CAMBREX CORP
Form 10-Q
August 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2018

OR

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

for the transition period from to

Commission file number 1-10638

CAMBREX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	22-2476135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE MEADOWLANDS PLAZA, EAST RUTHERFORD, NEW JERSEY 07073

(Address of principal executive offices)

(201) 804-3000

(Registrant's telephone number, including area code)

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of July 31, 2018, there were 33,258,256 shares outstanding of the registrant's Common Stock, $.10 par value.

CAMBREX CORPORATION AND SUBSIDIARIES

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Forward-Looking Statements

This document contains "forward-looking statements," including statements or tables regarding expected performance. These and other forward-looking statements may be identified by the fact that they use words such as "guidance," "expects," "anticipates," "intends," "estimates," "believes" or similar expressions. Any forward-looking statements contained herein are based on current plans and expectations and involve risks and uncertainties that could cause actual outcomes and results to differ materially from current expectations. The factors described in Item 1A of Part I of the Company's Annual Report on Form 10-K for the period ended December 31, 2017 captioned "Risk Factors," or otherwise described in the Company's filings with the SEC provide examples of such risks and uncertainties that may cause the Company's actual results to differ materially from the expectations the Company describes in its forward-looking statements, including, but not limited to, the possibility that conditions to closing the Halo Pharma transaction could not be met or that the benefits from the acquisition may not be as anticipated, customer and product concentration, the Company's ability to win new customer contracts and renew existing contracts on favorable terms, significant declines in sales of products to our customers, pharmaceutical outsourcing trends, competitive pricing or product developments, market acceptance and adoption rate of its customers' products, government legislation and regulations (including those pertaining to environmental issues), tax rate, interest rate, technology, manufacturing and legal issues, including the outcome of outstanding litigation, environmental matters, changes in foreign exchange rates, uncollectible receivables, the timing and/or volume of orders or shipments and the Company's ability to meet its production plan and customer delivery schedules, expected timing of completion of capacity expansions, our ability to successfully integrate acquired businesses, loss on disposition of assets, cancellations or delays in renewal of contracts, lack of suitable raw materials, the Company's ability to receive regulatory approvals for its products, continued demand in the U.S. for late stage clinical products and the successful outcome of the Company's investment in new products.

For further details and a discussion of these and other risks and uncertainties, investors are encouraged to review the Cambrex Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including the Forward-Looking Statement sections therein, and other filings with the SEC. The Company cautions investors and potential investors not to place undue reliance on the forward-looking statements contained in this Quarterly Report on Form 10-Q and to give careful consideration to the risks and uncertainties listed above and contained in the Company's SEC filings. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this document, and the Company undertakes no obligation to update or revise any of these statements.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements
CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 171,348	$ 183,284
Trade receivables, net	100,224	75,144
Contract assets	107,083	-
Other receivables	15,417	20,891
Inventories, net	99,562	138,542
Prepaid expenses and other current assets	10,589	4,217
Total current assets	504,223	422,078
Property, plant and equipment, net	266,075	254,299
Goodwill	42,864	43,626
Intangible assets, net	12,753	13,868
Deferred income taxes	1,448	3,198
Other non-current assets	3,532	3,496
Total assets	$ 830,895	$ 740,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 51,596	$ 35,017
Contract liabilities, current	8,153	4,707
Taxes payable	3,388	43
Accrued expenses and other current liabilities	33,304	42,774
Total current liabilities	96,441	82,541
Contract liabilities, non-current	39,000	39,000
Deferred income taxes	9,377	7,806
Accrued pension benefits	38,444	41,141
Other non-current liabilities	24,306	25,213
Total liabilities	207,568	195,701
Stockholders' equity:		
Common stock, $.10 par value; authorized 100,000,000, issued 34,477,144 and 34,270,975 shares at respective dates	3,448	3,427
Additional paid-in capital	172,480	165,979
Retained earnings	510,522	429,826
Treasury stock, at cost, 1,273,888 and 1,424,153 shares at respective dates	(10,860)	(12,140)

Accumulated other comprehensive loss	(52,263)	(42,228)
Total stockholders' equity	623,327	544,864
Total liabilities and stockholders' equity	$ 830,895	$ 740,565

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

(unaudited – in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross sales	$147,214	$134,487	$286,344	$238,198
Commissions, allowances and rebates	192	649	401	1,243
Net sales	147,022	133,838	285,943	236,955
Other revenues, net	5,024	716	7,200	2,605
Net revenue	152,046	134,554	293,143	239,560
Cost of goods sold	87,254	76,995	177,496	135,126
Gross profit	64,792	57,559	115,647	104,434
Operating expenses:				
Selling, general and administrative expenses	16,007	18,120	32,862	33,511
Research and development expenses	4,133	4,467	7,752	8,357
Total operating expenses	20,140	22,587	40,614	41,868
Operating profit	44,652	34,972	75,033	62,566
Other expenses/(income):				
Interest expense, net	17	388	99	654
Unrealized gain on investment in equity securities	(5,146)	-	(5,146)	-
Other expenses, net	181	286	445	687
Income before income taxes	49,600	34,298	79,635	61,225
Provision for income taxes	8,748	9,174	14,534	14,986
Income from continuing operations	40,852	25,124	65,101	46,239
Loss from discontinued operations, net of tax	(433)	(94)	(624)	(1,344)
Net income	$40,419	$25,030	$64,477	$44,895
Basic earnings/(loss) per share of common stock:				
Income from continuing operations	$1.23	$0.77	$1.97	$1.42
Loss from discontinued operations, net of tax	$(0.01)	$(0.00)	$(0.02)	$(0.04)
Net income	$1.22	$0.77	$1.95	$1.38
Diluted earnings/(loss) per share of common stock:				
Income from continuing operations	$1.21	$0.75	$1.94	$1.38
Loss from discontinued operations, net of tax	$(0.01)	$(0.00)	$(0.02)	$(0.04)
Net income	$1.20	$0.75	$1.92	$1.34
Weighted average shares outstanding:				
Basic	33,085	32,629	32,990	32,542
Effect of dilutive stock based compensation	557	840	628	874
Diluted	33,642	33,469	33,618	33,416

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited – in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$40,419	$25,030	$64,477	$44,895
Other comprehensive income/(loss):				
Foreign currency translation adjustments	(13,465)	10,279	(10,536)	12,747
Pension plan amortization of net actuarial loss and prior service cost/credit, net of tax of $69, $117, $177 and $232 at respective dates	206	243	501	487
Comprehensive income	$27,160	$35,552	$54,442	$58,129

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$64,477	$44,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,019	14,827
Non-cash deferred revenue	(1,114)	(4,115)
Increase in inventory reserve	4,202	2,318
Unrealized gain on investment in equity securities	(5,146)	-
Unrealized gain on foreign currency contracts	(1,724)	(1,069)
Stock based compensation	3,203	4,033
Deferred income tax provision	3,729	1,969
Other	(76)	(146)
Changes in assets and liabilities:		
Account receivables	(26,417)	15,047
Contract assets	(56,245)	-
Inventories	(1,033)	(31,165)
Prepaid expenses and other current assets	6,594	(1,308)
Accounts payable and other current liabilities	10,197	(13,180)
Contract liabilities, current	3,017	3,298
Other non-current assets and liabilities	(1,549)	563
Discontinued operations:		
Non-current liabilities	799	2,300
Net cash used in discontinued operations	(431)	(1,190)
Net cash provided by operating activities	17,502	37,077
Cash flows from investing activities:		
Capital expenditures	(32,733)	(22,862)
Net cash used in investing activities	(32,733)	(22,862)
Cash flows from financing activities:		
Proceeds from stock options exercised	4,599	2,973
Net cash provided by financing activities	4,599	2,973
Effect of exchange rate changes on cash and cash equivalents	(1,304)	2,848
Net (decrease)/increase in cash and cash equivalents	(11,936)	20,036
Cash and cash equivalents at beginning of period	183,284	74,141
Cash and cash equivalents at end of period	$171,348	$94,177

See accompanying notes to unaudited consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(1) Basis of Presentation

Unless otherwise indicated by the context, "Cambrex" or the "Company" means Cambrex Corporation and subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company. In the opinion of management, the financial statements include all adjustments, which are of a normal and recurring nature, except as otherwise described herein, and are necessary for a fair statement of financial position and results of operations in conformity with U.S. generally accepted accounting principles (“GAAP”). These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2017.

The results of operations of any interim period are not necessarily indicative of the results expected for the full year.

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation at sites of divested businesses.

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

(2) Impact of Recently Issued Accounting Pronouncements

The following accounting pronouncements became effective for the Company January 1, 2018:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 which introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the new accounting standard ASC Topic 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts not completed as of January 1, 2018 using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was $16,219 and has been recorded as an adjustment to increase the opening balance of retained earnings. The cumulative effect adjustment relates primarily to the recognition of revenue and costs for contracts that transfer promised goods or services over time. Gross sales, cost of goods sold, and tax expense of $51,896, $31,347, and $4,330 respectively, were recorded as part of the cumulative effect adjustment. The comparative information has not been restated and is reported in accordance with accounting standard Topic 605, which was in effect for those periods.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The adoption of the new revenue standard impacted the consolidated financial statements as follows:

Income Statement

	For the Three Months Ended June 30, 2018		
	As Reported	Effect of Change	Amount Without Adoption of ASC 606
Gross sales	$147,214	$18,988	$ 128,226
Net revenue	152,046	18,988	133,058
Cost of goods sold	87,254	4,020	83,234
Gross profit	64,792	14,968	49,824
Operating profit	44,652	14,968	29,684
Provision for income taxes	8,748	3,463	5,285
Income from continuing operations	40,852	11,505	29,347
Net income	40,419	11,505	28,914
Diluted earnings per share from continuing operations	1.21	0.34	0.87

	For the Six Months Ended June 30, 2018		
	As Reported	Effect of Change	Amount Without Adoption of ASC 606

Gross sales	$ 286,344	$ 56,268	$ 230,076
Net revenue	293,143	56,268	236,875
Cost of goods sold	177,496	24,719	152,777
Gross profit	115,647	31,549	84,098
Operating profit	75,033	31,549	43,484
Provision for income taxes	14,534	6,634	7,900
Income from continuing operations	65,101	24,915	40,186
Net income	64,477	24,915	39,562
Diluted earnings per share from continuing operations	1.94	0.74	1.20

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Balance Sheet

	June 30, 2018		
	As Reported	Effect of Change	Balances Without Adoption of ASC 606
Current Assets			
Contract assets	$ 107,083	$ 107,083	$ -
Inventory	99,562	(55,129)	154,691
Current Liabilities			
Taxes payable	3,388	10,964	(7,576)
Stockholders' Equity			
Retained earnings	510,522	41,134	469,388

Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity’s sponsored defined pension and other postretirement plans. The ASU requires entities to disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. This standard became effective for the Company on January 1, 2018. For the three and six months ended June 30, 2018, the Company recorded $171 and $482, respectively, to “Other expenses, net” which formerly would have been recorded as “Selling, general and administrative expenses” or “Cost of goods sold.” To conform to the current year presentation, for the three and six months ended June 30, 2017 the Company reclassified $360 and $723, respectively, from “Selling, general and administrative expenses” and $57 and $107, respectively, from “Cost of goods sold” to “Other expenses, net.”

