

AIR LEASE CORP
Form 10-Q
May 10, 2018
Table of Contents

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, 2018

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)

Edgar Filing: AIR LEASE CORP - Form 10-Q

Delaware 27-1840403
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2000 Avenue of the Stars, Suite 1000N
Los Angeles, California 90067
(Address of principal executive offices) (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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 9, 2018, there were 103,989,227 shares of Air Lease Corporation's Class A common stock outstanding.

Table of Contents

Air Lease Corporation and Subsidiaries

Form 10-Q

For the Quarterly Period Ended March 31, 2018

TABLE OF CONTENTS

<u>Note About Forward-Looking Statements</u>	Page 3
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1</u> <u>Financial Statements</u>	4
<u>Consolidated Balance Sheets—March 31, 2018 and December 31, 2017 (unaudited)</u>	4
<u>Consolidated Statements of Income—Three Months Ended March 31, 2018 and 2017 (unaudited)</u>	5
<u>Consolidated Statement of Shareholders' Equity—Three Months Ended March 31, 2018 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows—Three Months Ended March 31, 2018 and 2017 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4</u> <u>Controls and Procedures</u>	26
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1</u> <u>Legal Proceedings</u>	27
<u>Item 1A</u> <u>Risk Factors</u>	27
<u>Item 2</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 3</u> <u>Defaults Upon Senior Securities</u>	27
<u>Item 4</u> <u>Mine Safety Disclosures</u>	27
<u>Item 5</u> <u>Other Information</u>	27
<u>Item 6</u> <u>Exhibits</u>	28
<u>Signatures</u>	30

Table of Contents

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,” “potential,” “should,” “will,” “estimate,” “projects,” “continuing,” “ongoing,” “expects,” “intends” and similar words or phrases. These statements are only predictions 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 sell 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 effectively oversee our managed fleet;
 - 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;

- unanticipated impacts of the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”), including as a result of changes in assumptions we make in our interpretation of the Tax Reform Act, guidance related to application of the Tax Reform Act that may be issued in the future, and actions that we may take as a result of our expected impact of the Tax Reform Act;

- 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, 2017, and other SEC filings.

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)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	\$ 252,491	\$ 292,204
Restricted cash	19,133	16,078
Flight equipment subject to operating leases	15,544,868	15,100,040
Less accumulated depreciation	(1,955,924)	(1,819,790)
	13,588,944	13,280,250
Deposits on flight equipment purchases	1,567,690	1,562,776
Other assets	516,588	462,856
Total assets	\$ 15,944,846	\$ 15,614,164
Liabilities and Shareholders' Equity		
Accrued interest and other payables	\$ 281,122	\$ 309,182
Debt financing, net of discounts and issuance costs	9,887,499	9,698,785
Security deposits and maintenance reserves on flight equipment leases	894,323	856,140
Rentals received in advance	106,844	104,820
Deferred tax liability	548,435	517,795
Total liabilities	\$ 11,718,223	\$ 11,486,722
Shareholders' Equity		
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 103,979,834 and 103,621,629 shares at March 31, 2018 and December 31, 2017, respectively	1,040	1,036
Class B non-voting common stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding	—	—
Paid-in capital	2,258,987	2,260,064
Retained earnings	1,966,596	1,866,342
Total shareholders' equity	\$ 4,226,623	\$ 4,127,442
Total liabilities and shareholders' equity	\$ 15,944,846	\$ 15,614,164

(See Notes to Consolidated Financial Statements)

4

Table of Contents

Air Lease Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

	Three Months Ended	
	March 31, 2018 (unaudited)	2017
Revenues		
Rental of flight equipment	\$ 377,862	\$ 354,653
Aircraft sales, trading and other	3,347	5,534
Total revenues	381,209	360,187
Expenses		
Interest	68,943	67,063
Amortization of debt discounts and issuance costs	8,022	8,992
Interest expense	76,965	76,055
Depreciation of flight equipment	136,134	123,909
Selling, general and administrative	23,359	22,572
Stock-based compensation	3,432	3,773
Total expenses	239,890	226,309
Income before taxes	141,319	133,878
Income tax expense	(30,668)	(48,941)
Net income	\$ 110,651	\$ 84,937
Net income per share of Class A and Class B common stock:		
Basic	\$ 1.07	\$ 0.83
Diluted	\$ 1.00	\$ 0.78
Weighted-average shares outstanding		
Basic	103,747,920	102,947,611
Diluted	112,230,410	111,429,926
Dividends declared per share	\$ 0.10	\$ 0.075

