance policies is on an agreed-value basis acceptable to us and usually exceeds the book value of the aircraft. In cases where we believe that the agreed value stated in the lease is not sufficient, we make arrangements to cover such deficiency, which would include the purchase of additional "Total Loss Only" coverage for the deficiency.

Table of Contents

Aircraft hull policies generally contain standard clauses covering aircraft engines. The lessee is required to pay all deductibles. Furthermore, the hull war policies generally contain full war risk endorsements, including, but not limited to, confiscation (where available), seizure, hijacking and similar forms of retention or terrorist acts.

The comprehensive liability insurance listed on certificates of insurance generally include provisions for bodily injury, property damage, passenger liability, cargo liability and such other provisions reasonably necessary in commercial passenger and cargo airline operations. We expect that such certificates of insurance list combined comprehensive single liability limits of not less than $500.0 million for Airbus and Boeing aircraft and $200.0 million for Embraer S.A. ("Embraer") and Avions de Transport Régional ("ATR") aircraft. As a standard in the industry, airline operator's policies contain a sublimit for third-party war risk liability in the amount of $50.0 million. We require each lessee to purchase higher limits of third-party war risk liability or obtain an indemnity from its respective government.

In late 2005, the international aviation insurance market unilaterally introduced exclusions for physical damage to aircraft hulls caused by dirty bombs, bio-hazardous materials and electromagnetic pulsing. Exclusions for the same type of perils could be introduced into liability policies.

Separately, we purchase contingent liability insurance and contingent hull insurance on all aircraft in our fleet and maintain other insurance covering the specific needs of our business operations. We believe our insurance is adequate both as to coverages and amounts.

We cannot assure stockholders that our lessees will be adequately insured against all risks, that lessees will at all times comply with their obligations to maintain insurance, that any particular claim will be paid, or that lessees will be able to obtain adequate insurance coverage at commercially reasonable rates in the future.

We maintain key man life insurance policies on our Chairman an