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. The amendment became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 which provides guidance on the presentation and classification in the statement of cash flows for specific cash receipt and payment transactions, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees. The standard became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in future periods:

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02 to address the tax effects of the Tax Cuts & Jobs Act ("TCJA") on amounts that were initially recognized directly in AOCI. ASU 2018-02 allows an entity to elect a one-time reclassification from AOCI to retained earnings of stranded tax effects due to the enactment of TCJA, equal to the difference between the amount initially charged or credited directly to AOCI at the previously enacted U.S. federal corporate income tax rate and the amount that would have been charged or credited directly to AOCI by using the newly enacted tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the provisions of ASU 2018-02 and will determine in a later period if the reclassification from AOCI to retained earnings addressed in the ASU will be elected.

Effects of the Tax Cuts and Jobs Act

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB No. 118") which allowed SEC registrants to record provisional amounts for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of TCJA. The Company recognized the estimated income tax effects of TCJA in its 2017 Consolidated Financial Statements in accordance with SAB No. 118. Refer to Note 6 for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

CAMBREX CORPORATION AND SUBSIDIARIES

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(in thousands, except share data)

(Unaudited)

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 which aligns the accounting for share-based payment awards issued to nonemployees with those issued to employees. Under the new guidance, the nonemployee awards will be measured on the grant date and compensation costs will be recognized when achievement of the performance condition is probable. This new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. At this time, the Company has no significant financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. Several updates have been issued in 2018 that provide clarification on a number of specific issues and reporting requirements. The Company is currently evaluating the new guidance and does not expect the adjustment will be material to the Company, assuming there is not an increase in lease activity.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard also makes certain targeted improvements to simplify the application of the hedge accounting guidance. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(3) Revenue

In accordance with ASC 606, the Company disaggregates its revenue from customers with contracts by revenue streams. The Company's revenue streams are presented in the following table:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Single-use products	$75,312	$147,213
Multi-use products	66,594	129,273
Service revenue	5,308	9,858
Total gross sales	$147,214	$286,344

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured as the amount of consideration expected in exchange for transferring goods or providing services.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company does not have any unsatisfied performance obligations for contracts greater than one year. The costs incurred to obtain or fulfill a contract are not material.

For variable consideration arrangements where the transaction price fluctuates based on quantity, the most likely estimated quantity is assumed using forecasts provided by the customer.

Single-use products

In most single-use product sales, a quantity is ordered and manufactured according to the customer's specifications and typically only one performance obligation is included. The Company also manufactures early phase product that can be included in a contract with services. These services are distinct and separated from the product performance obligations and are shown as a service revenue stream. The products are manufactured exclusively for a specific customer and have no alternative use. Under these customer agreements, the Company is entitled to consideration for progress to date that includes an element of profit margin. Revenues related to this product stream are recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. The raw materials are excluded from this measurement due to the high value and inclusion in the early stages of the project that would otherwise overstate progress to date.

Multi-use products

The Company’s multi-use product sales can be sold to multiple customers and have an alternative use. Both the transaction sales price and shipping terms are agreed upon in the contract. For these products, all revenue is recognized at a point in time, generally when title to products and risk of loss is transferred to the customers based upon shipping terms. These arrangements typically include only one performance obligation.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Service revenue

The service revenue stream represents services provided to a customer to assist with early stages of the regulatory approval process. The customer owns the drug details and process. The Company works with its customers to develop, validate and document the production process in order to comply with the regulatory approval process. These custom development projects could have one or more performance obligations with no alternative use. The contracts are structured to ensure the Company is paid for in-process work, including a profit margin. Revenues related to this stream are recognized over time by allocating to each performance obligation the best estimate of the standalone selling price of each service. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. Standalone selling prices are generally based on the prices charged to customers or based on an expected cost-plus margin.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contracts assets (unbilled receivables), and contract liabilities (customer advances and deferred revenue). For each reporting period presented, the Company reports contract balances in a net contract asset or liability position on a contract-by-contract basis. Contract assets are recorded when the right to consideration is conditioned on something other than the passage of time. When an entity’s right to consideration is unconditional, the receivable is recorded within Trade Receivables on the balance sheet. Contract liabilities represent advance payments from customers, and deferred revenue. Contract assets will convert to trade receivables or cash and current contract liabilities will convert into revenue within a one-year period.

Payment terms can vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, payment prior to satisfaction of a performance obligation can be required, and results in recording a contract liability.

The following table details the significant changes in contract assets during the six months ended June 30, 2018:

	Contract Assets
Balance as of January 1, 2018	$51,896
Revenue recognized from performance obligations satisfied	145,820
Transferred to trade receivables	(89,551)
Currency impact	(1,082)
Balance as of June 30, 2018	$107,083

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CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

The Company recognized in revenue $1,114 in the six months ended June 30, 2018 for which the contract liability was recorded in a prior period.

(4) Net Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Net inventories consist of the following:

	June 30, 2018	December 31, 2017
Finished goods	$14,981	$ 41,521
Work in process	36,661	47,386
Raw materials	40,667	42,491
Supplies	7,253	7,144
Total	$99,562	$ 138,542

(5) Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the six months ended June 30, 2018, is as follows:

Balance as of December 31, 2017	$43,626
Translation effect	(762)
Balance as of June 30, 2018	$42,864

Acquired intangible assets, which are amortized, consist of the following:

	As of June 30, 2018			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

Internal-use software	3 - 7 years	$7,036	$ (2,358)	$4,678
Technology-based intangibles	20 years	3,544	(1,462)	2,082
Customer-related intangibles	10 - 15 years	7,588	(1,595)	5,993
		$18,168	$ (5,415)	$12,753

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

	As of December 31, 2017			
	Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software	3 - 7 years	$7,074	$ (1,810)	$ 5,264
Technology-based intangibles	20 years	3,646	(1,413)	2,233
Customer-related intangibles	10 - 15 years	7,608	(1,237)	6,371
		$18,328	$ (4,460)	$ 13,868

The change in the gross carrying amount is due to the impact of foreign currency translation and additions.

Amortization expense was $510 and $1,023 for the three and six months ended June 30, 2018, respectively. Amortization expense was $500 and $898 for the three and six months ended June 30, 2017, respectively.

Amortization expense related to intangible assets is expected to be approximately $2,038 for 2018, $2,031 for 2019, $2,014 for 2020, $2,008 for 2021, and $1,588 for 2022.

(6) Income Taxes

Income tax expense from continuing operations for the three and six months ended June 30, 2018 was $8,748 and $14,534, respectively, compared to $9,174 and $14,986 for the three and six months ended June 30, 2017, respectively. The effective tax rate for the three and six months ended June 30, 2018 was 17.6% and 18.3%, respectively, compared to 26.7% and 24.5% for the three and six months ended June 30, 2017, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 20.1% and 19.9% for the three and six months ended June 30, 2018.

Under SAB No. 118, the Company's evaluation of the TCJA toll charge on accumulated foreign earnings is not complete and the taxes payable of $2,105 recorded at December 31, 2017 is provisional and remains unchanged. The Company has not obtained, prepared and analyzed the information necessary to finalize its computations and accounting for the toll charge. In future periods within the one year measurement period, the Company will disclose when the accounting for the income tax effects of TCJA has been completed.

Cambrex is including tax on global intangible low-taxed income ("GILTI") as a component of current tax expense in its estimated annual effective tax rate. The Company is considering whether to elect an accounting policy to treat GILTI inclusions as a period cost in each year incurred, or to recognize deferred taxes for expected future GILTI inclusions, therefore this accounting policy election is incomplete under SAB No. 118.

(7) Derivatives

The Company operates internationally and is exposed to fluctuations in foreign exchange rates and interest rates in the normal course of business. The Company, from time to time, uses derivatives to reduce exposure to market risks resulting from fluctuations in interest rates and foreign exchange rates.

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All financial instruments involve market and credit risks. The Company is exposed to credit losses in the event of non-performance by the counterparties to the contracts. While there can be no assurance, the Company does not anticipate non-performance by these counterparties.

Foreign Currency Forward Contracts

The Company periodically enters into foreign currency forward contracts to protect against currency fluctuations of forecasted cash flows and existing balance sheet exposures at its foreign operations, as deemed appropriate. The Company may or may not elect to designate certain forward contracts for hedge accounting treatment.

For derivatives that are not designated for hedge accounting treatment, changes in the fair value are immediately recognized in earnings. This treatment has the potential to increase volatility of the Company's earnings.

None of the foreign currency forward contracts entered into during the six months ended June 30, 2018 and 2017 were designated for hedge accounting treatment. The notional amounts of the Company's outstanding foreign exchange forward contracts were $70,975 and $32,781 at June 30, 2018 and December 31, 2017, respectively. The Company does not hold or purchase any foreign currency forward contracts for trading or speculative purposes and no contractual term is greater than twelve months.

The fair value of the Company's foreign exchange forward contracts outstanding was a gain of $1,724 and $83 at June 30, 2018 and December 31, 2017, respectively. Losses are recorded in "Accrued expenses and other current liabilities" and gains are recorded in "Prepaid expenses and other current assets" on the balance sheet and "Other revenues, net" on the income statement.