(See Notes to Consolidated Financial Statements)

Table of Contents

Air Lease Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands, except share and per share amounts)

(unaudited)	Preferred Stock Shares	Class A Common Stock		Class B Non-Voting Common Stock Shares	Paid-in Capital	Retained Earnings	Total		
		Amount	Shares					Amount	
Balance at December 31, 2017	—	\$ —	103,621,629	\$ 1,036	—	\$ —	\$ 2,260,064	\$ 1,866,342	\$ 4,127,442
Issuance of common stock upon vesting of restricted stock units and upon exercise of options	—	—	514,773	4	—	—	2,632	—	2,636
Stock-based compensation	—	—	—	—	—	—	3,432	—	3,432
Cash dividends (declared \$0.10 per share)	—	—	—	—	—	—	—	(10,397)	(10,397)
Tax withholding related to vesting of restricted stock units and exercise of stock options	—	—	(156,568)	—	—	—	(7,141)	—	(7,141)
Net income	—	—	—	—	—	—	—	110,651	110,651
Balance at March 31, 2018	—	\$ —	103,979,834	\$ 1,040	—	\$ —	\$ 2,258,987	\$ 1,966,596	\$ 4,226,623

(See Notes to Consolidated Financial Statements)

Table of Contents

Air Lease Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	March 31, 2018 (unaudited)	2017
Operating Activities		
Net income	\$ 110,651	\$ 84,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of flight equipment	136,134	123,909
Stock-based compensation	3,432	3,773
Deferred taxes	30,668	48,941
Amortization of debt discounts and issuance costs	8,022	8,992
Amortization of prepaid lease costs	7,020	4,037
Gain on aircraft sales, trading and other activity	(765)	(7,264)
Changes in operating assets and liabilities:		
Other assets	(25,605)	(20,359)
Accrued interest and other payables	(24,913)	(30,549)
Rentals received in advance	2,023	3,247
Net cash provided by operating activities	246,667	219,664
Investing Activities		
Acquisition of flight equipment under operating lease	(362,519)	(597,254)
Payments for deposits on flight equipment purchases	(63,751)	(200,549)
Proceeds from aircraft sales, trading and other activity	—	96,840
Acquisition of aircraft furnishings, equipment and other assets	(54,970)	(51,464)
Net cash used in investing activities	(481,240)	(752,427)
Financing Activities		
Issuance of common stock upon exercise of options and warrants	2,628	864
Cash dividends paid	(10,359)	(7,714)
Tax withholdings on stock-based compensation	(7,141)	(5,252)
Net change in unsecured revolving facility	(510,000)	(60,000)
Proceeds from debt financings	1,230,765	487,955
Payments in reduction of debt financings	(537,444)	(46,598)
Debt issuance costs	(2,623)	(1,531)
Security deposits and maintenance reserve receipts	48,754	56,165
Security deposits and maintenance reserve disbursements	(16,665)	(7,840)
Net cash provided by financing activities	197,915	416,049
Net decrease in cash	(36,658)	(116,714)
Cash, cash equivalents and restricted cash at beginning of period	308,282	290,802
Cash, cash equivalents and restricted cash at end of period	\$ 271,624	\$ 174,088
Supplemental Disclosure of Cash Flow Information		

Edgar Filing: AIR LEASE CORP - Form 10-Q

Cash paid during the period for interest, including capitalized interest of \$12,816 and \$11,402 at March 31, 2018 and 2017, respectively	\$ 95,466	\$ 90,059
Supplemental Disclosure of Noncash Activities		
Buyer furnished equipment, capitalized interest, deposits on flight equipment purchases and seller financing applied to acquisition of flight equipment and other assets applied to payments for deposits on flight equipment purchases	\$ 79,677	\$ 220,610
Cash dividends declared, not yet paid	\$ 10,397	\$ 7,736

(See Notes to Consolidated Financial Statements)

Table of Contents

Air Lease Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Company Background and Overview

Air Lease Corporation (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 aircraft manufacturers, such as The Boeing Company (“Boeing”) and Airbus S.A.S. (“Airbus”), and leasing those aircraft to airlines throughout the world with the intention to generate attractive returns on equity. In addition to our leasing activities, we sell aircraft from our operating lease portfolio to third parties, including other leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee. As of March 31, 2018, we owned a fleet of 253 aircraft, managed 49 aircraft and had 372 aircraft on order with aircraft manufacturers.

