

AIR LEASE CORP  
Form 10-Q  
November 06, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2014**

**OR**

**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)

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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 November 6, 2014, there were 102,386,886 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 September 30, 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 or may be based on assumptions 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, including to the Company's recently formed joint venture;
- 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

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- 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.

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)

|                                                                                                                                                                                            | September 30, 2014   | December 31, 2013   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
|                                                                                                                                                                                            | (unaudited)          |                     |
| <b>Assets</b>                                                                                                                                                                              |                      |                     |
| Cash and cash equivalents                                                                                                                                                                  | \$ 210,671           | \$ 270,173          |
| Restricted cash                                                                                                                                                                            | 8,198                | 87,308              |
| Flight equipment subject to operating leases                                                                                                                                               | 9,727,770            | 8,234,315           |
| Less accumulated depreciation                                                                                                                                                              | (829,159)            | (621,180)           |
|                                                                                                                                                                                            | 8,898,611            | 7,613,135           |
| Deposits on flight equipment purchases                                                                                                                                                     | 1,142,962            | 1,075,023           |
| Deferred debt issuance costs less accumulated amortization of \$67,024 and \$51,578 as of September 30, 2014 and December 31, 2013, respectively                                           | 89,161               | 90,249              |
| Other assets                                                                                                                                                                               | 195,960              | 196,716             |
| <b>Total assets</b>                                                                                                                                                                        | <b>\$ 10,545,563</b> | <b>\$ 9,332,604</b> |
| <b>Liabilities and Shareholders' Equity</b>                                                                                                                                                |                      |                     |
| Accrued interest and other payables                                                                                                                                                        | \$ 160,755           | \$ 131,223          |
| Debt financing, net of discounts                                                                                                                                                           | 6,646,635            | 5,853,317           |
| Security deposits and maintenance reserves on flight equipment leases                                                                                                                      | 680,441              | 569,847             |
| Rentals received in advance                                                                                                                                                                | 68,580               | 61,520              |
| Deferred tax liability                                                                                                                                                                     | 294,062              | 193,263             |
| <b>Total liabilities</b>                                                                                                                                                                   | <b>\$ 7,850,473</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 102,385,013 and 101,822,676 shares at September 30, 2014 and December 31, 2013, respectively | 1,010                | 1,009               |
| Class B Non-Voting Common Stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding                                                                           |                      |                     |
| Paid-in capital                                                                                                                                                                            | 2,204,543            | 2,209,566           |
| Retained earnings                                                                                                                                                                          | 489,537              | 312,859             |
| <b>Total shareholders' equity</b>                                                                                                                                                          | <b>\$ 2,695,090</b>  | <b>\$ 2,523,434</b> |
| <b>Total liabilities and shareholders' equity</b>                                                                                                                                          | <b>\$ 10,545,563</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)

|                                                                  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|------------------------------------------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                                  | 2014                                | 2013        | 2014                               | 2013        |
|                                                                  | (unaudited)                         |             | (unaudited)                        |             |
| <b>Revenues</b>                                                  |                                     |             |                                    |             |
| Rental of flight equipment                                       | \$ 252,519                          | \$ 213,835  | \$ 725,448                         | \$ 610,237  |
| Aircraft sales, trading and other                                | 9,420                               | 2,070       | 39,101                             | 5,537       |
| Total revenues                                                   | 261,939                             | 215,905     | 764,549                            | 615,774     |
| <b>Expenses</b>                                                  |                                     |             |                                    |             |
| Interest                                                         | 48,582                              | 41,946      | 140,275                            | 125,644     |
| Amortization of discounts and deferred debt issuance costs       | 7,423                               | 6,012       | 20,902                             | 16,571      |
| Interest expense                                                 | 56,005                              | 47,958      | 161,177                            | 142,215     |
| Depreciation of flight equipment                                 | 86,119                              | 71,811      | 245,736                            | 204,457     |
| Selling, general and administrative                              | 19,656                              | 17,497      | 58,748                             | 48,392      |
| Stock-based compensation                                         | 3,882                               | 3,751       | 12,222                             | 17,839      |
| Total expenses                                                   | 165,662                             | 141,017     | 477,883                            | 412,903     |
| <b>Income before taxes</b>                                       | 96,277                              | 74,888      | 286,666                            | 202,871     |
| Income tax expense                                               | (33,844)                            | (26,310)    | (100,799)                          | (71,307)    |
| <b>Net income</b>                                                | \$ 62,433                           | \$ 48,578   | \$ 185,867                         | \$ 131,564  |
| <b>Net income per share of Class A and Class B Common Stock:</b> |                                     |             |                                    |             |
| Basic                                                            | \$ 0.61                             | \$ 0.48     | \$ 1.82                            | \$ 1.30     |
| Diluted                                                          | \$ 0.58                             | \$ 0.46     | \$ 1.73                            | \$ 1.25     |
| <b>Weighted-average shares outstanding:</b>                      |                                     |             |                                    |             |
| Basic                                                            | 102,383,319                         | 101,753,783 | 102,060,364                        | 101,440,360 |
| Diluted                                                          | 110,457,170                         | 109,227,709 | 109,997,159                        | 108,784,560 |

(See Notes to Consolidated Financial Statements)

Table of Contents**Air Lease Corporation and Subsidiaries****CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY****(In thousands, except share amounts)**

| <b>(unaudited)</b>                                                                      | <b>Preferred Stock</b> |               | <b>Class A<br/>Common Stock</b> |               | <b>Class B Non-Voting<br/>Common Stock</b> |               | <b>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|-----------------------------------------------------------------------------------------|------------------------|---------------|---------------------------------|---------------|--------------------------------------------|---------------|----------------------------|------------------------------|--------------|
|                                                                                         | <b>Shares</b>          | <b>Amount</b> | <b>Shares</b>                   | <b>Amount</b> | <b>Shares</b>                              | <b>Amount</b> |                            |                              |              |
| Balance at December 31, 2013                                                            |                        | \$            | 101,822,676                     | \$ 1,009      |                                            | \$            | \$ 2,209,566               | \$ 312,859                   | \$ 2,523,434 |
| Issuance of common stock upon exercise of options and vesting of restricted stock units |                        |               | 1,021,459                       | 1             |                                            |               | 844                        |                              | 845          |
| Stock based compensation expense                                                        |                        |               |                                 |               |                                            |               | 12,222                     |                              | 12,222       |
| Cash dividends (declared \$0.09 per share)                                              |                        |               |                                 |               |                                            |               |                            | (9,189)                      | (9,189)      |
| Tax withholding related to vesting of restricted stock units                            |                        |               | (459,122)                       |               |                                            |               | (18,089)                   |                              | (18,089)     |
| Net income                                                                              |                        |               |                                 |               |                                            |               |                            | 185,867                      | 185,867      |
| Balance at September 30, 2014 (unaudited)                                               |                        | \$            | 102,385,013                     | \$ 1,010      |                                            | \$            | \$ 2,204,543               | \$ 489,537                   | \$ 2,695,090 |

(See Notes to Consolidated Financial Statements)