(8) Fair Value Measurements

Accounting standards establish a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from, or corroborated by, observable market data through correlation; Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value, measured on a recurring basis, as of June 30, 2018 and December 31, 2017:

Fair Value - Level 2	June 30,	December 31,

	2018	2017
Foreign currency forwards, assets	$ 1,724	$ 83
Investment in equity securities, assets	5,146	-
	$ 6,870	$ 83

The Company's foreign currency forward contracts are measured at fair value using observable market inputs such as forward rates, the Company's credit risk and its counterparties' credit risks. Based on the

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Company's continued ability to enter into forward contracts, the Company considers the markets for its fair value instruments to be active.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company ("Investee"). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company's ownership share to 16.3%. The Company's investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company's shares increased by $5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as "Unrealized gain on investment in equity securities" on the income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

The Company's financial instruments also include cash and cash equivalents, accounts receivables and accounts payables. The carrying amount of these instruments approximates fair value because of their short-term nature.

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(9) Accumulated Other Comprehensive Income/(Loss)

The following tables provide the changes in AOCI by component (pension, net of tax) for the three and six months ended June 30, 2018 and 2017:

	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of March 31, 2018	$ (9,111)	$ (29,893)	$ (39,004)
Other comprehensive loss before reclassifications	(13,465)	-	(13,465)
Amounts reclassified from accumulated other comprehensive loss	-	206	206
Net current-period other comprehensive (loss)/income	(13,465)	206	(13,259)
Balance as of June 30, 2018	$ (22,576)	$ (29,687)	$ (52,263)

	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of March 31, 2017	$ (31,822)	$ (30,986)	$ (62,808)
Other comprehensive income before reclassifications	10,279	-	10,279
Amounts reclassified from accumulated other comprehensive loss	-	243	243
Net current-period other comprehensive income	10,279	243	10,522
Balance as of June 30, 2017	$ (21,543)	$ (30,743)	$ (52,286)

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	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of December 31, 2017	$ (12,040)	$ (30,188)	$ (42,228)
Other comprehensive loss before reclassifications	(10,536)	-	(10,536)
Amounts reclassified from accumulated other comprehensive loss	-	501	501
Net current-period other comprehensive (loss)/income	(10,536)	501	(10,035)
Balance as of June 30, 2018	$ (22,576)	$ (29,687)	$ (52,263)

	Foreign Currency Translation Adjustments	Pension Plans	Total
Balance as of December 31, 2016	$ (34,290)	$ (31,230)	$ (65,520)
Other comprehensive income before reclassifications	12,747	-	12,747
Amounts reclassified from accumulated other comprehensive loss	-	487	487
Net current-period other comprehensive income	12,747	487	13,234
Balance as of June 30, 2017	$ (21,543)	$ (30,743)	$ (52,286)

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The following tables provide the reclassifications from AOCI by component for the three and six months ended June 30, 2018 and 2017:

Details about AOCI Components	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Amortization of defined benefit pension items:		
Actuarial losses	$ (276)	$ (680)
Prior service credit	1	2
Total before tax	(275)	(678)
Tax benefit	69	177
Net of tax	$ (206)	$ (501)
Total reclassification for the period	$ (206)	$ (501)

Details about AOCI Components	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Amortization of defined benefit pension items:		
Actuarial losses	$ (347)	$ (693)
Prior service costs	(13)	(26)
Total before tax	(360)	(719)
Tax benefit	117	232
Net of tax	$ (243)	$ (487)
Total reclassification for the period	$ (243)	$ (487)

The Company recognizes all components of net periodic benefit cost except service costs in “Other expenses, net” in its income statement. Service costs are recognized in “Selling, general and administrative expenses” and “Cost of goods sold” in its income statement depending on the functional area of the underlying employees included in the plan.

(10) Stock Based Compensation

The Company recognizes compensation costs for stock options awarded to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2018 was $24.54. The weighted-average fair value per share for the stock options granted to employees during the three and six months ended June 30, 2017 were $18.37 and $20.14, respectively.

For the three months ended June 30, 2018 and 2017, the Company recorded $1,149 and $1,128, respectively, in "Selling, general and administrative expenses" for stock options. For the six months ended June 30, 2018 and 2017, the Company recorded $2,188 and $2,126, respectively, in "Selling, general and administrative expenses" for stock options. As of June 30, 2018, the total compensation cost related to unvested stock options not yet recognized was $8,486. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 2.2 years.

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The following table is a summary of the Company's stock options:

Options	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	1,484,914	$ 32.53
Exercised	(112,669)	24.16
Forfeited or expired	(5,311)	36.94
Outstanding at March 31, 2018	1,366,934	33.20
Granted	14,265	53.70
Exercised	(93,500)	20.07
Forfeited or expired	(6,759)	35.06
Outstanding at June 30, 2018	1,280,940	34.38
Exercisable at June 30, 2018	544,596	$ 26.37

The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2018 were $2,535 and $5,809, respectively. The aggregate intrinsic values for all stock options exercised for the three and six months ended June 30, 2017 were $6,755 and $9,342, respectively. The aggregate intrinsic values for all stock options outstanding and exercisable as of June 30, 2018 were $23,184 and $14,270, respectively.

The following table is a summary of the Company's unvested stock options, restricted stock and performance shares for which the requisite service period has not been rendered but that are expected to vest on the achievement of a performance condition:

	Unvested Stock Options		Unvested Restricted Stock		Unvested Performance Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value

Unvested at December 31, 2017	757,269	$ 15.20	265	$ 44.23	276,250	$ 42.08
Vested during period	(21,510)	13.99	-	-	-	-
Forfeited	(5,311)	13.90	-	-	(17,250)	40.65
Unvested at March 31, 2018	730,448	15.25	265	44.23	259,000	42.17
Granted	14,265	24.54	9,779	53.70	17,250	40.65
Vested during period	(1,610)	17.34	(265)	44.23	-	-
Forfeited	(6,759)	13.27	-	-	(28,750)	41.36
Unvested at June 30, 2018	736,344	$ 15.44	9,779	$ 53.70	247,500	$ 42.16

For the three months ended June 30, 2018 and 2017, the Company recorded $177 and $188, respectively, in "Selling, general and administrative expenses" for restricted stock awards. For the six months ended June 30, 2018 and 2017, the Company recorded $183 and $194, respectively, in "Selling, general and administrative expenses" for restricted stock awards. As of June 30, 2018, total compensation cost related to unvested restricted stock not yet recognized was $350. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 0.3 years.

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The Company granted equity-settled performance shares ("PS") to certain executives. PS awards provide the recipient the right to receive a certain number of shares of the Company's common stock in the future, which depends on the Company's level of achievement of net revenue and EBITDA growth as compared to the net revenue and EBITDA growth of the members of a specified peer group of companies over a three year period. For the three months ended June 30, 2018 and 2017, the Company recorded $227 and $930, respectively, in "Selling, general and administrative expenses" related to these PS awards. For the six months ended June 30, 2018 and 2017, the Company recorded $832 and $1,713, respectively, in "Selling, general and administrative expenses" related to these PS awards. As of June 30, 2018, total compensation cost related to unvested performance shares not yet recognized was $4,211. The cost will be amortized on a straight-line basis over the remaining weighted-average vesting period of 1.2 years.

(11) Retirement Plans

The Company recognizes all components of net periodic benefit cost except service costs in "Other expenses, net" in its income statement. Service costs are recognized in "Selling, general and administrative expenses" and "Cost of goods sold" in its income statement depending on the functional area of the underlying employees included in the plan. As a result of the adoption of ASU 2017-07, the Company recorded $171 and $482 to "Other expenses, net" for the three and six months ended June 30, 2018, respectively, which formerly would have been recorded as "Selling, general and administrative expenses" or "Cost of goods sold." To conform to the current year presentation, for the three and six months ended June 30, 2017, the Company reclassified $360 and $723, respectively from "Selling, general and administrative expenses" and $57 and $107, respectively from "Cost of goods sold" to "Other expenses, net."

Domestic Pension Plan

The components of net periodic benefit (credit)/cost for the Company's domestic pension plan (which was frozen in 2007) for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Components of net periodic benefit (credit)/cost				
Interest cost	$511	$554	$1,021	$1,108
Expected return on plan assets	(792)	(677)	(1,584)	(1,354)
Recognized actuarial loss	180	200	359	400
Net periodic benefit (credit)/cost	$(101)	$77	$(204)	$154

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International Pension Plan

The components of net periodic benefit cost for the Company's international pension plan for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Components of net periodic benefit cost				
Service cost	$253	$228	$523	$453
Interest cost	182	178	376	353
Recognized actuarial loss	96	88	199	174
Amortization of prior service credit	(1)	(1)	(2)	(2)
Net periodic benefit cost	$530	$493	$1,096	$978

(12) Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company continually assesses known facts and circumstances as they pertain to applicable legal and environmental matters and evaluates the need for reserves and disclosures as deemed necessary based on these facts and circumstances. These matters, either individually or in the aggregate, could result in actual costs that are significantly higher than the Company's current assessment and could have a material adverse effect on the Company's operating results and cash flows in future reporting periods. Based upon past experience, the Company believes that payments significantly in excess of current reserves, if required, would be made over an extended number of years.

Environmental

In connection with laws and regulations pertaining to the protection of the environment, the Company and its subsidiaries are a party to several environmental proceedings and remediation activities and along with other companies, have been named a potentially responsible party ("PRP") for certain waste disposal sites ("Superfund sites"). All of the liabilities currently recorded on the Company's balance sheet for environmental proceedings are associated with discontinued operations. The Company had insurance policies in place at certain of the discontinued operations for certain years that the Company believes should cover some portion of the recorded liabilities or potential future liabilities and the Company expects the net cash impact related to the contingencies described below to be reduced by the applicable income tax rate.

It is the Company's policy to record appropriate liabilities for environmental matters where remedial efforts are probable and the costs can be reasonably estimated. Such liabilities are based on the Company's estimate of the undiscounted future costs required to complete the remedial work. Each of these matters is subject to various uncertainties, and it is possible that some of these matters will be decided against the Company. The resolution of such matters often spans several years and frequently involves regulatory oversight or adjudication. Additionally, many remediation requirements are fluid and are likely to be affected by future technological, site and regulatory developments. It is not possible at this time for the Company to determine fully the effect of all asserted and unasserted claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where asserted and unasserted claims can be estimated and where such claims are considered probable, the Company would record a liability. Consequently, the ultimate liability with respect to such matters, as well as the timing of cash disbursements, is uncertain.