Note 2. Basis of Preparation and Critical Accounting Policies

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 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, which are in the opinion of management, necessary to present fairly the Company’s financial position, results of operations and cash flows at March 31, 2018, and for all periods presented. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results expected for the year ending December 31, 2018. 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, 2017.

Maintenance Rights

For the three months ended March 31, 2018, the Company purchased two aircraft in the secondary market subject to existing leases. The total cost for the two aircraft was \$73.3 million, which included maintenance right assets of \$13.2 million. The Company did not purchase any aircraft in the secondary market subject to existing leases for the year ended December 31, 2017. As of March 31, 2018 and December 31, 2017, the Company had maintenance right assets, net of accumulated amortization of \$56.8 million and \$44.6 million, respectively. Maintenance right assets are included under flight equipment subject to operating lease in our Consolidated Balance Sheets.

Cash, cash equivalents and restricted cash

The Company considers cash and cash equivalents to be cash on hand and highly liquid investments with original maturity dates of 90 days or less. Restricted cash consists of pledged security deposits, maintenance reserves, and rental payments related to secured aircraft financing arrangements.

Table of Contents

The following table reconciles cash, cash equivalents and restricted cash reported in our consolidated balance sheets to the total amount presented in our consolidated statements of cash flows (in thousands):

	March 31, 2018 (unaudited)	March 31, 2017
Cash and cash equivalents	\$ 252,491	\$ 155,758
Restricted cash	19,133	18,330
Total cash, cash equivalents and restricted cash in the consolidated statements of cash flows	\$ 271,624	\$ 174,088

Reclassifications

Certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications in 2018.

Recently adopted accounting standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers (Topic 606)”. The amendments in ASU 2014-09 supersede current revenue recognition requirements. The guidance specifically notes that lease contracts are a scope exception. ASU 2014-09 requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Further, the guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Effective January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. Adopting this standard did not have a material impact to our consolidated financial statements and related disclosures. As the standard did not apply to lease contracts within the scope of FASB Accounting Standard Codification (“ASC”) 840 Leases, we evaluated the recognition of gains on sale of flight equipment under the scope of the new standard. Under ASU 2014-09, a performance obligation is satisfied and the related revenue recognized when control of the underlying goods or services related to the performance obligation is transferred to the customer. Our performance obligation associated with the sale of flight equipment is satisfied upon delivery of the flight equipment to a customer, which is the point in time where control of the underlying flight equipment has transferred to the buyer. At the time flight equipment is retired or sold, the cost and accumulated depreciation are removed from the related accounts and the

difference, net of transaction price, is recorded as a gain or loss. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In August 2016, the FASB issued ASU No. 2016-15 (“ASU 2016-15”), “Statement of Cash Flows (Topic 230)”. The amendments in ASU 2016-15 address eight classification issues related to the statement of cash flows. The Company adopted ASU 2016-15 using the retrospective transition method. The adoption of this standard did not have an impact on the current period or prior period consolidated financial statements.

In November 2016, FASB issued ASU No. 2016-18 (“ASU 2016-18”), “Statement of Cash Flows (Topic 230): Restricted Cash”. ASU 2016-18 requires entities to present the aggregate changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. In addition, when cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, ASU 2016-18 requires a reconciliation of the totals in the statement of cash flows to the related captions on the balance sheet. The Company adopted ASU 2016-18 retrospectively as of January 1, 2018. The adoption of this standard did not have a material impact on the current period or prior period consolidated financial statements.

Table of Contents

Note 3.Recently Issued Accounting Standards

In February 2016, FASB issued ASU No. 2016-02 (“ASU 2016-02”), Leases (Topic 842). The amendments in ASU 2016-02 set out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018 for public entities and is required to be applied using the modified retrospective transition approach. Early adoption is permitted. Based on our initial evaluation of the guidance, we noted that Lessor accounting is similar to the current model but the guidance will impact us in scenarios where we are the Lessee. We do not expect the impact of this standard to have a material impact on our consolidated financial statements. We will adopt the standard on January 1, 2019.