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## Air Lease Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|                                                                                                                                                                                                                                         | Nine Months Ended<br>September 30,<br>(unaudited) |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------|
|                                                                                                                                                                                                                                         | 2014                                              | 2013        |
| <b>Operating Activities</b>                                                                                                                                                                                                             |                                                   |             |
| Net income                                                                                                                                                                                                                              | \$ 185,867                                        | \$ 131,564  |
| Adjustments to reconcile net income to net cash provided by operating activities:                                                                                                                                                       |                                                   |             |
| Depreciation of flight equipment                                                                                                                                                                                                        | 245,736                                           | 204,457     |
| Stock-based compensation                                                                                                                                                                                                                | 12,222                                            | 17,839      |
| Deferred taxes                                                                                                                                                                                                                          | 100,799                                           | 71,307      |
| Amortization of discounts and deferred debt issue costs                                                                                                                                                                                 | 20,902                                            | 16,571      |
| Gain on aircraft sales, trading and other activity                                                                                                                                                                                      | (37,075)                                          | (2,851)     |
| Changes in operating assets and liabilities:                                                                                                                                                                                            |                                                   |             |
| Other assets                                                                                                                                                                                                                            | 12,702                                            | 10,768      |
| Accrued interest and other payables                                                                                                                                                                                                     | 22,960                                            | 30,679      |
| Rentals received in advance                                                                                                                                                                                                             | 7,060                                             | 12,452      |
| Net cash provided by operating activities                                                                                                                                                                                               | 571,173                                           | 492,786     |
| <b>Investing Activities</b>                                                                                                                                                                                                             |                                                   |             |
| Acquisition of flight equipment under operating lease                                                                                                                                                                                   | (1,206,985)                                       | (955,587)   |
| Payments for deposits on flight equipment purchases                                                                                                                                                                                     | (480,791)                                         | (631,758)   |
| Proceeds from aircraft sales, trading and other activity                                                                                                                                                                                | 293,278                                           | 54,569      |
| Acquisition of furnishings, equipment and other assets                                                                                                                                                                                  | (168,092)                                         | (134,795)   |
| Net cash used in investing activities                                                                                                                                                                                                   | (1,562,590)                                       | (1,667,571) |
| <b>Financing Activities</b>                                                                                                                                                                                                             |                                                   |             |
| Issuance of common stock upon exercise of options                                                                                                                                                                                       | 845                                               |             |
| Cash dividends paid                                                                                                                                                                                                                     | (9,171)                                           | (5,065)     |
| Tax withholdings on stock-based compensation                                                                                                                                                                                            | (18,089)                                          | (13,609)    |
| Net change in unsecured revolving facilities                                                                                                                                                                                            | (349,000)                                         | 819,000     |
| Proceeds from debt financings                                                                                                                                                                                                           | 1,656,395                                         | 615,871     |
| Payments in reduction of debt financings                                                                                                                                                                                                | (526,984)                                         | (355,975)   |
| Net change in restricted cash                                                                                                                                                                                                           | 79,110                                            | 20,791      |
| Debt issuance costs                                                                                                                                                                                                                     | (7,627)                                           | (29,020)    |
| Security deposits and maintenance reserve receipts                                                                                                                                                                                      | 128,630                                           | 135,611     |
| Security deposits and maintenance reserve disbursements                                                                                                                                                                                 | (22,194)                                          | (21,228)    |
| Net cash provided by financing activities                                                                                                                                                                                               | 931,915                                           | 1,166,376   |
| Net decrease in cash                                                                                                                                                                                                                    | (59,502)                                          | (8,409)     |
| Cash and cash equivalents at beginning of period                                                                                                                                                                                        | 270,173                                           | 230,089     |
| Cash and cash equivalents at end of period                                                                                                                                                                                              | \$ 210,671                                        | \$ 221,680  |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                                                                                                                                                                 |                                                   |             |
| Cash paid during the period for interest, including capitalized interest of \$31,907 at September 30, 2014 and capitalized interest of \$23,124 at September 30, 2013                                                                   | \$ 149,466                                        | \$ 129,463  |
| <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 and other assets applied to payments for deposits on flight equipment purchases | \$ 583,776                                        | \$ 245,414  |
| Cash dividends declared, not yet paid                                                                                                                                                                                                   | \$ 3,072                                          | \$ 2,544    |

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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 September 30, 2014, and for all periods presented. The results of operations for the three and nine months ended September 30, 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 September 30, 2014 and December 31, 2013 are summarized below (in thousands):

**September 30,  
2014**

**December 31,  
2013**

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|                                                   |    |           |              |
|---------------------------------------------------|----|-----------|--------------|
| <b>Unsecured</b>                                  |    |           |              |
| Senior notes                                      | \$ | 4,579,195 | \$ 3,055,620 |
| Revolving credit facilities                       |    | 459,000   | 808,000      |
| Term financings                                   |    | 214,395   | 247,722      |
| Convertible senior notes                          |    | 200,000   | 200,000      |
|                                                   |    | 5,452,590 | 4,311,342    |
| <b>Secured</b>                                    |    |           |              |
| Warehouse facilities                              |    | 484,513   | 828,418      |
| Term financings                                   |    | 659,736   | 654,369      |
| Export credit financing                           |    | 66,547    | 71,539       |
|                                                   |    | 1,210,796 | 1,554,326    |
| <b>Total secured and unsecured debt financing</b> |    | 6,663,386 | 5,865,668    |
| Less: Debt discount                               |    | (16,751)  | (12,351)     |
| <b>Total debt</b>                                 | \$ | 6,646,635 | \$ 5,853,317 |

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The Company's secured obligations as of September 30, 2014 and December 31, 2013 are summarized below (in thousands, except number of aircraft which are reflected in units):

|                                                  | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------------------------------|-----------------------|----------------------|
| Nonrecourse                                      | \$ 484,513            | \$ 847,684           |
| Recourse                                         | 726,283               | 706,642              |
| Total                                            | \$ 1,210,796          | \$ 1,554,326         |
| Number of aircraft pledged as collateral         | 38                    | 52                   |
| Net book value of aircraft pledged as collateral | \$ 1,955,711          | \$ 2,454,350         |

### *Senior unsecured notes*

On September 16, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2018 that bear interest at a rate of 2.125%.

On September 16, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.25%.

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%.

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%.

As of September 30, 2014, the Company had \$4.6 billion in senior unsecured notes outstanding. As of December 31, 2013, the Company had \$3.1 billion in senior unsecured notes outstanding.

### *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 final maturity to May 2018. The facility continues to accrue interest at a rate of LIBOR plus 1.25% on drawn balances and include a 0.25% facility fee.

The total amount outstanding under our unsecured revolving credit facilities was \$459.0 million and \$808.0 million as of September 30, 2014 and December 31, 2013, respectively.

*Warehouse facilities*

On July 23, 2014, a wholly-owned subsidiary of the Company, entered into an amendment to its amended and restated \$1.0 billion senior secured revolving credit facility (the 2010 Warehouse Facility ). The 2010 Warehouse Facility, as amended, provides the Company with financing of up to \$750 million, modified from the previous facility size of \$1.0 billion. The interest rate on the 2010 Warehouse Facility, as amended, was reduced from LIBOR plus 2.25% to LIBOR plus 2.00% on drawn balances and continues to bear interest at a rate of 0.50% on undrawn balances. The Company is able to draw on the 2010 Warehouse Facility, as amended, during an availability period that was extended from June 2015 to June 2016 and the maturity date was extended from June 2019 to June 2020.

As of September 30, 2014, the Company had borrowed \$484.5 million under the 2010 Warehouse Facility and pledged 18 aircraft as collateral with a net book value of \$737.5 million. As of December 31, 2013, the Company had borrowed \$656.8 million under the 2010 Warehouse Facility and pledged 24 aircraft as collateral with a net book value of \$985.2 million. During the second quarter, the Company substituted letters of credit for cash collateral and lessee deposits pledged under the 2010 Warehouse Facility, reducing the total amount of restricted cash from \$87.3 million at December 31, 2013 to \$8.2 million at September 30, 2014.

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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 September 30, 2014 are as follows (in thousands):

| Years ending December 31, |              |
|---------------------------|--------------|
| 2014                      | \$ 40,243    |
| 2015                      | 178,413      |
| 2016                      | 874,822      |
| 2017                      | 1,414,419    |
| 2018                      | 1,431,706    |
| Thereafter                | 2,723,783    |
| Total(1)(2)               | \$ 6,663,386 |

(1) As of September 30, 2014, the Company had \$484.5 million of debt outstanding under the 2010 Warehouse Facility, as amended. The Company is able to draw on the facility during an availability period that ends in June 2016 with a subsequent term out option, through the maturity date of the facility, which is reflected in the maturity schedule above.

(2) As of September 30, 2014, the Company had \$459.0 million of debt outstanding under our unsecured revolving credit facilities. The outstanding drawn balances may be rolled until the final maturity date of each respective facility and have been presented as such in the maturity schedule above.

#### 4. Commitments and Contingencies

As of September 30, 2014, the Company had commitments to acquire a total of 372 new aircraft scheduled to deliver through 2023.

In July 2014, the Company entered into definitive agreements with Airbus and Boeing to purchase 76 additional aircraft. From Airbus, we agreed to purchase 60 additional A321neo aircraft. From Boeing, we agreed to purchase six additional 777-300ER aircraft and confirmed the purchase of 10 737-8/9 MAX aircraft which were previously subject to reconfirmation. Deliveries of the aircraft are scheduled to commence in 2016 and continue through 2023.

In March 2014, the Company entered into definitive agreements with Airbus, Boeing and Avions de Transport Régional ( ATR ) to purchase 19 additional aircraft. From Airbus, we agreed to purchase one Airbus A330-300 aircraft. From Boeing, we agreed to purchase an additional

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737-800 aircraft and confirmed the purchase of 10 737-8/9 MAX aircraft which were previously subject to reconfirmation. From ATR, we agreed to purchase seven additional ATR 72-600 aircraft. Deliveries of the aircraft are scheduled to commence in 2014 and continue through 2017.