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In matters where the Company is able to reasonably estimate the probable and estimable costs associated with environmental proceedings, the Company accrues for the estimated costs associated with the study and remediation of applicable sites. At June 30, 2018, these reserves were $17,800, of which $16,726 is included in “Other non-current liabilities” on the Company’s balance sheet. At December 31, 2017, the reserves were $17,511, of which $16,976 is included in “Other non-current liabilities” on the Company’s balance sheet. The increase in the reserves includes adjustments to reserves of $799, partially offset by payments of $510. The reserves are adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information becomes available. Given the uncertainties regarding the outcome of investigative and study activities, the status of laws, regulations, enforcement, policies, the impact of other PRPs, technology and information related to individual sites, the Company does not believe it is possible to currently develop an estimate of the range of reasonably possible environmental loss in excess of its reserves.

Bayonne

As a result of the sale of a Bayonne, New Jersey facility, the Company became obligated to investigate site conditions and conduct required remediation under the New Jersey Industrial Site Recovery Act. The Company completed an investigation and sampling plan at the property pursuant to the New Jersey Department of Environmental Protection’s (“NJDEP”) private oversight program. The results will be used to develop a proposed remedial plan for the site, an outline of which was completed. Among other things, the remedial plan is anticipated to address removal of certain impacted soils and implementation of engineering controls and deed restrictions. Once prepared, the remedial plan will set forth further details of any cleanup. Estimates of the Company’s future liability for remediation costs have been revised accordingly. As of June 30, 2018, the Company’s reserve was $665.

Clifton and Carlstadt

The Company has implemented a sampling and pilot program in Clifton and Carlstadt, New Jersey pursuant to the NJDEP private oversight program. The results of the sampling and pilot program to date have been used to develop an estimate of the Company's future liability for remediation costs, and the Company continues to move forward with the projects at each site in accordance with the established schedules and work plans. As of June 30, 2018, the Company’s reserve was $1,854.

Berry’s Creek

The Company received a notice from the United States Environmental Protection Agency (“USEPA”) that two subsidiaries of the Company are considered PRPs at the Berry’s Creek Study Area in New Jersey. These subsidiaries are among many other PRPs that were listed in the notice. Pursuant to the notice, the PRPs have been asked to perform a remedial investigation (“RI”) and feasibility study (“FS”) of the Berry’s Creek site. The Company has joined the group of PRPs and entered into an Administrative Settlement Agreement (“Agreement”) and Order on Consent with the USEPA agreeing to jointly conduct or fund an appropriate remedial investigation and feasibility study of the Berry’s Creek site with the other PRPs in the Agreement. The PRPs have engaged consultants to perform the work specified in the Agreement and develop a method to allocate related costs among the PRPs.

In June 2016, the PRPs received a request from USEPA to amend the RI/FS Work Plan to accommodate a phased, iterative approach to the Berry's Creek remediation. USEPA requested an initial Phase I remedy that focuses on a portion of the site, namely, sediments in Upper and Middle Berry's Creek and the marsh in Upper Peach Island Creek. Any subsequent remedial action will occur after the implementation and performance monitoring of this Phase I remedy and the extent of future action is expected to be at least partially determined by the outcome of this initial phase. In April 2017, USEPA approved the requested addendum to the RI/FS Work Plan, which included the description of the phased and adaptive management approach to the Berry's Creek remedy.

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The scope of remedial activities in the initial Phase I remedy is currently being developed and based upon preliminary cost estimates, the Company’s reserve was $9,728 as of June 30, 2018. The estimated costs for the initial Phase I remedy may be further developed and the Company’s accrual may change based upon the final remedy selected and revisions to cost estimates. At this time it is not known when the costs for the complete remediation plan will be estimable, and as such, no accrual beyond the initial Phase I remedy has been recorded. The Company’s share has been preliminarily estimated by the PRP group at 2.4%. While the Company will defend its position that its share should be reduced from the current level, its share could be increased or decreased depending on the outcome of the final allocation process that will take place in future periods.

While any resolution of this matter is not expected to materially impact the Company’s operations or financial position, it could be material to the financial statements in the period recorded.

In July 2014, the Company received a notice from the U.S. Department of the Interior, U.S. Fish & Wildlife Service, regarding the Company’s potential liability for natural resource damages at the Berry’s Creek site and inviting the Company to participate in a cooperative assessment of natural resource damages. Most members of the Berry’s Creek PRP group received such notice letters, and the PRP Group coordinated a joint response, which was to decline participation in a cooperative assessment at this time, given existing investigation work at the site. The cost of any future assessment and the ultimate scope of natural resource damage liability are not yet known.

Maybrook Site

A subsidiary of Cambrex is named a PRP of a site in Hamptonburgh, New York by the USEPA in connection with the discharge, under appropriate permits, of wastewater at that site prior to Cambrex's acquisition in 1986. The PRPs implemented soil remediation which was completed in 2012 pending approval by the USEPA. The PRPs will continue implementing the ground water remediation at the site. USEPA has commenced its 5-year review process, and USEPA’s review of the site is on-going. It is unclear if such review, together with an agreed proposed modification to the USEPA Consent Decree, will result in any additional site work. As of June 30, 2018, the Company’s reserve was $329, to cover long-term ground water monitoring and related costs.

Harriman Site

Subsidiaries of Cambrex and Pfizer are named as responsible parties for the Company’s former Harriman, New York production facility by the New York State Department of Environmental Conservation (“NYSDEC”). A final Record of Decision (“ROD”) describing the Harriman site remediation responsibilities for Pfizer and the Company was issued in 1997 (the “1997 ROD”) and incorporated into a federal court Consent Decree in 1998 (the “Consent Decree”). In December 2013, the Company, Pfizer and the NYSDEC entered into a federal court stipulation, which the court subsequently endorsed as a court order, resolving certain disputes with the NYSDEC about the scope of the obligations under the Consent Decree and the 1997 ROD, and requiring the Company and Pfizer to carry out an environmental investigation and study of certain areas of the Harriman Site.

Site clean-up work under the 1997 ROD, the Consent Decree and the 2013 stipulation is ongoing and is being jointly performed by Pfizer and the Company, with NYSDEC oversight. Since 2014, Pfizer and the Company have performed supplemental remedial investigation measures requested by the NYSDEC, and the findings have been submitted to NYSDEC in various reports, including a study evaluating the feasibility of certain remedial alternatives in August 2016. By letter dated January 5, 2017, NYSDEC disapproved such feasibility study report and requested certain revisions to the report. The Company and Pfizer engaged in

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further discussions with NYSDEC and have agreed to submit a revised version of the August 2016 feasibility study to address certain of NYSDEC's requests. In September 2017, the NYSDEC requested that Pfizer, the Company and the current owner of the Harriman Site, ELT Harriman LLC ("ELT"), conduct an investigation of additional constituents not addressed under the 1997 ROD based on the detection of those constituents at the Harriman Site and other properties in the area. The parties have requested more information from the State of New York to evaluate the request, while also responding to NYSDEC that no further investigation was warranted.

As it is too soon to determine whether the NYSDEC's requests or the reports and remedial plans, when finalized, will result in any significant changes to the Company's responsibilities, no change to the reserve has been made. ELT is conducting other investigation and remediation activities under a separate NYSDEC directive.

No final remedy for the site has been determined, which will follow further discussions with the NYSDEC. The Company estimates the range for its share of the liability at the site to be between $2,000 and $7,000. As of June 30, 2018, the Company's reserve was $3,365. At this time, the Company is unable to provide an estimate of the ultimate investigative and remedial costs to the Company for any final remedy selected by the NYSDEC.

The Company intends to enforce all of its contractual rights to recover costs and for indemnification under a 2007 settlement agreement, and has filed such claims in an arbitration proceeding against ELT and the immediately preceding owner, Vertellus Specialties Holdings ("Vertellus"). ELT has filed counterclaims, and has threatened to file additional counterclaims, for contractual indemnification and for breach of the settlement agreement against the Company. Currently, the arbitration proceeding is stayed indefinitely. In May 2016, some but not all of the Vertellus entities who are parties to the Company's 2007 settlement agreement filed for restructuring under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company has filed several claims as creditors in the bankruptcy proceeding and will continue to monitor the bankruptcy proceeding.

Scientific Chemical Processing ("SCP") Superfund Site

A subsidiary of Cambrex was named a PRP of the SCP Superfund site, located in Carlstadt, New Jersey, along with approximately 130 other PRPs. The site is a former waste processing facility that accepted various waste for recovery and disposal including processing wastewater from this subsidiary. The PRPs are in the process of implementing a final remedy at the site. The SCP Superfund site has also been identified as a PRP in the Berry's Creek Superfund site (see previous discussion). While the Company continues to dispute the methodology used by the PRP group to arrive at its interim allocation for cash contributions, the Company has paid the funding requests. A final allocation of SCP Site costs (excluding Berry's Creek costs) is expected to be finalized in 2018. As of June 30, 2018, the Company's reserve was $747, of which approximately $478 is expected to be covered by insurance.

Newark Bay Complex

The USEPA and a private party group are evaluating remediation plans for the Passaic River, Newark Bay, Hackensack River, Arthur Kill, Kill Van Kull and adjacent waters (the "Newark Bay Complex"). Although the Company is not involved in the USEPA action, it continues to monitor developments related to the site due to its past involvement in a previously settled state action relating to the Newark Bay Complex. The USEPA has finalized its decision on a cleanup plan for 8.3 miles of the lower Passaic River, and has estimated the cost of this plan at $1.38 billion. Due to the uncertainty of the future scope and timing of any possible claims against the Company, no liability has been recorded.

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The Company is involved in other related and unrelated environmental matters where the range of liability is not reasonably estimable at this time and it is not foreseeable when information will become available to provide a basis for adjusting or recording a reserve, should a reserve ultimately be required.

Litigation and Other Matters

Lorazepam and Clorazepate

In 1998, the Company and a subsidiary were named as defendants along with Mylan Laboratories, Inc. ("Mylan") and Gyma Laboratories, Inc. ("Gyma") in a proceeding instituted by the Federal Trade Commission in the United States District Court for the District of Columbia (the "District Court"). Suits were also commenced by several State Attorneys General and class action complaints by private plaintiffs in various state courts. The suits alleged violations of the Federal Trade Commission Act arising from exclusive license agreements between the Company and Mylan covering two APIs (Lorazepam and Clorazepate).

In 2003, Cambrex paid $12,415 to Mylan in exchange for a release and full indemnity against future costs or liabilities in related litigation brought by the purchasers of Lorazepam and Clorazepate, as well as potential future claims related to the ongoing matter.