Note 4.Debt Financing

The Company's debt financing was comprised of the following at March 31, 2018 and December 31, 2017 (dollars in thousands):

	March 31, 2018	December 31, 2017
Unsecured		
Senior notes	\$ 8,768,445	\$ 8,019,871
Revolving credit facility	337,000	847,000
Convertible senior notes	199,975	199,983
Term financings	195,016	203,704
Total unsecured debt financing	9,500,436	9,270,558
Secured		
Term financings	458,371	484,036
Export credit financing	43,256	44,920
Total secured debt financing	501,627	528,956
Total debt financing	10,002,063	9,799,514
Less: Debt discounts and issuance costs	(114,564)	(100,729)
Debt financing, net of discounts and issuance costs	\$ 9,887,499	\$ 9,698,785

The Company's secured obligations as of March 31, 2018 and December 31, 2017 are summarized below (dollars in thousands):

Edgar Filing: AIR LEASE CORP - Form 10-Q

	March 31, 2018	December 31, 2017
Nonrecourse	\$ 198,541	\$ 205,906
Recourse	303,086	323,050
Total secured debt financing	\$ 501,627	\$ 528,956
Number of aircraft pledged as collateral	21	21
Net book value of aircraft pledged as collateral	\$ 1,171,129	\$ 1,184,264

Senior unsecured notes

As of March 31, 2018, the Company had \$8.8 billion in senior unsecured notes outstanding. As of December 31, 2017, the Company had \$8.0 billion in senior unsecured notes outstanding.

In January 2018, the Company issued (i) \$550.0 million in aggregate principal amount of senior unsecured notes due 2021 that bear interest at a rate of 2.50% and (ii) \$700.0 million in aggregate principal amount of senior unsecured notes due 2025 that bear interest at a rate of 3.25%.

Unsecured revolving credit facility

During the quarter ended March 31, 2018, we increased the aggregate capacity of our unsecured revolving credit facility by \$300.0 million to \$4.1 billion.

In May 2018, the Company amended and extended its unsecured revolving credit facility whereby, among other things, the Company extended the final maturity date from May 5, 2021 to May 5, 2022 and increased the total revolving

Table of Contents

commitments to approximately \$4.5 billion from approximately \$4.1 billion with an interest rate of LIBOR plus 1.05% with a 0.20% facility fee. As of May 10, 2018, lenders hold revolving commitments totaling approximately \$4.0 billion that mature on May 5, 2022, commitments totaling \$20.0 million that mature on May 5, 2021, commitments totaling approximately \$247.7 million that mature on May 5, 2020, and commitments totaling \$245.0 million that mature on May 5, 2019.

The total amount outstanding under our unsecured revolving credit facility was approximately \$337.0 million and \$847.0 million as of March 31, 2018 and December 31, 2017, respectively.

Maturities

Maturities of debt outstanding as of March 31, 2018 are as follows (in thousands):

Years ending December 31,	
2018	\$ 838,490
2019	1,168,237
2020	1,202,623
2021	1,968,011
2022	1,226,884
Thereafter	3,597,818
Total	\$ 10,002,063

Note 5. Commitments and Contingencies

As of March 31, 2018 and through May 10, 2018, the Company had commitments to acquire a total of 372 new aircraft for delivery through 2023 as follows:

Aircraft Type	2018	2019	2020	2021	2022	Thereafter	Total
Airbus A321-200	2	—	—	—	—	—	2
Airbus A320/321neo(1)	12	36	27	22	25	25	147
Airbus A330-900neo	5	5	4	7	6	2	29
Airbus A350-900/1000	3	2	4	5	3	—	17

Edgar Filing: AIR LEASE CORP - Form 10-Q

Boeing 737-7/8/9 MAX	10	27	28	35	34	—	134
Boeing 787-9/10	7	12	9	7	8	—	43
Total	39	82	72	76	76	27	372

(1) Our Airbus A320/321neo aircraft orders include 55 long-range variants.

Airbus has informed us to expect several month delivery delays relating to certain aircraft scheduled for delivery in 2018 and 2019. The delays have been reflected in our commitment schedules above; however, we anticipate additional delivery delays not currently reflected in the schedules above. Our leases contain lessee cancellation clauses related to aircraft delivery delays, typically for aircraft delays greater than one year. Our purchase agreements contain similar clauses. As of May 10, 2018, none of our lease contracts were subject to cancellation.