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Scheduled deliveries of the 372 new aircraft the Company has committed to purchase are as follows:

| <b>Aircraft Type</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>Thereafter</b> | <b>Total</b> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Airbus A321-200(1)   | 4           | 8           |             |             |             |                   | 12           |
| Airbus A320/321neo   |             |             | 3           | 12          | 17          | 78                | 110          |
| Airbus A330-300      | 1           |             |             |             |             |                   | 1            |
| Airbus A350-900/1000 |             |             |             |             | 1           | 24                | 25           |
| Boeing 737-800       | 3           | 21          | 15          | 11          |             |                   | 50           |
| Boeing 737-8/9 MAX   |             |             |             |             | 8           | 96                | 104          |
| Boeing 777-300ER     |             | 8           | 6           | 2           |             |                   | 16           |
| Boeing 787-9/10      |             |             |             | 1           | 7           | 37                | 45           |
| ATR 72-600           | 1           | 2           | 5           | 1           |             |                   | 9            |
| <b>Total</b>         | <b>9</b>    | <b>39</b>   | <b>29</b>   | <b>27</b>   | <b>33</b>   | <b>235</b>        | <b>372</b>   |

(1) All of our Airbus A321-200 aircraft will be equipped with sharklets.

Commitments for the acquisition of these aircraft and other equipment at an estimated aggregate purchase price (including adjustments for inflation) of approximately \$29.0 billion at September 30, 2014 are as follows (in thousands):

| <b>Years ending December 31,</b> |                      |
|----------------------------------|----------------------|
| 2014                             | \$ 501,188           |
| 2015                             | 2,294,623            |
| 2016                             | 2,010,670            |
| 2017                             | 1,918,637            |
| 2018                             | 3,005,956            |
| Thereafter                       | 19,302,313           |
| <b>Total</b>                     | <b>\$ 29,033,387</b> |

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of \$1.14 billion and \$1.08 billion as of September 30, 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.

As of September 30, 2014, the Company had memorandums of understanding and other non-binding commitments to acquire up to 40 additional aircraft comprised of 25 A330neo aircraft, 10 A321neo aircraft and five A350-1000 aircraft. Deliveries of these aircraft are scheduled to commence in 2018 and continue through 2023.

In July 2014, the Company entered into a non-binding memorandum of understanding with Airbus to purchase 25 A330neo aircraft and we amended an existing definitive purchase agreement to provide the Company with the option to purchase 10 additional A321neo aircraft.

**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 has 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 September 30, 2014, we do not have any Class B Non-Voting Common Stock outstanding.

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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 and nine months ended September 30, 2014, the Company did not exclude any shares related to stock options. For the three and nine months ended September 30, 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 973,107 and 1,573,280 shares related to restricted stock units for which the performance metric had yet to be achieved as of September 30, 2014 and 2013, respectively.

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

|                                                | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|------------------------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                | 2014                                | 2013        | 2014                               | 2013        |
| <b>Basic net income per share:</b>             |                                     |             |                                    |             |
| Numerator                                      |                                     |             |                                    |             |
| Net income                                     | \$ 62,433                           | \$ 48,578   | \$ 185,867                         | \$ 131,564  |
| Denominator                                    |                                     |             |                                    |             |
| Weighted-average common shares outstanding     | 102,383,319                         | 101,753,783 | 102,060,364                        | 101,440,360 |
| Basic net income per share                     | \$ 0.61                             | \$ 0.48     | \$ 1.82                            | \$ 1.30     |
| <b>Diluted net income per share:</b>           |                                     |             |                                    |             |
| Numerator                                      |                                     |             |                                    |             |
| Net income                                     | \$ 62,433                           | \$ 48,578   | \$ 185,867                         | \$ 131,564  |
| Assumed conversion of convertible senior notes | 1,465                               | 1,458       | 4,346                              | 4,326       |
| Net income plus assumed conversions            | \$ 63,898                           | \$ 50,036   | \$ 190,213                         | \$ 135,890  |
| Denominator                                    |                                     |             |                                    |             |
| Number of shares used in basic computation     | 102,383,319                         | 101,753,783 | 102,060,364                        | 101,440,360 |
| Weighted-average effect of dilutive securities | 8,073,851                           | 7,473,926   | 7,936,795                          | 7,344,200   |
| Number of shares used in per share computation | 110,457,170                         | 109,227,709 | 109,997,159                        | 108,784,560 |
| Diluted net income per share                   | \$ 0.58                             | \$ 0.46     | \$ 1.73                            | \$ 1.25     |

**Note 6. 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 September 30, 2014 or December 31, 2013.

*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 of debt financing as of September 30, 2014 was \$6.9 billion compared to a book value of \$6.6 billion. The estimated fair

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value of debt financing as of December 31, 2013 was \$6.1 billion compared to a book value of \$5.9 billion.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at September 30, 2014, but require disclosure of their fair values: cash and cash equivalents and restricted cash. The estimated fair value of such instruments at September 30, 2014 approximates their carrying value as reported on the consolidated balance sheet. The fair value of all these instruments would be categorized as Level 1 of the fair value hierarchy.

Table of Contents**Note 7. 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 September 30, 2014, the number of stock options ( Stock Options ) and restricted stock units ( RSUs ) authorized under the 2014 Plan is approximately 6,717,262, which includes 1,717,262 shares which were previously reserved for issuance under the 2010 Plan. Options are generally granted for a term of 10 years and generally vest over a three year period. The Company has issued RSUs with two different vesting criteria: those RSUs that vest based on the attainment of book value goals and those RSUs that vest based on the attainment of Total Shareholder Return ( TSR ) goals. The book value RSUs generally vest ratably over three to four years, if the performance condition has been met. 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 \$3.9 million and \$3.8 million of stock-based compensation expense for the three months ended September 30, 2014 and 2013, respectively. Stock-based compensation expense for the nine months ended September 30, 2014 and 2013 totaled \$12.2 million and \$17.8 million, respectively.

*Stock Options*

A summary of Stock Option activity for the nine month period ended September 30, 2014 follows:

|                                                 | Shares    | Exercise Price | Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands)(1) |
|-------------------------------------------------|-----------|----------------|---------------------------------------|---------------------------------------------|
| Balance at December 31, 2013                    | 3,357,658 | \$ 20.39       | 6.49                                  | \$ 35,883                                   |
| Granted                                         |           | \$             |                                       | \$                                          |
| Exercised                                       | (44,000)  | \$ 20.00       |                                       | \$ 789                                      |
| Forfeited/canceled                              |           | \$             |                                       | \$                                          |
| Balance at September 30, 2014                   | 3,313,658 | \$ 20.40       | 5.75                                  | \$ 40,101                                   |
| Vested and exercisable as of September 30, 2014 | 3,313,658 | \$ 20.40       | 5.75                                  | \$ 40,101                                   |

(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.

The Company's outstanding Stock Options fully vested on June 30, 2013 and there were no unrecognized compensation costs related to outstanding Stock Options as of September 30, 2014. As a result, there was no stock-based compensation expense related to Stock Options for the three and nine months ended September 30, 2014 and the three months ended September 30, 2013. The Company recorded stock-based compensation expense related to Stock Options of \$5.4 million for the nine months ended September 30, 2013.

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The following table summarizes additional information regarding exercisable and vested Stock Options at September 30, 2014:

| Range of exercise prices | Stock Options exercisable<br>and vested |                                                      |
|--------------------------|-----------------------------------------|------------------------------------------------------|
|                          | Number of<br>Shares                     | Weighted-<br>Average<br>Remaining Life<br>(in years) |
| \$20.00                  | 3,163,658                               | 5.82                                                 |
| \$28.80                  | 150,000                                 | 6.57                                                 |
| \$20.00 - \$28.80        | 3,313,658                               | 5.85                                                 |

Table of Contents*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 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. Due to our limited stock history since the completion of our initial public offering on April 25, 2011, historical volatility was estimated based on all available stock history information.

During the nine months ended September 30, 2014, the Company granted 384,225 RSUs of which 182,476 are TSR RSUs. The following table summarizes the activities for our unvested RSUs for the nine months ended September 30, 2014:

|                                              | <b>Unvested Restricted Stock Units</b> |                         |
|----------------------------------------------|----------------------------------------|-------------------------|
|                                              | <b>Number of</b>                       | <b>Weighted-Average</b> |
|                                              | <b>Shares</b>                          | <b>Grant-Date</b>       |
|                                              |                                        | <b>Fair Value</b>       |
| Unvested at December 31, 2013                | 1,569,005                              | \$ 24.50                |
| Granted                                      | 384,225                                | \$ 39.70                |
| Vested                                       | (977,953)                              | \$ 21.49                |
| Forfeited/canceled                           | (2,170)                                | \$ 35.07                |
| Unvested at September 30, 2014               | 973,107                                | \$ 34.24                |
| Expected to vest after September 30, 2014(1) | 962,120                                | \$ 34.24                |

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(1) RSUs expected to vest reflect an estimated forfeiture rate.