Following trial in 2008 in the sole remaining case brought by four health care insurers, the District Court entered judgment against Mylan, Gyma and Cambrex. The judgment was appealed to the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit") in 2011, resulting in a remand to the District Court. On remand, the District Court dismissed certain self-funded customer plaintiffs due to their failure to satisfy the requirements of federal jurisdiction. Subsequently, the District Court entered an order remitting certain damages. Without fees, costs, or post-judgment interest, the current judgment against Mylan, Gyma, and Cambrex was $67,260. Mylan, Gyma, and Cambrex again appealed to the D.C. Circuit. In July 2018, Mylan, Gyma, and Cambrex reached a settlement with the remaining plaintiffs. After the settlement is finalized, Mylan, Gyma, and Cambrex will file a motion to vacate the judgment. Cambrex has been fully indemnified by Mylan for the settlement payments.

(13) Discontinued Operations

For all periods presented, financial results for discontinued operations relate to environmental investigation and remediation expenses for divested sites. The following table is a reconciliation of the pre-tax loss on discontinued operations to the net loss on discontinued operations, as presented on the income statement:

	Three Months Ended June 30,	Six Months Ended June 30,

	2018	2017	2018	2017
Loss from discontinued operations	$(519)	$(149)	$(756)	$(2,072)
Income tax benefit	86	55	132	728
Loss from discontinued operations, net of tax	$(433)	$(94)	$(624)	$(1,344)

As of June 30, 2018 and December 31, 2017, liabilities recorded on the Company’s balance sheet related to discontinued operations were $17,800 and $17,511, respectively. At this time, the Company cannot reasonably estimate the period of time during which the involvement is expected to continue. Net cash used in discontinued operations for the six months ended June 30, 2018 and 2017 were $431 and $1,190, respectively. Refer to Note 12 to the Company’s consolidated financial statements for further disclosures on the Company’s environmental contingencies.

CAMBREX CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

(14) Subsequent Event

On July 23, 2018, the Company announced it entered into a definitive agreement to acquire Halo Pharma ("Halo"), a leading dosage form Contract Development and Manufacturing Organization, majority owned by funds managed by the private investment firm SK Capital Partners. Halo operates two state-of-the-art, GMP compliant facilities located in Whippany, NJ, USA and Montreal, Quebec, Canada. The Company will acquire Halo for $425,000 in total cash consideration. The acquisition will be funded with a combination of cash on hand and borrowings against the Company's $500,000 senior credit facility. Completion of the transaction is subject to customary closing conditions and is expected to occur during the third quarter of 2018.

CAMBREX CORPORATION AND SUBSIDIARIES

(in thousands, except share data)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Executive Overview

The following summarizes the Company’s performance for the second quarter of 2018:

- The Company adopted ASC 606 - Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective method. The cumulative effect adjustment recorded to retained earnings as of January 1, 2018 was $16,219, net of tax. Additionally, the increase in revenue, cost of goods sold, and operating profit as a result of applying ASC 606 for the three months ending June 30, 2018 was $18,988, $4,020, and $14,968, respectively.
- Net revenue increased 13.0% on a reported basis compared to the second quarter of 2017. Net revenue, excluding currency impact, increased 10.5%. Excluding the impact of the new revenue recognition standard, net revenue decreased 1.1% on a reported basis and excluding the currency impact, decreased 3.7%.
- Gross margins decreased to 42.6% from 42.8% in the second quarter of 2017. Excluding the impact of the new revenue recognition standard, gross margin was 37.4%.
- Net cash was $171,348 compared to $187,568 at March 31, 2018, a decrease of $16,220.

Critical Accounting Estimates

The Company’s critical accounting estimates are those that require the most subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company bases its estimates on historical experience and on other assumptions that are deemed reasonable by management under each applicable circumstance. Actual results or amounts could differ from estimates and the differences could have a material impact on the consolidated financial statements. See the “Critical Accounting Estimates” section of the Company’s Annual Report on Form 10-K for the period ended December 31, 2017 for further discussion of the Company’s critical accounting policies, the underlying judgments and uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions. The policy updates from the previously filed Form 10-K are as follows:

Revenue Recognition

2018 results are accounted for under the following new policy:

The Company adopted Topic 606 Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective method. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The cumulative effect of initially applying the new revenue standard was recorded as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under accounting standard Topic 605 which was in effect for those periods.

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured as the amount of consideration expected in exchange for transferring goods or providing services.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and

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estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

Shipping and handling costs are treated as fulfillment costs and estimates for the portion of revenue recognized on performance obligations recognized over time are accrued.

For variable consideration arrangements where the transaction price fluctuates based on quantity, the most likely estimated quantity is assumed using forecasts provided by the customer.

Single-use products

In most single-use product sales, a quantity is ordered and manufactured according to the customer's specifications and typically only one performance obligation is included. The Company also manufactures early phase product that can be included in a contract with services. These services are distinct and separated from the product performance obligations and are shown as a service revenue stream. The products are manufactured exclusively for a specific customer and have no alternative use. Under these customer agreements, the Company is entitled to consideration for progress to date that includes an element of profit margin. Revenues related to this product stream are recognized over time utilizing a measure of progress toward satisfaction of the performance obligations. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. The raw materials are excluded from this measurement due to the high value and inclusion in the early stages of the project that would otherwise overstate progress to date.

Multi-use products

The Company's multi-use product sales can be sold to multiple customers and have an alternative use. Both the transaction sales price and shipping terms are agreed upon in the contract. For these products, all revenue is recognized at a point in time, generally when title to products and risk of loss is transferred to the customers based upon shipping terms. These arrangements typically include only one performance obligation.

Service revenue

The service revenue stream represents services provided to a customer to assist with early stages of the regulatory approval process. The customer owns the drug details and process. The Company works with its customers to develop, validate and document the production process in order to comply with the regulatory approval process. These custom development projects could have one or more performance obligations with no alternative use. The contracts are structured to ensure the Company is paid for in-process work, including a profit margin. Revenues related to this stream are recognized over time by allocating to each performance obligation the best estimate of the standalone selling price of each service. The Company measures progress using an input method which compares the cost of cumulative work in process to date to the most current estimates for the entire performance obligation. Standalone selling prices are generally based on the prices charged to customers or based on an expected cost-plus margin.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed trade receivables, contracts assets (unbilled receivables), and contract liabilities (customer advances and deferred revenue). For each reporting period presented, the Company reports contract balances in a net contract asset or liability position on a contract-by-contract basis. Contract assets are recorded when the right to consideration is conditioned on something other than the passage of time. When an entity's right to consideration is unconditional, the receivable is recorded within Trade Receivables on the balance sheet. Contract liabilities represent advance payments from customers, and deferred revenue. Contract assets will convert to trade receivables or cash and current contract liabilities will convert into revenue within a one-year period.

Payment terms can vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, payment prior to satisfaction of a performance obligation can be required, and results in recording a contract liability.

All prior periods presented are accounted for under the following policy:

Revenues are generally recognized when title to products and risk of loss are transferred to customers. Additional conditions for recognition of revenue are that collection of sales proceeds is reasonably assured and the Company has no further performance obligations.

Amounts billed in advance are recorded as contract liabilities on the balance sheet. Since payments received are sometimes non-refundable, the termination of a contract by a customer prior to its completion could result in an immediate recognition of deferred revenue relating to payments already received but not previously recognized as revenue.

Sales terms to certain customers include rebates if certain conditions are met. Additionally, sales are generally made with a limited right of return under certain conditions. The Company estimates these rebates and returns at the time of sale based on the terms of agreements with customers and historical experience and estimated orders. The Company recognizes revenue net of these estimated costs which are classified as allowances and rebates.

The Company bills a portion of freight cost incurred on shipments to customers. Amounts billed to customers are recorded within net revenues. Freight costs are reflected in cost of goods sold.

Results of Operations

Comparison of Second Quarter 2018 versus Second Quarter 2017

Net revenue in the second quarter of 2018 of $152,046 was $17,492 or 13.0% higher than the second quarter of 2017. Excluding a 2.5% favorable impact of foreign exchange compared to the second quarter of 2017, net revenue increased 10.5% as a result of higher volumes (12.0%) partially offset by lower pricing (1.5%). The increase in volumes was driven by custom development products and generic APIs.

Excluding the impact of the new revenue recognition standard, net revenue in the second quarter of 2018 decreased 1.1% compared to the second quarter of 2017 to $133,058. Excluding a 2.6% favorable impact of foreign exchange compared to the second quarter of 2017, net revenue decreased 3.7%. The decrease in volumes was driven by lower sales of branded APIs partially offset by higher sales of controlled substances and generic APIs.

The following table reflects net revenue by geographic area for the second quarters of 2018 and 2017:

	Second quarter	
	2018	2017
Europe	$98,221	$90,821
North America	43,764	36,145
Asia	3,182	4,946
Other	6,879	2,642

Total net revenue	$152,046	$134,554

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Gross margins in the second quarter of 2018 decreased to 42.6% from 42.8% in the second quarter of 2017. The decrease was primarily driven by lower pricing, partially offset by a contract termination payment of $3,200 with no associated costs. Gross profit in the second quarter of 2018 was $64,792 compared to $57,559 in the same period last year.

Excluding the impact of the new revenue recognition standard, gross margins in the second quarter of 2018 decreased to 37.4% from 42.8% in the second quarter of 2017. Gross profit in the second quarter of 2018 would have been $49,824 compared to $57,559 in the same period last year.

Selling, general and administrative ("SG&A") expenses of $16,007 in the second quarter of 2018 decreased compared to $18,120 in the second quarter of 2017. The decrease was mainly due to lower personnel related costs (approximately $2,500). SG&A, as a percentage of net revenue, was 10.5% and 13.5% in the second quarters of 2018 and 2017, respectively.

Research and development ("R&D") expenses of $4,133 were 2.7% of net revenue in the second quarter of 2018, compared to $4,467 or 3.3% of net revenue in the second quarter of 2017. The decrease was primarily driven by the timing of spending on the development of generic drug products.

Operating profit in the second quarter of 2018 was $44,652 compared to $34,972 in the second quarter of 2017. The increase in operating profit was due to higher gross profit and lower operating expenses as described above.

Excluding the impact of the new revenue recognition standard, operating profit in the second quarter of 2018 was $29,684.