Commitments for the acquisition of these aircraft and other equipment at an estimated aggregate purchase price (including adjustments for inflation) of approximately \$27.0 billion at March 31, 2018 and through May 10, 2018 are as follows (in thousands):

Years ending December 31,	
2018	\$ 3,502,489
2019	5,856,782
2020	5,573,672
2021	5,574,106
2022	4,966,650
Thereafter	1,478,734
Total	\$ 26,952,433

Table of Contents

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of \$1.6 billion as of March 31, 2018 and December 31, 2017, which are subject to manufacturer performance commitments. If we are unable to satisfy our purchase commitments, we may be forced to forfeit our deposits. Further, we would be exposed to breach of contract claims by our lessees and manufacturers.

As of March 31, 2018, the Company had a non-binding commitment to acquire up to five A350-1000 aircraft. Deliveries of these aircraft are scheduled to commence in 2023 and continue through 2024.

Note 6. 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. As of March 31, 2018, we did not have any Class B Non-Voting common stock outstanding.

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, 2018, the Company did not exclude any potentially dilutive securities, whose effect would have been anti-dilutive, from the computation of diluted earnings per share. The Company excluded 933,531 and 1,062,025 shares related to restricted stock units for which the performance metric had yet to be achieved as of March 31, 2018 and 2017, respectively.

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

	Three Months Ended	
	March 31, 2018	2017
Basic net income per share:		
Numerator		

Edgar Filing: AIR LEASE CORP - Form 10-Q

Net income	\$ 110,651	\$ 84,937
Denominator		
Weighted-average common shares outstanding	103,747,920	102,947,611
Basic net income per share	\$ 1.07	\$ 0.83
Diluted net income per share:		
Numerator		
Net income	\$ 110,651	\$ 84,937
Assumed conversion of convertible senior notes	1,739	1,424
Net income plus assumed conversions	\$ 112,390	\$ 86,361
Denominator		
Number of shares used in basic computation	103,747,920	102,947,611
Weighted-average effect of dilutive securities	8,482,490	8,482,315
Number of shares used in per share computation	112,230,410	111,429,926
Diluted net income per share	\$ 1.00	\$ 0.78

Note 7. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring and Non-recurring Basis

The Company had no assets or liabilities which are measured at fair value on a recurring or non-recurring basis as of March 31, 2018 or December 31, 2017.

Table of Contents

Financial Instruments Not Measured at Fair Value

The fair value of debt financing is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities, which would be categorized as a Level 2 measurement in the fair value hierarchy. The estimated fair value and book value of debt financing as of March 31, 2018 were both approximately \$10.0 billion. The estimated fair value of debt financing as of December 31, 2017 was \$10.0 billion compared to a book value of \$9.8 billion.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at March 31, 2018, but require disclosure of their fair values: cash and cash equivalents and restricted cash. The estimated fair value of such instruments at March 31, 2018 and December 31, 2017 approximates their carrying value as reported on the consolidated balance sheet. The fair value of all these instruments would be categorized as Level 1 in the fair value hierarchy.

Note 8. Stock-based Compensation

On May 7, 2014, the stockholders of the Company approved the Air Lease Corporation 2014 Equity Incentive Plan (the "2014 Plan"). Upon approval of the 2014 Plan, no new awards may be granted under the Amended and Restated 2010 Equity Incentive Plan (the "2010 Plan"). As of March 31, 2018, the number of stock options ("Stock Options") and restricted stock units ("RSUs") remaining under the 2014 Plan is approximately 5,649,108, which includes 649,108 shares which were previously reserved for issuance under the 2010 Plan. Stock Options are generally granted for a term of 10 years and generally vest over a three year period. The Company has issued RSUs with four different vesting criteria: those RSUs that vest based on the attainment of book value goals, those RSUs that vest based on the attainment of Total Shareholder Return ("TSR") goals, time based RSUs that vest ratably over a time period of three years and RSUs that cliff-vest at the end of a one or two year period. The Company has two types of book value RSUs — those that vest ratably over three years if the performance condition has been met, and those that vest at the end of a three-year period if the performance condition has been met. For the book value RSUs that vest at the end of the three-year period, the number of shares that will ultimately vest will range from 0% to 200% of the RSUs initially granted depending on the percentage change in the Company's book value per share at the end of the vesting period. At each reporting period, the Company reassesses the probability of the performance condition being achieved and expense is recognized based upon management's assessment. Book value RSUs for which the performance metric has not been met are forfeited. The TSR RSUs vest at the end of a three-year period. The number of TSR RSUs that will ultimately vest is based upon the percentile ranking of the Company's TSR among a peer group. The number of shares that will ultimately vest will range from 0% to 200% of the RSUs initially granted depending on the extent to which the TSR metric is achieved.