The Company recorded \$3.9 million and \$3.8 million of stock-based compensation expense related to RSUs for the three months ended September 30, 2014 and 2013, respectively. The Company recorded \$12.2 million and \$12.5 million of stock-based compensation expense related to RSUs for the nine months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, there was \$16.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs granted to employees. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures and is expected to be recognized over a weighted-average remaining period of 1.86 years.

**Note 8. Litigation**

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On April 24, 2012, the Company was named as a defendant in a complaint filed in Superior Court of the State of California for the County of Los Angeles by American International Group, Inc. ( AIG ) and International Lease Finance Corporation ( ILFC ). The complaint also names as defendants certain executive officers and employees of, and an initial investor in, the Company. AIG withdrew as a plaintiff on all but one cause of action that is not asserted against the Company.

Among other things, the complaint, as amended, alleges breach of fiduciary duty, misappropriation of trade secrets, the wrongful recruitment of ILFC employees, and the wrongful diversion of potential ILFC leasing opportunities. The complaint seeks an unspecified amount of damages and injunctive relief. The Company believes that it has meritorious defenses to these claims and intends to defend this matter vigorously. The amount or range of loss, if any, is not estimable at this time.

On August 15, 2013, the Company filed a cross complaint against ILFC and AIG. The cross complaint, as amended, alleges breach of contract for the sale of goods in connection with an agreement entered into by AIG, acting on behalf of ILFC, in January 2010 to sell 25 aircraft to the entity that became Air Lease Corporation. The cross complaint seeks compensatory damages in excess of \$500 million.

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**Note 9. Related Party Transactions**

In March 2014, we entered into Servicing Agreements with Commonwealth Bank of Australia and its subsidiaries at terms no more favorable than would be negotiated with an unrelated third party. Commonwealth Bank of Australia beneficially owns more than 5% of our Class A Common Stock, and one of our directors, Ian M. Saines, was Group Executive of the Institutional Banking and Markets division of Commonwealth Bank through December 2013. Pursuant to the Servicing Agreements, we agreed to manage the lease of seven additional aircraft to third parties, and if requested by Commonwealth Bank of Australia and its subsidiaries, to remarket the aircraft for subsequent leases or for sale. In connection with these transactions, Commonwealth Bank of Australia will pay us a percentage of the rent actually paid by the lessees. We may earn up to an aggregate of approximately \$3.1 million in fees under the Servicing Agreements in connection with the management of the additional leases. As of September 30, 2014, the Company managed a total of 11 aircraft for Commonwealth Bank of Australia.

In addition, Commonwealth Bank of Australia is a participant lender in the Syndicated Unsecured Revolving Credit Facility and the 2010 Warehouse Facility. See note 3 of Notes to Consolidated Financial Statements for further details regarding the terms of the financings.

**Note 10. Subsequent Events**

On November 4, 2014, a wholly owned subsidiary of the Company entered into a joint venture with a co-investment vehicle arranged by Napier Park Global Capital (US) LP for the purpose of investing in commercial aircraft and leasing them to airlines around the globe. The Company's minority interest in the joint venture is 9.5%. The joint venture is expected to acquire total aircraft assets of approximately \$2.0 billion by year-end 2016, financed with up to \$500 million in equity and the remainder financed by a committed warehouse credit facility and other forms of debt financing. The Company expects to sell aircraft from its portfolio to the joint venture with an aggregate value of approximately \$500.0 million by year-end 2016. The Company will also provide management services to the joint venture for a fee based upon aircraft assets under management.

On November 4, 2014, our board of directors approved a quarterly cash dividend of \$0.04 per share on our outstanding common stock. The dividend will be paid on January 5, 2015 to holders of record of our common stock as of December 12, 2014.

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**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 the manufacturers, such as Boeing and Airbus, and leasing those aircraft to airlines throughout the world 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 indebtedness and the terms of our aircraft sales and trading activities.

We took delivery of nine aircraft from our order book and sold four aircraft from our operating lease portfolio during the three months ended September 30, 2014, ending the third quarter with 212 owned aircraft and 12 managed aircraft. Our fleet of 212 owned aircraft is comprised of 161 single-aisle narrowbody jet aircraft, 34 twin-aisle widebody jet aircraft and 17 turboprop aircraft, with a weighted average age of 3.5 years. We ended 2013 with 193 owned aircraft, comprised of 146 single-aisle narrowbody jet aircraft, 31 twin-aisle widebody jet aircraft and 16 turboprop aircraft, with a weighted average age of 3.7 years. Our fleet grew by 16.9% based on net book value to \$8.9 billion as of September 30, 2014 compared to \$7.6 billion as of December 31, 2013. All of the aircraft in our fleet were leased as of September 30, 2014 and December 31, 2013.

The acquisition and lease of additional aircraft led to an increase of \$38.7 million, or 18.1%, in our rental revenue to \$252.5 million for the quarter ended September 30, 2014, compared to \$213.8 million for the quarter ended September 30, 2013. Rental revenue for the nine months ended September 30, 2014 increased 18.9%, totaling \$725.4 million compared to \$610.2 million for the nine months ended September 30, 2013. Due to the timing of aircraft deliveries the full impact on rental revenue for aircraft acquired during a given period will be reflected in subsequent periods.

We recorded earnings before income taxes of \$96.3 million for the quarter ended September 30, 2014 compared to \$74.9 million for the quarter ended September 30, 2013, an increase of \$21.4 million or 28.6%. Earnings before income taxes for the nine months ended September 30, 2014 increased 41.3%, totaling \$286.7 million compared to \$202.9 million for the nine months ended September 30, 2013.

Our profitability increased year over year as our pretax profit margin increased to 36.8% for the quarter ended September 30, 2014, compared to 34.7% for the quarter ended September 30, 2013. Diluted earnings per share increased to \$0.58 for the quarter ended September 30, 2014, compared to \$0.46 for the quarter ended September 30, 2013, an increase of 26.1%. Our pretax profit margin increased to 37.5% for the nine months ended September 30, 2014 compared to 32.9% for the nine months ended September 30, 2013. Diluted earnings per share increased to \$1.73 for the nine months ended September 30, 2014 compared to \$1.25 for the nine months ended September 30, 2013, an increase of 38.4%.

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In July 2014, the Company entered into definitive agreements with Airbus and Boeing to purchase 76 additional aircraft. From Airbus, we agreed to purchase 60 additional A321neo aircraft. From Boeing, we agreed to purchase six additional 777-300ER aircraft and confirmed the purchase of 10 737-8/9 MAX aircraft which were previously subject to reconfirmation. Deliveries of the aircraft are scheduled to commence in 2016 and continue through 2023. Additionally, the Company entered into a non-binding memorandum of understanding with Airbus to purchase 25 A330neo aircraft and we amended an existing definitive purchase agreement to provide the Company with the option to purchase 10 additional A321neo aircraft.

In March 2014, the Company entered into definitive agreements with Airbus, Boeing and ATR to purchase 19 additional aircraft. From Airbus, we agreed to purchase one Airbus A330-300 aircraft. From Boeing, we agreed to purchase an additional 737-800 aircraft and confirmed the purchase of 10 737-8/9 MAX aircraft which were previously subject to reconfirmation. From ATR, we agreed to purchase seven additional ATR 72-600 aircraft. Deliveries of the aircraft are scheduled to commence in 2014 and continue through 2017.

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On November 4, 2014, a wholly owned subsidiary of the Company entered into a joint venture with a co-investment vehicle arranged by Napier Park Global Capital (US) LP for the purpose of investing in commercial aircraft and leasing them to airlines around the globe. The Company's minority interest in the joint venture is 9.5%. The joint venture is expected to acquire total aircraft assets of approximately \$2.0 billion by year-end 2016, financed with up to \$500 million in equity and the remainder financed by a committed warehouse credit facility and other forms of debt financing. The Company expects to sell aircraft from its portfolio to the joint venture with an aggregate value of approximately \$500.0 million by year-end 2016. The Company will also provide management services to the joint venture for a fee based upon aircraft assets under management.