Net interest expense was $17 in the second quarter of 2018 compared to $388 in the second quarter of 2017. The decrease is due to higher interest income generated from higher cash balances. The Company did not have any debt outstanding as of June 30, 2018 and 2017.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company ("Investee"). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company's ownership share to 16.3%. The Company's investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company's shares increased by $5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as "Unrealized gain on investment in equity securities" on the Company's income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

Income tax expense from continuing operations for the three months ended June 30, 2018 and 2017 was $8,748 and $9,174, respectively. The effective tax rate for the three months ended June 30, 2018 and 2017 was 17.6% and 26.7%, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 20.1% for the three months ended June 30, 2018.

Income from continuing operations in the second quarter of 2018 was $40,852, or $1.21 per diluted share, versus $25,124, or $0.75 per diluted share in the same period a year ago.

Excluding the impact of the new revenue recognition standard, income from continuing operations in the second quarter of 2018 was $29,347, or $0.87 per diluted share.

Comparison of First Six Months of 2018 versus First Six Months of 2017

Net revenue in the first six months of 2018 of $293,143 was $53,583 or 22.4% higher than the first six months of 2017. Excluding a 3.2% favorable impact of foreign exchange compared to the first six months of 2017, net revenue increased 19.2% as a result of higher volumes (19.9%) partially offset by lower pricing (0.7%). The increase in volumes was driven by higher sales of branded and generic APIs, and custom development products partially offset by lower sales of controlled substances.

Excluding the impact of the new revenue recognition standard, net revenue in the first six months of 2018 decreased 1.1% compared to the first six months of 2017 to $236,875. Excluding a 3.0% favorable impact of foreign exchange compared to the first six months of 2017, net revenue decreased 4.1%. The decrease in volumes was driven by lower sales of branded APIs and controlled substances partially offset by higher sales of custom development products and generic APIs.

The following table reflects net revenue by geographic area for the first six months of 2018 and 2017:

	First six months	
	2018	2017
Europe	$184,959	$137,364
North America	91,438	87,062
Asia	7,852	10,066
Other	8,894	5,068
Total gross sales	$293,143	$239,560

Gross margins in the first six months of 2018 decreased to 39.5% from 43.6% in the first six months of 2017. The decrease was primarily driven by certain inventory charges due to batch failures in the first quarter of 2018, unfavorable manufacturing variances and unfavorable product mix, partially offset by a contract termination payment of $3,200 with no associated costs. Gross profit in the first six months of 2018 was $115,647 compared to $104,434 in the same period last year.

Excluding the impact of the new revenue recognition standard, gross margins in the first six months of 2018 decreased to 35.5% from 43.6% in the first six months of 2017. Gross profit in the first six months of 2018 would have been $84,098 compared to $104,434 in the same period last year.

Selling, general and administrative ("SG&A") expenses of $32,862 in the first six months of 2018 decreased compared to $33,511 in the first six months of 2017. The decrease was mainly due to lower personnel related costs (approximately $2,800) partially offset by an increase in certain consulting costs (approximately $1,200), the impact of foreign currency (approximately $1,000) and due diligence costs related to mergers and acquisition activities (approximately $300). SG&A, as a percentage of net revenue, was 11.2% and 14.0% in the first six months of 2018 and 2017, respectively.

Research and development ("R&D") expenses of $7,752 were 2.6% of net revenue in the first six months of 2018, compared to $8,357 or 3.5% of net revenue in the first six months of 2017. The decrease was primarily driven by higher absorption of R&D expenses into inventory and cost of goods sold as a result of increased revenue generating activity (approximately $1,800) and the timing of spending on the development of generic drug products (approximately $600) partially offset by higher personnel costs (approximately $1,600).

Operating profit in the first six months of 2018 was $75,033 compared to $62,566 in the first six months of 2017. The increase in operating profit was due to higher gross profit and lower operating expenses as described above.

Excluding the impact of the new revenue recognition standard, operating profit in the first six months of 2018 was $43,484.

Net interest expense was $99 in the first six months of 2018 compared to $654 in the first six months of 2017. The decrease is due to higher interest income generated from higher cash balances. The Company did not have any debt outstanding as of June 30, 2018 and 2017.

During the second quarter of 2018, the Company acquired a 19.9% equity investment in a European company ("Investee"). The Investee completed an initial public offering on a foreign exchange late in the quarter, which reduced the Company's ownership share to 16.3%. The Company's investment is subject to a one-year prohibition on selling the shares. The Company has one seat on the Board of Directors of the investee and concluded it is able to exercise significant influence and that equity accounting would be appropriate. In accordance with ASC 825, the Company has elected to record this investment at fair value. The Company selected an appropriate valuation methodology to compute a discount for the lack of marketability to be applied to the closing market price of the shares as of June 30, 2018. The fair value of the Company's shares increased by $5,146 at June 30, 2018 resulting in an unrealized gain that was recorded as "Unrealized gain on investment in equity securities" on the Company's income statement. Since the shares owned by the Company are substantially in excess of the daily trade volumes of the stock, it could be difficult to sell the shares in a timely manner when the restrictions lapse and it is possible the ultimate value to be realized by the Company could be significantly less upon a sale of the securities.

Income tax expense from continuing operations for the six months ended June 30, 2018 and 2017 was $14,534 and $14,986, respectively. The effective tax rate for the six months ended June 30, 2018 and 2017 was 18.3% and 24.5%, respectively. Excluding the favorable impact of immediately recognizing certain effects of share-based compensation, the effective tax rate would have been 19.9% for the six months ended June 30, 2018.

Income from continuing operations in the first six months of 2018 was $65,101, or $1.94 per diluted share, versus $46,239, or $1.38 per diluted share in the same period a year ago.

Excluding the impact of the new revenue recognition standard, income from continuing operations in the first six months of 2018 was $40,186, or $1.20 per diluted share.

Liquidity and Capital Resources

During the first six months of 2018, cash provided by operations was $17,502 versus $37,077 in the same period a year ago. This decrease was primarily due the timing of accounts receivable collections and unbilled revenue partially offset by the timing of accounts payable payments.

Cash flows used in investing activities in the first six months of 2018 related to capital expenditures of $32,733 compared to $22,862 in the same period a year ago. Capital expenditures in the first six months of 2018 and 2017 primarily expanded the Company's manufacturing capacity to support expected growth.

Cash flows provided by financing activities in the first six months of 2018 were $4,599 compared to $2,973 in the same period a year ago. The 2018 and 2017 cash flows relate to proceeds from stock options exercised.

The Company expects to spend approximately $70,000 to $80,000 on capital expenditures during 2018, excluding acquisitions.

The Company has a $500,000 Senior Credit Facility. Borrowings under the Credit Facility bear interest at a rate per annum of LIBOR plus a margin ranging from 1.25% to 2%. The facility is currently undrawn.

The Company believes that cash flows from operations, along with funds available from the revolving line of credit, will be adequate to meet the operational and debt servicing needs of the Company for the foreseeable future.

During the second quarter of 2018, the Company announced it entered into a definitive agreement to acquire Halo Pharma (“Halo”), a leading dosage form Contract Development and Manufacturing Organization. The Company will acquire Halo for $425,000 in total cash consideration. The acquisition will be funded with a combination of cash on hand and borrowings against the Company’s $500,000 senior credit facility. Completion of the transaction is subject to customary closing conditions and is expected to occur during the third quarter of 2018.

The Company’s forecasted cash flow from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, increased environmental remediation, returns on assets within the Company’s domestic pension plans, as well as other factors.

Our largest product (32.8% of 2017 sales), is used by our customer to produce an anti-viral drug. Our customer's sales of this drug have been trending downwards and, accordingly, we expect our sales of this product to our customer to also trend downwards over the next few years. We have a 5-year supply agreement ending in December 2020 that includes a defined minimum volume for 2019, which represents a further significant decline compared to the volumes we expect to ship in 2018. There is no minimum volume stipulated in the agreement for 2020.

As discussed more fully in Note 12 to the Consolidated Financial Statements, the Company continually receives additional information to develop estimates to record reserves for remediation activities at Berry’s Creek and other environmental sites. These matters, either individually or in the aggregate, could result in actual costs that are significantly higher than the Company’s current assessment and could have a material adverse effect on the Company's cash flows in future reporting periods. Based upon past experience, the Company believes that payments significantly in excess of current reserves, if required, would be made over an extended number of years.

See the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the period ended December 31, 2017 for further explanation of factors that may negatively impact the Company’s cash flows.

Impact of Recent Accounting Pronouncements

The following accounting pronouncements became effective for the Company January 1, 2018:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 which introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the new accounting standard ASC Topic 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts not completed as of January 1, 2018 using the modified retrospective method. The cumulative effect of initially applying the new revenue standard was $16,219 and has been recorded as an adjustment to increase the opening balance of retained earnings. The cumulative effect adjustment relates primarily to the recognition of revenue and costs for contracts that transfer promised goods or services over time. Gross sales, cost of goods sold, and tax expense of $51,896, $31,347, and $4,330 respectively, were recorded as part of the cumulative effect adjustment. The comparative information has not been restated and is reported in accordance with accounting standard Topic 605, which was in effect for those periods.

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Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans

In March 2017, the FASB issued ASU 2017-07 which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined pension and other postretirement plans. The ASU requires entities to disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components elsewhere in the income statement and outside of income from operations if such subtotal is presented. This standard became effective for the Company on January 1, 2018. For the three and six months ended June 30, 2018, the Company recorded $171 and $482, respectively, to "Other expenses, net" which formerly would have been recorded as "Selling, general and administrative expenses" or "Cost of goods sold." To conform to the current year presentation, for the three and six months ended June 30, 2017 the Company reclassified $360 and $723, respectively, from "Selling, general and administrative expenses" and $57 and $107, respectively, from "Cost of goods sold" to "Other expenses, net."

Scope of Modification Accounting, Stock Based Compensation

In May 2017, the FASB issued ASU 2017-09 which provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The update became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Business Combinations – Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. The amendment became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15 which provides guidance on the presentation and classification in the statement of cash flows for specific cash receipt and payment transactions, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees. The standard became effective on January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows – Restricted Cash

In November 2016, the FASB issued ASU 2016-18 which clarifies the presentation requirements of restricted cash within the statement of cash flows. The changes in restricted cash and restricted cash equivalents during the period should be included in the beginning and ending cash and cash equivalents balance reconciliation on the statement of cash flows. When cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall calculate a total cash amount in a narrative or tabular format that agrees to the amount shown on the statement of cash flows. Details on the nature and amounts of restricted cash should also be disclosed. The update became effective on January 1, 2018 and did not have a material impact on the Company’s consolidated financial statements.