The Company recorded \$3.4 million and \$3.8 million of stock-based compensation expense related to RSUs for the three months ended March 31, 2018 and 2017, respectively.

Stock Options

A summary of stock option activity for the three month period ended March 31, 2018 follows:

	Shares	Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)(1)
Balance at December 31, 2017	2,858,158	\$ 20.37	2.49	\$ 79,230
Granted	—	\$ —	—	\$ —
Exercised	(131,363)	\$ 20.00	—	\$ 3,063
Forfeited/canceled	—	\$ —	—	\$ —
Balance at March 31, 2018	2,726,795	\$ 20.39	2.25	\$ 60,624
Vested and exercisable as of March 31, 2018	2,726,795	\$ 20.39	2.25	\$ 60,624

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of our Class A common stock as of the respective date.

As of March 31, 2018, all of the Company's outstanding employee stock options had fully vested and there were no unrecognized compensation costs related to outstanding stock options as of March 31, 2018. As a result, there was no stock-based compensation expense related to Stock Options for the three months ended March 31, 2018 and 2017.

Table of Contents

The following table summarizes additional information regarding exercisable and vested stock options at March 31, 2018:

Range of exercise prices	Stock Options Exercisable and Vested	
	Number of Shares	Weighted- Average Remaining Life (in years)
\$20.00	2,606,795	2.21
\$28.80	120,000	3.07
\$20.00 - \$28.80	2,726,795	2.25

Restricted Stock Units

Compensation cost for stock awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of time based and book value RSUs is determined based on the closing market price of the Company's Class A common stock on the date of grant, while the fair value of TSR RSUs is determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model were certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk-free interest rate and expected dividends. To appropriately value the award, the risk-free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities were estimated based on a historical timeframe equal to the time from the valuation date until the end date of the performance period.

During the three months ended March 31, 2018, the Company granted 337,965 RSUs of which 84,478 are TSR RSUs. The following table summarizes the activities for our unvested RSUs for the three months ended March 31, 2018:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2017	1,163,700	\$ 40.24
Granted	337,965	\$ 47.74
Vested	(383,173)	\$ 42.68
Forfeited/canceled	(34,506)	\$ 47.95
Unvested at March 31, 2018	1,083,986	\$ 41.47

Expected to vest after March 31, 2018	1,117,788	\$	41.60
---------------------------------------	-----------	----	-------

The Company recorded \$3.4 million and \$3.8 million of stock-based compensation expense related to RSUs for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, there was \$30.0 million of unrecognized compensation cost related to unvested stock-based payments granted to employees. Total unrecognized compensation cost will be recognized over a weighted-average remaining period of 2.22 years.

Note 9. Investments

On November 4, 2014, a wholly owned subsidiary of the Company entered into an agreement with a co-investment vehicle arranged by Napier Park Global Capital (US) LP (“Napier Park”) to participate in a joint venture and formed Blackbird Capital I, LLC (“Blackbird I”) for the purpose of investing in commercial aircraft and leasing them to airlines around the globe. We provide management services to the joint venture for a fee based upon aircraft assets under management. The Company’s non-controlling interest in Blackbird I is 9.5% and it is accounted for as an investment under the equity method of accounting. The Company's investment in Blackbird I was \$33.0 million and \$32.3 million as of March 31, 2018 and December 31, 2017, respectively, and is recorded in other assets on the Consolidated Balance Sheets.

On August 1, 2017, a wholly owned subsidiary of the Company entered into an agreement with a co-investment vehicle arranged by Napier Park to participate in a joint venture and formed Blackbird Capital II, LLC (“Blackbird II”)

Table of Contents

for the purpose of investing in commercial aircraft and leasing them to airlines around the globe. We provide management services to the joint venture for a fee based upon aircraft assets under management. The Company's non-controlling interest in Blackbird II is 9.5% and it is accounted for as an investment under the equity method of accounting. The Company's investment in Blackbird II was \$3.3 million as of March 31, 2018 and December 31, 2017 and is recorded in other assets on the Consolidated Balance Sheets. As of March 31, 2018, the Company's total unfunded commitment to Blackbird II was \$19.0 million.