Our financing plans remain focused on raising unsecured debt in the global bank and capital markets, reinvesting cash flow from operations and, to a limited extent, export credit financing. In May 2014, the Company amended its Syndicated Unsecured Revolving Credit Facility increasing the capacity by \$100.0 million to \$2.1 billion and extended the availability period to May 2018. In July 2014, the Company amended its 2010 Warehouse Facility reducing the capacity by \$250.0 million to \$750.0 million, extended the availability to June 2016 and reduced the interest rate by 0.25% to LIBOR plus 2.00%. In September 2014, the Company issued \$1.0 billion in aggregate principal amount of senior unsecured notes comprised of \$500.0 million in aggregate principal amount of senior unsecured notes due 2018 that bear interest at a rate of 2.125% and \$500.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.25%. We ended the third quarter of 2014 with total debt outstanding of \$6.6 billion, of which 76.3% was at a fixed rate and 81.8% was unsecured, with a composite cost of funds of 3.67%.

**Our fleet**

Portfolio metrics of our fleet owned aircraft as of September 30, 2014 and December 31, 2013 are as follows (dollars in thousands):

|                                          | September 30, 2014 | December 31, 2013 |
|------------------------------------------|--------------------|-------------------|
| Fleet size                               | 212                | 193               |
| Weighted-average fleet age(1)            | 3.5 years          | 3.7 years         |
| Weighted-average remaining lease term(1) | 7.3 years          | 7.1 years         |
| Aggregate fleet net book value           | \$ 8,898,611       | \$ 7,613,135      |

(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 aircraft portfolio operating in the indicated regions as of September 30, 2014 and December 31, 2013 (dollars in thousands):

| Region                                    | September 30, 2014 |            | December 31, 2013 |            |
|-------------------------------------------|--------------------|------------|-------------------|------------|
|                                           | Net Book Value     | % of Total | Net Book Value    | % of Total |
| Asia                                      | \$ 3,700,017       | 41.6%      | \$ 3,165,367      | 41.6%      |
| Europe                                    | 3,039,546          | 34.2%      | 2,656,816         | 34.9%      |
| Central America, South America and Mexico | 740,778            | 8.3%       | 829,930           | 10.9%      |
| The Middle East and Africa                | 524,938            | 5.9%       | 372,618           | 4.9%       |

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|                                 |              |        |              |        |
|---------------------------------|--------------|--------|--------------|--------|
| Pacific, Australia, New Zealand | 475,750      | 5.3%   | 151,751      | 2.0%   |
| U.S. and Canada                 | 417,582      | 4.7%   | 436,653      | 5.7%   |
| Total                           | \$ 8,898,611 | 100.0% | \$ 7,613,135 | 100.0% |

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The following table sets forth the number of aircraft we leased by aircraft type as of September 30, 2014 and December 31, 2013:

| Aircraft type    | September 30, 2014 |            | December 31, 2013  |            |
|------------------|--------------------|------------|--------------------|------------|
|                  | Number of Aircraft | % of Total | Number of Aircraft | % of Total |
| Airbus A319-100  | 6                  | 2.8%       | 6                  | 3.1%       |
| Airbus A320-200  | 41                 | 19.3%      | 42                 | 21.8%      |
| Airbus A321-200  | 16                 | 7.6%       | 7                  | 3.6%       |
| Airbus A330-200  | 16                 | 7.6%       | 16                 | 8.3%       |
| Airbus A330-300  | 5                  | 2.4%       | 5                  | 2.6%       |
| Boeing 737-700   | 8                  | 3.8%       | 10                 | 5.2%       |
| Boeing 737-800   | 59                 | 27.8%      | 50                 | 25.9%      |
| Boeing 767-300ER | 2                  | 0.9%       | 3                  | 1.6%       |
| Boeing 777-200ER | 1                  | 0.5%       | 1                  | 0.5%       |
| Boeing 777-300ER | 10                 | 4.7%       | 6                  | 3.1%       |
| Embraer E175     | 8                  | 3.8%       | 8                  | 4.1%       |
| Embraer E190     | 23                 | 10.8%      | 23                 | 11.9%      |
| ATR 72-600       | 17                 | 8.0%       | 16                 | 8.3%       |
| Total            | 212                | 100.0%     | 193                | 100.0%     |

As of September 30, 2014, we had commitments to acquire a total of 372 new aircraft for delivery as follows:

| Aircraft Type        | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
|----------------------|------|------|------|------|------|------------|-------|
| Airbus A321-200(1)   | 4    | 8    |      |      |      |            | 12    |
| Airbus A320/321neo   |      |      | 3    | 12   | 17   | 78         | 110   |
| Airbus A330-300      | 1    |      |      |      |      |            | 1     |
| Airbus A350-900/1000 |      |      |      |      | 1    | 24         | 25    |
| Boeing 737-800       | 3    | 21   | 15   | 11   |      |            | 50    |
| Boeing 737-8/9 MAX   |      |      |      |      | 8    | 96         | 104   |
| Boeing 777-300ER     |      | 8    | 6    | 2    |      |            | 16    |
| Boeing 787-9/10      |      |      |      | 1    | 7    | 37         | 45    |
| ATR 72-600           | 1    | 2    | 5    | 1    |      |            | 9     |
| Total                | 9    | 39   | 29   | 27   | 33   | 235        | 372   |

(1) All of our Airbus A321-200 aircraft will be equipped with sharklets

Our lease placements are progressing in line with expectations. As of September 30, 2014 and through November 6, 2014, we have entered into contracts for the lease of new aircraft scheduled to be delivered as follows:

| Delivery year | Number of Aircraft | Number Leased | % Leased |
|---------------|--------------------|---------------|----------|
| 2014          | 9                  | 9             | 100.0%   |
| 2015          | 39                 | 39            | 100.0%   |
| 2016          | 29                 | 19            | 65.5%    |

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|            |     |    |       |
|------------|-----|----|-------|
| 2017       | 27  | 16 | 59.3% |
| 2018       | 33  | 11 | 33.3% |
| Thereafter | 235 | 5  | 2.1%  |
| Total      | 372 | 99 |       |

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As of September 30, 2014, the Company had memorandums of understanding and other non-binding commitments to acquire up to 40 additional aircraft comprised of 25 A330neo aircraft, 10 A321neo aircraft and five A350-1000 aircraft. Deliveries of these aircraft are scheduled to commence in 2018 and continue through 2023.

**Aircraft industry and sources of revenues**

Our revenues are principally derived from operating leases with scheduled and charter airlines and we derive more than 90% of our revenues from airlines domiciled outside of the United States. As of September 30, 2014, we had 212 aircraft leased under operating leases to 77 airlines based in 47 countries and we anticipate that most of our revenues in the future will be generated from foreign lessees. The airline industry is cyclical, economically sensitive, and highly competitive. Airlines and related companies are affected by fuel price volatility and fuel shortages, political and economic instability, currency volatility, natural disasters, terrorist activities, changes in national policy, competitive pressures, labor actions, pilot shortages, insurance costs, recessions, health concerns and other political or economic events adversely affecting world or regional trading markets. Our airline customers' ability to react to, and cope with, the volatile competitive environment in which they operate, as well as our own competitive environment, will affect our revenues and income.

During the third quarter 2014, there were a number of matters receiving public attention including, but not limited to, the Ebola outbreak, slowing growth in China, lowering of global economic growth forecasts, the impact of labor actions, continued hostilities between Ukraine and Russia, and terrorism threats. Despite these events, airline passenger traffic globally remains strong and continues to grow. Furthermore, we see no overall softening of demand from airlines seeking to lease aircraft, nor from third parties seeking to purchase aircraft. As a result, we remain optimistic about the long-term growth prospects for air transportation. We expect growing demand for aircraft leasing and believe the Company is well positioned as it assists airlines modernizing their fleets to support the growth of the airline industry.

**Liquidity and Capital Resources**

**Overview**

We finance the purchase of aircraft and our business with available cash balances, internally generated funds, including aircraft sales and trading activity, and debt financings. We have structured the Company to have an investment grade credit profile and our debt financing strategy has focused on funding our business on an unsecured basis. Unsecured financing provides us with operational flexibility when selling or transitioning aircraft from one airline to another. We may, to a limited extent, utilize export credit financing in support of our new aircraft deliveries.

The Company has two corporate credit ratings. Our investment grade credit ratings further lowered our cost of funds and broadened our access to attractively priced capital. Our long term debt financing strategy is focused on raising unsecured debt in the global bank and capital markets.