The following recently issued accounting pronouncements will become effective for the Company in future periods:

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02 to address the tax effects of the Tax Cuts & Jobs Act ("TCJA") on amounts that were initially recognized directly in AOCI. ASU 2018-02 allows an entity to elect a one-time reclassification from AOCI to retained earnings of stranded tax effects due to the enactment of TCJA, equal to the difference between the amount initially charged or credited directly to AOCI at the previously enacted U.S. federal corporate income tax rate and the amount that would have been charged or credited directly to AOCI by using the newly enacted tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the provisions of ASU 2018-02 and will determine in a later period if the reclassification from AOCI to retained earnings addressed in the ASU will be elected.

Effects of the Tax Cuts and Jobs Act

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB No. 118") which allowed SEC registrants to record provisional amounts for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of TCJA. The Company recognized the estimated income tax effects of TCJA in its 2017 Consolidated Financial Statements in accordance with SAB No. 118. Refer to Note 6 for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07 which aligns the accounting for share-based payment awards issued to nonemployees with those issued to employees. Under the new guidance, the nonemployee awards will be measured on the grant date and compensation costs will be recognized when achievement of the performance condition is probable. This new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. At this time, the Company has no significant financing leases and only a limited number of operating leases. The result of adoption will be an increase to assets and liabilities by the same amount for the identified operating leases. Several updates have been issued in 2018 that provide clarification on a number of specific issues and reporting requirements. The Company is currently evaluating the new guidance and does not expect the adjustment will be material to the Company, assuming there is not an increase in lease activity.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 which simplifies the goodwill impairment test by eliminating Step 2 in the determination on whether goodwill should be considered impaired. Instead, an impairment charge should equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company is currently evaluating the new guidance and does not expect it to have an impact on its consolidated financial statements.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The standard also makes certain targeted improvements to simplify the application of the hedge accounting guidance. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no significant change in the Company's exposure to market risk during the first six months of 2018. For a discussion of the Company's exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter covered by this report that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

CAMBREX CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings

See the discussion under Part I, Item 1, Note 12 to the Company's Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors and uncertainties during the first six months of 2018. For a discussion of the Risk Factors, refer to Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2017.

Item 6. Exhibits

Exhibit 2.1*†	Purchase and Sale Agreement, dated July 20, 2018, by and among Cambrex Corporation, Halo Pharmaceutical, Inc., 8121117 Canada Inc., Halo Pharmaceutical Canada Inc., the Sellers party thereto, SK Capital Partners, L.P., as Sellers' Representative, and SK Angel Holdings, L.P., as Seller Guarantor.
Exhibit 31.1*	Section 302 Certification Statement of the Chief Executive Officer.
Exhibit 31.2*	Section 302 Certification Statement of the Chief Financial Officer.
Exhibit 32.1**	Section 906 Certification Statements of the Chief Executive Officer and Chief Financial Officer.
Exhibit 101.INS*	XBRL Instance Document
Exhibit 101.SCH*	XBRL Taxonomy Extension Schema
Exhibit 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase

Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase
Exhibit 101.LAB*	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith
**Furnished herewith
$Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of such schedules to the SEC upon its request; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedule so furnished. The representations, warranties and covenants contained in the agreement were solely for the benefit of the parties thereto, and may be subject to limitations agreed upon by such parties, including being qualified by confidential disclosures made by each contracting party to the other. In addition, such representations, warranties and covenants (i) were intended as a way of allocating the risk between the parties to the agreement and not as statements of fact, and (ii) may apply standards of materiality in a way that is different from what may be viewed as material by stockholders of, or other investors in, the Company. Moreover, information concerning the subject matter of such representations and warranties may change after the date of the agreement, which subsequent information may or may not be fully reflected in the Company’s public disclosures. Accordingly, investors should not rely on such representations, warranties and covenants, which should be read only in conjunction with the other information in reports, statements and other filings that the Company makes with the SEC.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) Consolidated Income Statements for the three and six months ended June 30, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (v) Notes to Consolidated Financial Statements.

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.

CAMBREX CORPORATION

By /s/Tom G. Vadaketh
Tom G. Vadaketh
Executive Vice President and
Chief Financial Officer
(On behalf of the Registrant and as the
Registrant's Principal Financial Officer)

Dated: August 2, 2018

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D>

Depreciation of flight equipment
42,774 327
Stock-based compensation
22,660 2,255
Deferred taxes
5,614 (4,002)
Amortization of deferred debt issue costs
4,664 875
Extinguishment of debt
3,349
Amortization of convertible debt discounts
35,798
Changes in operating assets and liabilities:

Lease receivables and other assets
(16,327) (1,199)
Accrued interest and other payables
6,932 7,424
Rentals received in advance
7,167 2,159

Net cash provided by operating activities	**87,032**	2,019
Investing Activities		
Acquisition of flight equipment under operating lease	**(1,177,551)**	(319,585)
Payments for deposits on flight equipment purchases	**(169,143)**	(15,850)
Acquisition of furnishings, equipment and other assets	**(24,629)**	(166)
Net cash used in investing activities	**(1,371,323)**	(335,601)
Financing Activities		
Issuance of common stock and warrants	**868,554**	1,059,707
Issuance of convertible notes		60,000
Proceeds from debt financings	**945,750**	29,300
Payments in reduction of debt financings	**(474,161)**	(4,300)
Restricted cash	**(20,186)**	(16,394)
Debt issue costs	**(9,565)**	(47,006)
Changes in security deposits and maintenance reserves on flight equipment leases	**90,116**	9,136
Net cash provided by financing activities	**1,400,508**	1,090,443
Net increase in cash	**116,217**	756,861
Cash at beginning of period	**328,821**	

Cash at end of period
$445,038 $756,861

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for interest, including capitalized interest of $4,214 at June 30, 2011 and capitalized interest of $66 at June 30, 2010
$22,801 $294

Supplemental Disclosure of Noncash Activities

Deposits on flight equipment purchases applied to acquisition of flight equipment under operating leases
$33,408 $250

See Notes to Consolidated Financial Statements

AIR LEASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

1. Company Background and Overview

Organization

Air Lease Corporation (the Company , ALC , we , our or us) was incorporated in the State of Delaware and licens operate in the State of California. We commenced operations in February 2010 and elected a fiscal year end of December 31. The Company is principally engaged in the leasing of commercial aircraft to airlines throughout the world. We supplement our leasing revenues by providing fleet management and remarketing services to third parties. We typically provide many of the same services that we perform for our fleet, including leasing, re-leasing, lease management and sales services for which we charge a fee, with the objective of assisting our clients to maximize lease or sale revenues.

Initial Public Offering

On April 25, 2011, we completed an initial public offering of our Class A Common Stock and listing of our shares on the New York Stock Exchange (NYSE) under the symbol AL . The offering was upsized by 20% and the underwriters exercised their over-allotment option in full, resulting in the sale of an aggregate of 34,825,470 shares of Class A Common Stock. We received gross proceeds of $922.9 million.

Shelf Registration Statement

In accordance with its obligations under the Registration Rights Agreement, dated June 4, 2010, by and between our Company and FBR Capital Markets & Co, the Company filed with the Securities and Exchange Commission a shelf registration statement through a Registration Statement on Form S-1 (File No. 333-173817). Once effective it is anticipated that the shelf registration statement will provide for the resale of the following registrable shares: (i) 59,981,528 shares of Class A Common Stock, including up to 482,625 shares of Class A Common Stock issuable upon exercise of outstanding warrants, and (ii) 1,829,339 shares of Class B Non-Voting Common Stock.

2. Basis of Preparation

The Company consolidates financial statements of all entities in which we have a controlling financial interest, including the account of any Variable Interest Entity in which we have a controlling financial interest and for which we are determined to be the primary beneficiary. Certain prior year amounts have been reclassified to conform to the 2011 presentation. 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. All material intercompany balances are eliminated in consolidation.

The accompanying unaudited consolidated financial statements include all adjustments, including normally recurring adjustments, necessary to present fairly the Company s financial position, results of operations and cash flows at June 30, 2011, and for all periods presented. The results of operations for the three- and six-months ended June 30, 2011, are not necessarily indicative of the operating results expected for the year ending December 31, 2011. These financial statements should be read in conjunction with the financial statements and related notes included in the Company s final prospectus filed with the Securities and Exchange Commission on April 19, 2011 pursuant to Rule 424(b) under the Securities Act of 1933 (Rule 424(b)) in connection with our public offering.

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

3. Debt Financing

The Company s consolidated debt as of June 30, 2011 and December 31, 2010 are summarized below:

(dollars in thousands)	**June 30, 2011**	December 31, 2010
Warehouse facility	**$ 709,252**	$ 554,915
Secured term financing	**503,419**	223,981
Unsecured financing	**170,899**	133,085
Total	**$ 1,383,570**	$ 911,981

The Company s secured obligations as of June 30, 2011 and December 31, 2010 are summarized below:

(dollars in thousands)	**June 30, 2011**	December 31, 2010
Non-recourse	**$ 740,242**	$ 573,222
With recourse	**472,429**	205,674
Total	**$ 1,212,671**	$ 778,896
Number of aircraft pledged as collateral	**40**	29
Net book value of aircraft pledged as collateral	**$ 1,939,832**	$ 1,266,762

a. Warehouse Facility

On April 1, 2011, the Company executed an amendment to the Company s non-recourse, revolving credit facility (the Warehouse Facility) that took effect on April 21, 2011. This facility, as amended, provides us with financing of up to $1.25 billion, modified from the original facility size of $1.5 billion. We are able to draw on this facility, as amended, during an availability period that ends in June 2013. Prior to the amendment of the Warehouse Facility, the Warehouse Facility accrued interest during the availability period based on LIBOR plus 3.25% on drawn balances and at a rate of 1.00% on undrawn balances. Following the amendment, the Warehouse Facility accrues interest during the availability period based on LIBOR plus 2.50% on drawn balances and 0.75% on undrawn balances. Pursuant to the amendment, the advance level under the facility was increased from 65.0% of the appraised value of the pledged aircraft and 50.0% of the pledged cash to 70.0% of the appraised value of the pledged aircraft and 50.0% of the pledged cash. The outstanding drawn balance at the end of the availability period may be converted at our option to an amortizing, four-year term loan with an interest rate of LIBOR plus 3.25% for the initial three years of the term and margin step-ups during the remaining year that increase the interest to LIBOR plus 4.75%. As a result of amending the Warehouse Facility, we recorded an extinguishment of debt charge of $3.3 million from the write-off of deferred debt issue costs when the amendment became effective on April 21, 2011.