Note 10.Subsequent Events

On May 9, 2018, our board of directors approved a quarterly cash dividend of \$0.10 per share on our outstanding common stock. The dividend will be paid on July 10, 2018 to holders of record of our common stock as of June 5, 2018.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Overview

Air Lease Corporation 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 aircraft manufacturers, such as Boeing and Airbus, and leasing those aircraft to airlines throughout the world with the intention to generate attractive returns on equity. In addition to our leasing activities, we sell aircraft from our operating lease portfolio to third-parties, including other leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee. Our operating performance is driven by the growth of our fleet, the terms of our leases, the interest rates on our debt, and the aggregate amount of our indebtedness, supplemented by the gains from our aircraft sales and trading activities and our management fees.

During the three months ended March 31, 2018, we purchased and took delivery of four aircraft from our new order pipeline and purchased five incremental aircraft, ending the period with a total of 253 aircraft with a net book value of \$13.6 billion. The weighted average lease term remaining on our operating lease portfolio was 6.7 years and the weighted average age of our fleet was 3.9 years as of March 31, 2018. Our fleet grew by 2.3% based on net book value of \$13.6 billion as of March 31, 2018 compared to \$13.3 billion as of December 31, 2017. In addition, we had a managed fleet of 49 aircraft as of March 31, 2018, compared to a managed fleet of 50 aircraft as of December 31, 2017. We have a globally diversified customer base comprised of 93 airlines in 56 countries. As of March 31, 2018, all of our aircraft in our operating lease portfolio were subject to lease agreements.

During the first quarter of 2018, we increased our total commitment with Boeing by eight aircraft. As of March 31, 2018, we had commitments to purchase 372 aircraft from Airbus and Boeing for delivery through 2023, with an estimated aggregate commitment of \$27.0 billion. We ended the first quarter of 2018 with \$23.5 billion in committed minimum future rental payments and placed 81% of our order book on long-term leases for aircraft delivering through 2020. This includes \$10.2 billion in contracted minimum rental payments on the aircraft in our existing fleet and \$13.3 billion in minimum future rental payments related to aircraft which will be delivered during the remainder of 2018 through 2022.

In January 2018, we issued (i) \$550.0 million in aggregate principal amount of senior unsecured notes due 2021 that bear interest at a rate of 2.50% and (ii) \$700.0 million in aggregate principal amount of senior unsecured notes due 2025 that bear interest at a rate of 3.25%. In May 2018, we amended and extended our unsecured revolving credit facility whereby, among other things, we increased the total revolving commitments to approximately \$4.5 billion and extended the final maturity date to May 5, 2022. Borrowings under our unsecured revolving credit facility will bear interest at LIBOR plus a margin of 1.05% per year. We ended the first quarter of 2018 with total debt outstanding, net of discounts and issuance costs, of \$9.9 billion, of which 91.1% was at a fixed rate and 95.0% of which was unsecured. Our composite cost of funds increased to 3.28% as of March 31, 2018 from 3.20% as of December 31, 2017.

Our total revenues for the quarter ended March 31, 2018 increased by 5.8% to \$381.2 million, compared to the quarter ended March 31, 2017. The increase in our revenues is primarily due to the increase in the book value of our operating lease portfolio. Our net income for the quarter ended March 31, 2018 was \$110.7 million compared to \$84.9 million for the quarter ended March 31, 2017. Our diluted earnings per share for the quarter ended March 31, 2018 was \$1.00 compared to \$0.78 for the quarter ended March 31, 2017. The increase in net income in the first quarter of 2018 as compared to 2017 was primarily due to an increase in our rental revenue resulting from an increase in the net book value of our operating lease portfolio and lower income tax expense as a result of the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act"), which, among other things, lowered the corporate tax rate from 35% to 21% effective January 1, 2018.