Table of Contents**Debt**

Our debt financing was comprised of the following at September 30, 2014 and December 31, 2013 (dollars in thousands):

|                                               | September 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------------------|-----------------------|----------------------|
| <b>Unsecured</b>                              |                       |                      |
| Senior notes                                  | \$ 4,579,195          | \$ 3,055,620         |
| Revolving credit facilities                   | 459,000               | 808,000              |
| Term financings                               | 214,395               | 247,722              |
| Convertible senior notes                      | 200,000               | 200,000              |
|                                               | 5,452,590             | 4,311,342            |
| <b>Secured</b>                                |                       |                      |
| Warehouse facilities                          | 484,513               | 828,418              |
| Term financings                               | 659,736               | 654,369              |
| Export credit financing                       | 66,547                | 71,539               |
|                                               | 1,210,796             | 1,554,326            |
| Total secured and unsecured debt financing    | 6,663,386             | 5,865,668            |
| Less: Debt discount                           | (16,751)              | (12,351)             |
| Total debt                                    | \$ 6,646,635          | \$ 5,853,317         |
| <b>Selected interest rates and ratios:</b>    |                       |                      |
| Composite interest rate(1)                    | 3.67%                 | 3.60%                |
| Composite interest rate on fixed rate debt(1) | 4.22%                 | 4.56%                |
| Percentage of total debt at fixed rate        | 76.31%                | 61.90%               |

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(1) This rate does not include the effect of upfront fees, undrawn fees or issuance cost amortization

*Senior unsecured notes*

On September 16, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2018 that bear interest at a rate of 2.125%.

On September 16, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.25%.

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%.

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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%.

As of September 30, 2014, the Company had \$4.6 billion in senior unsecured notes outstanding. As of December 31, 2013, the Company had \$3.1 billion in senior unsecured notes outstanding.

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*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 final maturity to May 2018. The facility continues to accrue interest at a rate of LIBOR plus 1.25% on drawn balances and include a 0.25% facility fee.

The total amount outstanding under our unsecured revolving credit facilities was \$459.0 million and \$808.0 million as of September 30, 2014 and December 31, 2013, respectively.

*Warehouse facilities*

On July 23, 2014, a wholly-owned subsidiary of the Company, entered into an amendment to its amended and restated \$1.0 billion senior secured revolving credit facility (the "2010 Warehouse Facility"). The 2010 Warehouse Facility, as amended, provides the Company with financing of up to \$750 million, modified from the previous facility size of \$1.0 billion. The interest rate on the 2010 Warehouse Facility, as amended, was reduced from LIBOR plus 2.25% to LIBOR plus 2.00% on drawn balances and continues to bear interest at a rate of 0.50% on undrawn balances. The Company is able to draw on the 2010 Warehouse Facility, as amended, during an availability period that was extended from June 2015 to June 2016 and the maturity date was extended from June 2019 to June 2020.

As of September 30, 2014, the Company had borrowed \$484.5 million under the 2010 Warehouse Facility and pledged 18 aircraft as collateral with a net book value of \$737.5 million. As of December 31, 2013, the Company had borrowed \$656.8 million under the 2010 Warehouse Facility and pledged 24 aircraft as collateral with a net book value of \$985.2 million. During the second quarter, the Company substituted letters of credit for cash collateral and lessee deposits pledged under the 2010 Warehouse Facility, thereby further reducing the total amount of restricted cash from \$87.3 million at December 31, 2013 to \$8.2 million at September 30, 2014.

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.

*Credit ratings*

The following table summarizes our current credit ratings:

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| Rating Agency            | Long-term Debt | Corporate Rating | Outlook        | Date of Last Ratings Action |
|--------------------------|----------------|------------------|----------------|-----------------------------|
| Standard and Poor's      | BBB-           | BBB-             | Stable Outlook | August 26, 2013             |
| Kroll Bond Rating Agency | A-             | A-               | Stable Outlook | October 16, 2014            |

### Liquidity

As of September 30, 2014 we had a 43 member, globally diversified group of banking relationships, which has provided us in excess of \$4.2 billion in financing and we have successfully accessed the debt capital markets for \$4.8 billion in unsecured financing. We ended the third quarter of 2014 with total unsecured debt outstanding of \$5.5 billion compared to \$4.3 billion as of December 31, 2013, increasing the Company's unsecured debt as a percentage of total debt to 81.8% as of September 30, 2014 compared to 73.4% as of December 31, 2013. The Company's fixed rate debt as a percentage of total debt increased to 76.3% as of September 30, 2014 from 61.9% as of December 31, 2013.

The acquisition and lease of additional aircraft led to an increase in our cash flows from operations of \$78.4 million, or 15.9%, to \$571.2 million for the nine months ended September 30, 2014 as compared to \$492.8 million for the nine months ended September 30, 2013. Our cash flows from operations contributed significantly to our liquidity position. We ended the third quarter of 2014 with available liquidity of \$2.1 billion which is comprised of unrestricted cash of \$210.7 million and undrawn balances under our 2010 Warehouse Facility, as amended, and unsecured revolving credit facilities of \$1.9 billion. We believe that we have sufficient liquidity to satisfy the operating requirements of our business through the next twelve months.

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Our financing plan for 2014 is focused on funding the purchase of aircraft and our business with available cash balances, internally generated funds, including aircraft sales and trading activity, and debt financings. Our debt financing plan will remain focused on continuing to raise unsecured debt in the global bank and capital markets. In addition, we may utilize, to a limited extent, export credit financing in support of our new aircraft deliveries.

We are in compliance in all material respects with all covenants or other requirements in our debt agreements. While a ratings downgrade would not result in a default under any of our debt agreements, it could adversely affect our ability to issue debt and obtain new financings, or renew existing financings, and it would increase the cost of such financings. Our liquidity plans are subject to a number of risks and uncertainties, including those described in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Results of Operations**

The following table presents our historical operating results for the three and nine month periods ended September 30, 2014 and 2013 (in thousands):

|                                                           | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|-----------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                           | 2014                                | 2013       | 2014                               | 2013       |
|                                                           | (unaudited)                         |            | (unaudited)                        |            |
| <b>Revenues</b>                                           |                                     |            |                                    |            |
| Rental of flight equipment                                | \$ 252,519                          | \$ 213,835 | \$ 725,448                         | \$ 610,237 |
| Aircraft sales, trading and other                         | 9,420                               | 2,070      | 39,101                             | 5,537      |
| Total revenues                                            | 261,939                             | 215,905    | 764,549                            | 615,774    |
| <b>Expenses</b>                                           |                                     |            |                                    |            |
| Interest                                                  | 48,582                              | 41,946     | 140,275                            | 125,644    |
| Amortization of discounts and deferred debt issue costs   | 7,423                               | 6,012      | 20,902                             | 16,571     |
| Interest expense                                          | 56,005                              | 47,958     | 161,177                            | 142,215    |
| Depreciation of flight equipment                          | 86,119                              | 71,811     | 245,736                            | 204,457    |
| Selling, general and administrative                       | 19,656                              | 17,497     | 58,748                             | 48,392     |
| Stock-based compensation                                  | 3,882                               | 3,751      | 12,222                             | 17,839     |
| Total expenses                                            | 165,662                             | 141,017    | 477,883                            | 412,903    |
| <b>Income before taxes</b>                                | 96,277                              | 74,888     | 286,666                            | 202,871    |
| Income tax expense                                        | (33,844)                            | (26,310)   | (100,799)                          | (71,307)   |
| <b>Net income</b>                                         | \$ 62,433                           | \$ 48,578  | \$ 185,867                         | \$ 131,564 |
| <b>Net income per share of Class A and B Common Stock</b> |                                     |            |                                    |            |
| Basic                                                     | \$ 0.61                             | \$ 0.48    | \$ 1.82                            | \$ 1.30    |
| Diluted                                                   | \$ 0.58                             | \$ 0.46    | \$ 1.73                            | \$ 1.25    |

*Three months ended September 30, 2014, compared to the three months ended September 30, 2013*

*Rental revenue*

During the quarter ended September 30, 2014, the Company took delivery of nine aircraft from our order book and sold four aircraft from our operating lease portfolio. As of September 30, 2014, our fleet was comprised of 212 aircraft consisting of 161 single-aisle narrowbody jet aircraft, 34 twin-aisle widebody aircraft and 17 turboprop aircraft, with a net book value of \$8.9 billion. For the three months ended September 30, 2014, the Company recorded \$252.5 million in rental revenue, which included overhaul revenue of \$6.5 million. As of September 30, 2013, our fleet was comprised of 182 aircraft consisting of 136 single-aisle narrowbody jet aircraft, 31 twin-aisle widebody aircraft and 15 turboprop aircraft, with a net book value of \$7.2 billion. For the three months ended September 30, 2013, the Company recorded \$213.8 million in rental revenue, which included overhaul revenue of \$7.3 million. The increase in rental revenue was attributable to the acquisition and lease of additional aircraft partially offset by a decrease in revenue for aircraft sold from our operating lease portfolio. The full impact on rental revenue for aircraft acquired during the period will be reflected in subsequent periods.

All of the aircraft in our fleet were leased as of September 30, 2014 and September 30, 2013.

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*Aircraft sales, trading and other*

Aircraft sales, trading and other revenue totaled \$9.4 million for the three months ended September 30, 2014 compared to \$2.1 million for the three months ended September 30, 2013. The increase from the prior period is primarily attributable to \$8.8 million in gains resulting from (i) the sale of four aircraft from our operating lease portfolio and (ii) the trading of one Boeing 737-300 aircraft.

*Interest expense*

Interest expense totaled \$56.0 million for the three months ended September 30, 2014 compared to \$48.0 million for the three months ended September 30, 2013. The change was primarily due to an increase in our average outstanding debt balances resulting in a \$6.6 million increase in interest expense and an increase of \$1.4 million in amortization of discounts and deferred debt issuance costs. The increase in interest expense for the three months ended September 30, 2014, compared to the same period in 2013, was primarily attributable to an increase in our average debt balances offset by lower interest rates. We expect that our interest expense will increase as our average debt balance outstanding continues to increase. Interest expense will also be impacted by changes in our composite cost of funds.

*Depreciation expense*

We recorded \$86.1 million in depreciation expense of flight equipment for the three months ended September 30, 2014 compared to \$71.8 million for the three months ended September 30, 2013. The increase in depreciation expense for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, is attributable to the acquisition of additional aircraft. The full impact on depreciation expense for aircraft acquired during the period will be reflected in subsequent periods.

*Selling, general and administrative expenses*

We recorded selling, general and administrative expenses of \$19.7 million for the three months ended September 30, 2014 compared to \$17.5 million for the three months ended September 30, 2013. Selling, general and administrative expense as a percentage of revenue decreased to 7.5% for the three months ended September 30, 2014 compared to 8.1% for the three months ended September 30, 2013. As we continue to add new aircraft to our portfolio, we expect over the long-term selling, general and administrative expense to decrease as a percentage of our revenue.

*Stock-based compensation expense*

Stock-based compensation expense totaled \$3.9 million for the three months ended September 30, 2014 compared to \$3.8 million for the three months ended September 30, 2013. The increase is primarily due to Stock Options granted by the Company fully vesting during 2013 as well as

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the effects of the expense recognition pattern related to our book-value RSUs, which is calculated based on a tranche by tranche vesting schedule. See Note 7 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about stock-based compensation.

### *Taxes*

The effective tax rate was 35.2% and 35.1% for the three months ended September 30, 2014 and 2013, respectively.

### *Net income*

For the three months ended September 30, 2014, the Company reported consolidated net income of \$62.4 million, or \$0.58 per diluted share, compared to consolidated net income of \$48.6 million, or \$0.46 per diluted share, for the three months ended September 30, 2013. The increase in net income for the three months ended September 30, 2014, compared to the same period in 2013, was primarily attributable to the acquisition and lease of additional aircraft, an increase in aircraft sales, trading and other revenue offset by an increase in interest expense.

*Nine months ended September 30, 2014, compared to the nine months ended September 30, 2013*

### *Rental revenue*

During the nine months ended September 30, 2014, the Company took delivery of 27 aircraft from our order book and sold eight aircraft from our operating lease portfolio. As of September 30, 2014, our fleet was comprised of 212 aircraft consisting of 161 single-aisle narrowbody jet aircraft, 34 twin-aisle widebody aircraft and 17 turboprop aircraft, with a net book value of \$8.9 billion. For the nine months ended September 30, 2014, the Company recorded \$725.4 million in rental revenue, which included overhaul revenue of \$21.2 million. As of September 30, 2013, our fleet was comprised of 182 aircraft consisting of 136 single-aisle narrowbody jet aircraft, 31 twin-aisle widebody aircraft and 15 turboprop aircraft, with a net book value of \$7.2 billion. For the nine months ended September 30, 2013, the Company recorded \$610.2 million in rental revenue, which included overhaul revenue of \$23.5 million. The increase in rental revenue was attributable to the acquisition and lease of additional aircraft partially offset by a decrease in revenue for aircraft sold from our operating lease portfolio. The full impact on rental revenue for aircraft acquired during the period will be reflected in subsequent periods.

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All of the aircraft in our fleet were leased as of September 30, 2014 and September 30, 2013.

*Aircraft sales, trading and other*

Aircraft sales, trading and other revenue totaled \$39.1 million for the nine months ended September 30, 2014 compared to \$5.5 million for the nine months ended September 30, 2013. The increase from the prior period is primarily attributable to \$36.5 million in gains resulting from (i) the sale of eight aircraft from our operating lease portfolio, (ii) the trading of five Boeing 737-300 aircraft and (iii) insurance proceeds received in excess of the book value relating to the loss of an aircraft in the fourth quarter of 2013.

*Interest expense*

Interest expense totaled \$161.2 million for the nine months ended September 30, 2014 compared to \$142.2 million for the nine months ended September 30, 2013. The change was primarily due to an increase in our average outstanding debt balances resulting in a \$14.6 million increase in interest expense and an increase of \$4.3 million in amortization of discounts and deferred debt issuance costs. The increase in interest expense for the nine months ended September 30, 2014, compared to the same period in 2013, was primarily attributable to an increase in our average debt balances offset by lower interest rates. We expect that our interest expense will increase as our average debt balance outstanding continues to increase. Interest expense will also be impacted by changes in our composite cost of funds.

*Depreciation expense*

We recorded \$245.7 million in depreciation expense of flight equipment for the nine months ended September 30, 2014 compared to \$204.5 million for the nine months ended September 30, 2013. The increase in depreciation expense for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, is attributable to the acquisition of additional aircraft. The full impact on depreciation expense for aircraft acquired during the period will be reflected in subsequent periods.

*Selling, general and administrative expenses*

We recorded selling, general and administrative expenses of \$58.7 million for the nine months ended September 30, 2014 compared to \$48.4 million for the nine months ended September 30, 2013. Selling, general and administrative expense as a percentage of revenue decreased to 7.7% for the nine months ended September 30, 2014 compared to 7.9% for the nine months ended September 30, 2013. As we continue to add new aircraft to our portfolio, we expect over the long-term selling, general and administrative expense to decrease as a percentage of our revenue.

*Stock-based compensation expense*

Stock-based compensation expense totaled \$12.2 million for the nine months ended September 30, 2014 compared to \$17.8 million for the nine months ended September 30, 2013. The decrease is primarily due to Stock Options granted by the Company fully vesting during 2013 as well as the effects of the expense recognition pattern related to our book value RSUs, which is calculated based on a tranche by tranche vesting schedule. See Note 7 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about stock-based compensation.

#### *Taxes*

The effective tax rate was 35.2% and 35.1% for the nine months ended September 30, 2014 and 2013, respectively.

#### *Net income*

For the nine months ended September 30, 2014, the Company reported consolidated net income of \$185.9 million, or \$1.73 per diluted share, compared to consolidated net income of \$131.6 million, or \$1.25 per diluted share, for the nine months ended September 30, 2013. The increase in net income for the nine months ended September 30, 2014, compared to the same period in 2013, was primarily attributable to the acquisition and lease of additional aircraft, an increase in aircraft sales, trading and other revenue offset by an increase in interest expense.

Table of Contents**Contractual Obligations**

Our contractual obligations as of September 30, 2014, are as follows (in thousands):

|                                          | 2014       | 2015         | 2016         | 2017         | 2018         | Thereafter    | Total         |
|------------------------------------------|------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Long-term debt obligations (1)(2) \$     | 40,243 \$  | 178,413 \$   | 874,822 \$   | 1,414,419 \$ | 1,431,706 \$ | 2,723,783 \$  | 6,663,386     |
| Interest payments on debt outstanding(3) | 65,045     | 247,812      | 232,912      | 176,134      | 124,916      | 243,558       | 1,090,377     |
| Purchase commitments                     | 501,188    | 2,294,623    | 2,010,670    | 1,918,637    | 3,005,956    | 19,302,313    | 29,033,387    |
| Operating leases                         | 601        | 2,467        | 2,541        | 2,617        | 2,696        | 15,387        | 26,309        |
| Total                                    | \$ 607,077 | \$ 2,723,315 | \$ 3,120,945 | \$ 3,511,807 | \$ 4,565,274 | \$ 22,285,041 | \$ 36,813,459 |

(1) As of September 30, 2014, the Company had \$484.5 million of debt outstanding under the 2010 Warehouse Facility, as amended. The Company is able to draw on the facility during an availability period that ends in June 2016 with a subsequent term out option, through the maturity date of the facility, which is reflected in the maturity schedule above.