Our adjusted net income before income taxes excludes the effects of certain non-cash items, one-time or non-recurring items, that are not expected to continue in the future and certain other items. Our adjusted net income before income taxes for the three months ended March 31, 2018 was \$152.8 million or \$1.38 per diluted share, compared to

Table of Contents

\$146.6 million or \$1.33 per diluted share for the three months ended March 31, 2017. Our adjusted margin before income taxes for the three months ended March 31, 2018 was 40.1% compared to 40.7% for the three months ended March 31, 2017. Adjusted net income before income taxes, adjusted margin before income taxes and adjusted diluted earnings per share before income taxes are measures of financial and operational performance that are not defined by GAAP. See Note 1 under the “Results of Operations” table for a discussion of adjusted net income before income taxes, adjusted margin before income taxes and adjusted diluted earnings per share before income taxes as non-GAAP measures and reconciliation of these measures to net income.

Our Fleet

Portfolio metrics of our fleet as of March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017		
Aggregate fleet net book value	\$ 13.6 billion	\$ 13.3 billion		
Weighted-average fleet age(1)	3.9 years	3.8 years		
Weighted-average remaining lease term(1)	6.7 years	6.8 years		
Owned fleet	253	244		
Managed fleet	49	50		
Order book	372	368		
Total	674	662		
Current fleet contracted rentals	\$ 10.2 billion	\$ 10.1 billion		
Committed fleet rentals	\$ 13.3 billion	\$ 13.3 billion		
Total committed rentals	\$ 23.5 billion	\$ 23.4 billion		

(1) Weighted-average fleet age and remaining lease term calculated based on net book value.

The following table sets forth the net book value and percentage of the net book value of our flight equipment subject to operating lease in the indicated regions based on each airline's principal place of business as of March 31, 2018 and December 31, 2017 (in thousands, except percentages):

Region	March 31, 2018		December 31, 2017	
	Net Book Value	% of Total	Net Book Value	% of Total

Edgar Filing: AIR LEASE CORP - Form 10-Q

Europe	\$ 4,252,841	31.3	%	\$ 4,205,431	31.7	%
Asia (excluding China)	3,176,475	23.4	%	2,981,339	22.4	%
China	2,693,517	19.8	%	2,720,124	20.5	%
The Middle East and Africa	1,593,852	11.7	%	1,481,825	11.2	%
Central America, South America and Mexico	916,940	6.7	%	926,732	7.0	%
U.S. and Canada	593,421	4.4	%	599,367	4.5	%
Pacific, Australia and New Zealand	361,898	2.7	%	365,432	2.7	%
Total	\$ 13,588,944	100.0	%	\$ 13,280,250	100.0	%

Table of Contents

The following table sets forth the number of aircraft we leased by aircraft type as of March 31, 2018 and December 31, 2017:

Aircraft type	March 31, 2018		December 31, 2017	
	Number of Aircraft	% of Total	Number of Aircraft	% of Total
Airbus A319-100	1	0.4 %	1	0.4 %
Airbus A320-200	42	16.6 %	40	16.4 %
Airbus A320-200neo	5	2.0 %	5	2.1 %
Airbus A321-200	29	11.4 %	29	11.9 %
Airbus A321-200neo	6	2.4 %	5	2.1 %
Airbus A330-200	15	5.9 %	15	6.2 %
Airbus A330-300	5	2.0 %	5	2.0 %
Airbus A350-900	3	1.2 %	2	0.9 %
Boeing 737-700	5	2.0 %	3	1.2 %
Boeing 737-800	103	40.7 %	102	41.8 %
Boeing 737-8 MAX	4	1.6 %	2	0.8 %
Boeing 767-300ER	1	0.4 %	1	0.4 %
Boeing 777-200ER	1	0.4 %	1	0.4 %
Boeing 777-300ER	24	9.5 %	24	9.8 %
Boeing 787-9	8	3.1 %	8	3.3 %
Embraer E190	1	0.4 %	1	0.3 %
Total	253	100.0 %	244	100.0 %

As of March 31, 2018 and through May 10, 2018, we had commitments to acquire a total of 372 new aircraft for delivery as follows:

Aircraft Type	2018	2019	2020	2021	2022	Thereafter	Total
Airbus A321-200	2	—	—	—	—	—	2
Airbus A320/321neo(1)	12	36	27	22	25	25	147
Airbus A330-900neo	5	5	4	7	6	2	29
Airbus A350-900/1000	3	2	4	5	3	—	17
Boeing 737-7/8/9 MAX	10	27	28	35	34	—	134
Boeing 787-9/10	7	12	9	7	8	—	43
Total	39	82					