(2) As of September 30, 2014, the Company had \$459.0 million of debt outstanding under our unsecured revolving credit facilities. The outstanding drawn balances may be rolled until the final maturity date of each respective facility and have been presented as such in the maturity schedule above.

(3) Future interest payments on floating rate debt are estimated using floating rates in effect at September 30, 2014.

**Off-Balance Sheet Arrangements**

We have not established any unconsolidated entities for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. We have, however, from time to time established subsidiaries and created partnership arrangements or trusts for the purpose of leasing aircraft or facilitating borrowing arrangements, all of which are consolidated.

**Critical Accounting Policies**

The Company's critical accounting policies reflecting management's estimates and judgments are described in our Annual Report on Form 10-K for the year ended December 31, 2013. The Company has reviewed recently adopted accounting pronouncements and determined that the adoption of such pronouncements is not expected to have a material impact, if any, on its consolidated financial statements. Accordingly, there have been no changes to critical accounting policies in the nine months ended September 30, 2014.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of changes in value of a financial instrument, caused by fluctuations in interest rates and foreign exchange rates. Changes in these factors could cause fluctuations in our results of operations and cash flows. We are exposed to the market risks described below.

### **Interest Rate Risk**

The nature of our business exposes us to market risk arising from changes in interest rates. Changes, both increases and decreases, in our cost of borrowing, as reflected in our composite interest rate, directly impact our net income. Our lease rental stream is generally fixed over the life of our leases, whereas we have used floating-rate debt to finance a significant portion of our aircraft acquisitions. As of September 30, 2014 and December 31, 2013, we had \$1.6 billion and \$2.2 billion in floating-rate debt, respectively. If interest rates increase, we would be obligated to make higher interest payments to our lenders. If we incur significant fixed-rate debt in the future, increased interest rates prevailing in the market at the time of the incurrence of such debt would also increase our interest expense. If the composite rate on our floating-rate debt were to increase by 1.0%, we would expect to incur additional interest expense on our existing indebtedness of approximately \$15.7 million and \$22.3 million as of September 30, 2014 and December 31, 2013, respectively, each on an annualized basis, which would put downward pressure on our operating margins. The change in interest expense the Company would incur is primarily due to a change in total floating-rate debt outstanding as of September 30, 2014 compared to December 31, 2013.

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We also have interest rate risk on our forward lease placements. This is caused by us setting a fixed lease rate in advance of the delivery date of an aircraft. The delivery date is when a majority of the financing for an aircraft is arranged. We partially mitigate the risk of an increasing interest rate environment between the lease signing date and the delivery date of the aircraft by having interest rate adjusters in a majority of our forward lease contracts which would adjust the final lease rate upward if certain benchmark interest rates are higher at the time of delivery of the aircraft than at the lease signing date.

**Foreign Exchange Rate Risk**

The Company attempts to minimize currency and exchange risks by entering into aircraft purchase agreements and a majority of lease agreements and debt agreements with U.S. dollars as the designated payment currency. Thus, most of our revenue and expenses are denominated in U.S. dollars. As of September 30, 2014 and December 31, 2013, 0.8% and 1.6%, respectively, of our lease revenues were denominated in Euros. The decrease in lease revenues denominated in Euros is primarily due to the growth of our operating lease portfolio. As our principal currency is the U.S. dollar, weakness in the U.S. dollar as compared to other major currencies should not have a significant impact on our future operating results.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission ( SEC ), and such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer (collectively, the Certifying Officers ), as appropriate, to allow timely decisions regarding required disclosure. Our management, including the Certifying Officers, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We have evaluated, under the supervision and with the participation of management, including the Certifying Officers, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of September 30, 2014. Based on that evaluation, our Certifying Officers have concluded that our disclosure controls and procedures were effective at September 30, 2014.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On April 24, 2012, the Company was named as a defendant in a complaint filed in Superior Court of the State of California for the County of Los Angeles by AIG and ILFC. The complaint also names as defendants certain executive officers and employees of, and an initial investor in, the Company. AIG withdrew as a plaintiff on all but one cause of action that is not asserted against the Company.

Among other things, the complaint, as amended, alleges breach of fiduciary duty, misappropriation of trade secrets, the wrongful recruitment of ILFC employees, and the wrongful diversion of potential ILFC leasing opportunities. The complaint seeks an unspecified amount of damages and injunctive relief. The Company believes that it has meritorious defenses to these claims and intends to defend this matter vigorously. The amount or range of loss, if any, is not estimable at this time.

On August 15, 2013, the Company filed a cross complaint against ILFC and AIG. The cross complaint, as amended, alleges breach of contract for the sale of goods in connection with an agreement entered into by AIG, acting on behalf of ILFC, in January 2010 to sell 25 aircraft to the entity that became Air Lease Corporation. The cross complaint seeks compensatory damages in excess of \$500 million.

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**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those discussed under Part I Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ending December 31, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

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**ITEM 6. EXHIBITS**

|         |                                                                                                                                                                                  |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Supplemental Agreement No. 3 to Purchase Agreement No. PA-03791, dated July 11, 2014, by and between Air Lease Corporation and The Boeing Company                                |
| 10.2    | Supplemental Agreement No. 3 to Purchase Agreement No. PA-03659, dated July 11, 2014, by and between Air Lease Corporation and The Boeing Company                                |
| 10.3    | Supplemental Agreement No. 7 to Purchase Agreement No. PA-03658, dated July 9, 2014, by and between Air Lease Corporation and The Boeing Company                                 |
| 10.4    | Amendment No. 2 to A320 NEO Family Purchase Agreement, dated July 14, 2014, by and between Air Lease Corporation and Airbus S.A.S.                                               |
| 10.5    | Amendment No. 3 to A320 NEO Family Purchase Agreement, dated July 14, 2014, by and between Air Lease Corporation and Airbus S.A.S.                                               |
| 12.1    | Computation of Ratio of Earnings to Fixed Charges                                                                                                                                |
| 31.1    | Certification of the Chairman and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                             |
| 31.2    | Certification of the Senior Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                |
| 32.1    | Certification of the Chairman and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.              |
| 32.2    | Certification of the Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema                                                                                                                                                   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                     |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                      |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                                                           |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                    |

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The registrant has omitted confidential portions of the referenced exhibit and filed such confidential portions separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**AIR LEASE CORPORATION**

November 6, 2014

*/s/ Steven F. Udvar-Házy*  
Steven F. Udvar-Házy  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

November 6, 2014

*/s/ Gregory B. Willis*  
Gregory B. Willis  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

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INDEX TO EXHIBITS

|         |                                                                                                                                                                                  |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Supplemental Agreement No. 3 to Purchase Agreement No. PA-03791, dated July 11, 2014, by and between Air Lease Corporation and The Boeing Company                                |
| 10.2    | Supplemental Agreement No. 3 to Purchase Agreement No. PA-03659, dated July 11, 2014, by and between Air Lease Corporation and The Boeing Company                                |
| 10.3    | Supplemental Agreement No. 7 to Purchase Agreement No. PA-03658, dated July 9, 2014, by and between Air Lease Corporation and The Boeing Company                                 |
| 10.4    | Amendment No. 2 to A320 NEO Family Purchase Agreement, dated July 14, 2014, by and between Air Lease Corporation and Airbus S.A.S.                                               |
| 10.5    | Amendment No. 3 to A320 NEO Family Purchase Agreement, dated July 14, 2014, by and between Air Lease Corporation and Airbus S.A.S.                                               |
| 12.1    | Computation of Ratio of Earnings to Fixed Charges                                                                                                                                |
| 31.1    | Certification of the Chairman and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                             |
| 31.2    | Certification of the Senior Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                |
| 32.1    | Certification of the Chairman and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.              |
| 32.2    | Certification of the Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document                                                                                                                                                           |
| 101.SCH | XBRL Taxonomy Extension Schema                                                                                                                                                   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                     |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                      |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                                                           |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                    |

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The registrant has omitted confidential portions of the referenced exhibit and filed such confidential portions separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.