During the second quarter of 2011, the Company drew $104.9 million under the Warehouse Facility and incrementally pledged $163.1 million in aircraft collateral. As of June 30, 2011, the Company had borrowed $709.3 million under the Warehouse Facility and pledged 28 aircraft as collateral with a net book value of

$1.2 billion. As of December 31, 2010, the Company had borrowed $554.9 million under the Warehouse Facility and pledged 23 aircraft as collateral with a net book value of $930.0 million. The Company had pledged cash collateral and lessee deposits of $67.5 million and $48.3 million at June 30, 2011 and December 31, 2010, respectively.

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

b. Secured Term Financing

During the second quarter of 2011, two of our wholly-owned subsidiaries entered into two separate secured term facilities, with recourse to the Company, aggregating $82.8 million. The two facilities consisted of a three-year $20.3 million facility at a floating rate of LIBOR plus 2.75% and a $62.5 million facility with an eight-year $56.0 million tranche at a rate of LIBOR plus 2.99% and a two-year $6.5 million tranche at a rate of LIBOR plus 2.10%. In connection with these facilities, the Company pledged $129.0 million in aircraft collateral.

The outstanding balance on our secured term facilities was $503.4 million and $224.0 million at June 30, 2011 and December 31, 2010, respectively.

c. Unsecured Financing

During the second quarter of 2011, the Company issued $120.0 million in senior unsecured notes in a private placement to institutional investors. The notes have a five-year term and a coupon of 5.0%. In addition, we entered into two five-year and one three-year unsecured term facilities totaling $17.0 million with interest rates ranging from 3.0% to 4.0%.

We ended the second quarter of 2011 with a total of nine unsecured term facilities. The total amount outstanding under our unsecured term facilities was $170.9 million and $13.1 million as of June 30, 2011 and December 31, 2010, respectively.

In addition, we increased the capacity of one of our existing three-year revolving unsecured credit facilities from $25.0 million to $30.0 million. The Company ended the second quarter of 2011 with a total of 12 bilateral revolving unsecured credit facilities aggregating $313.0 million, each with a borrowing rate of LIBOR plus 2.00%. We did not have any amounts outstanding under our bilateral revolving unsecured credit facilities as of June 30, 2011 compared to $120.0 million outstanding as of December 31, 2010.

d. Maturities

Maturities of debt outstanding as of June 30, 2011 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	**$ 35,063**
2012	71,637
2013	204,764
2014	220,973
2015	228,611
Thereafter	622,522
Total	$ 1,383,570(1)

(1) As of June 30, 2011, the Company had $709.3 million of debt outstanding under the Warehouse Facility which will come due beginning in June 2013. The outstanding drawn balance at the end of the availability period may be converted at the Company s option to an amortizing, four-year term loan with an increasing interest rate and has been presented as if such option were exercised in the maturity schedule, above.

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

4. Commitments and Contingencies

a. Aircraft Acquisition

As of June 30, 2011, we had commitments to acquire a total of 234 new and nine used aircraft for delivery as follows:

Aircraft Type	**2011[(1)]**	2012	2013	2014	2015	Thereafter	Total
Airbus A319-100	**1**						1
Airbus A320/321-200	**5**	10	13	12	7		47
Airbus A320/321 NEO[(2)(3)]						50	50
Airbus A330-200/300	**6**	6					12
Boeing 737-700	**2**						2
Boeing 737-800[(2)]	**2**	3	12	12	14	37	80
Boeing 767-300ER	**2**						2
Boeing 777-300ER[(3)]				2	3		5
Boeing 787-9[(3)]						4	4
Embraer E175/190	**11**	19					30
ATR 72-600	**2**	8					10
Total	**31**	46	25	26	24	91	243

(1) Of the 31 aircraft that we will acquire in the remainder of 2011, the following nine aircraft will be used aircraft: the A319-100, one A320-200, one A330-200, both 737-700s, both 737-800s and both 767-300ERs.

(2) We have cancellation rights with respect to 14 of the Airbus A320/321 NEO aircraft and four of the Boeing 737-800 aircraft.

(3) As of June 30, 2011, the Airbus A320/321 NEO aircraft, the Boeing 777-300ER aircraft and the Boeing 787-9 aircraft were subject to non-binding memoranda of understanding for the purchase of these aircraft.

Commitments for the acquisition of these aircraft at an estimated aggregate purchase price (including adjustments for inflation) of approximately $11.9 billion at June 30, 2011 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	**$ 1,289,930**
2012	1,817,592
2013	1,210,000
2014	1,408,662
2015	1,381,692
Thereafter	4,756,915
Total	$ 11,864,791

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of $319.1 million and $183.4 million as of June 30, 2011 and December 31, 2010, respectively. If we are unable to satisfy our purchase commitments we may be forced to forfeit our deposits. Further, we would be exposed to breach of contract claims by our lessees and manufacturers.

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

b. Office Lease

The Company s lease for office space provides for step rentals over the term of the lease. Those rentals are considered in the evaluation of recording rent expense on a straight-line basis over the term of the lease. Tenant improvement allowances received from the lessor are deferred and amortized in selling, general and administrative expenses against rent expense. Commitments for minimum rentals under the non-cancelable lease term at June 30, 2011 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	**$**
2012	1,441
2013	2,325
2014	2,395
2015	2,467
Thereafter	23,241
Total	$ 31,869

5. Net Earnings Per Share

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

Diluted net earnings per share takes into account the potential conversion of stock options, restricted stock units and warrants using the treasury stock method. For the three months ended June 30, 2011 and 2010, the Company excluded 3,375,908 and 2,450,000 shares related to stock options which are potentially dilutive securities from the computation of diluted earnings per share because including these shares would be anti-dilutive. For the six months ended June 30, 2011 and the period from inception to June 30, 2010, the Company excluded 3,375,908 and 2,450,000 shares related to stock options which are potentially dilutive securities from the computation of diluted earnings per share because including these shares would be anti-dilutive. In addition, the Company excluded 2,613,989 and 2,450,000 shares related to restricted stock units for which the performance metric had yet to be achieved as of June 30, 2011 and 2010, respectively.

The following table sets forth the reconciliation of basic and diluted net income (loss) per share:

	For the three months ended June 30,	For the six months ended	For the period from

(in thousands, except share data)		**2011**		2010		**June 30,** **2011**		**Inception to June 30,** 2010
Numerator:								
Net income (loss) available to common shareholders basic and diluted EPS	**$**	**7,023**	$	(41,141)	**$**	**10,199**	$	(41,618)
Denominator:								
Basic earnings per share weighted average common shares		**91,039,329**		17,394,121		**78,287,085**		9,981,375
Effect of dilutive securities		**124,328**				**121,378**		
Diluted earnings per share weighted average common shares		**91,163,657**		17,394,121		**78,408,463**		9,981,375
Net income (loss) per share:								
Basic	**$**	**0.08**	$	(2.37)	**$**	**0.13**	$	(4.17)
Diluted	**$**	**0.08**	$	(2.37)	**$**	**0.13**	$	(4.17)

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

6. Fair Value Measurements

a. 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 June 30, 2011 or December 31, 2010.

b. Fair Value of Financial Instruments

The carrying value reported on the balance sheet for cash and cash equivalents, restricted cash and other payables approximates their 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. The estimated fair value of debt financing as of June 30, 2011 was $1,396.7 million compared to a book value of $1,383.6 million. The estimated fair value of debt financing as of December 31, 2010 was $931.2 million compared to a book value of $912.0 million.

7. Equity Based Compensation

In accordance with the Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan (the Plan), the maximum number of shares of Common Stock that may be issued under the Plan, including in settlement of Stock Options (Stock Options) and Restricted Stock Units (RSUs), is approximately 8,193,088 shares as of June 30, 2011. From inception of the Plan through June 30, 2011, the Company had granted 3,375,908 Stock Options and 3,457,964 RSUs.

The Company recorded $11.8 million and $2.3 million of stock-based compensation expense for the three months ended June 30, 2011 and 2010, respectively. Stock-based compensation expense for the six months ended June 30, 2011 and the period from inception to June 30, 2010, totaled $22.7 million and $2.3 million, respectively.

a. Stock Options

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The fair value of stock-based payment awards on the date of grant is determined by an option-pricing model using a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and expected dividends.

Estimated volatility of the Company s common stock for new grants is determined by using historical volatility of the Company s peer group. Due to our limited operating history, there is no historical exercise data to provide a reasonable basis which the Company can use to estimate expected terms. Accordingly, the Company uses the simplified method as permitted under Staff Accounting Bulletin No. 110. The risk-free interest rate used in the option valuation model is derived from U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an assumed dividend yield of zero in the option valuation model. In accordance with ASC Topic 718, Compensation Stock Compensation, the Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The average assumptions used to value stock-based payments are as follows:

	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the period from Inception to June 30, 2010
Dividend yield	**None**	None	**None**	None
Expected term	**5.9 years**	6.0 years	**5.9 years**	6.0 years
Risk-free interest rate	**2.4%**	2.5%	**2.4%**	2.5%
Volatility	**50.2%**	55.1%	**50.2%**	55.1%
Forfeiture rate	**0.0%**	0.0%	**0.0%**	0.0%

AIR LEASE CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2011
(Unaudited)

A summary of Stock Option activity in accordance with the Plan as of June 30, 2011 and 2010, and changes for the six-month period and the period from inception then ended follows:

	Shares	Exercise price	Remaining concractual term (in years)	Aggregate intrinsic value (in thousands)
Options outstanding at inception				
Granted	2,450,000	$ 20.00	9.9	
Exercised				
Cancelled				
Options outstanding at June 30, 2010	2,450,000	$ 20.00	9.9	
Options exercisable at June 30, 2010				
Options outstanding at January 1, 2011	**3,225,908**	**$ 20.00**	**9.5**	**$ 1,612**
Granted	**150,000**	**28.80**	**9.8**	
Exercised				
Cancelled				
Options outstanding at June 30, 2011	**3,375,908**	**$ 20.39**	**9.0**	**$ 13,839**
Options exercisable at June 30, 2011	**1,125,292**	**$ 20.00**	**9.0**	**$ 4,828**

The Company recorded $3.0 million and $0.6 million of stock-based compensation expense related to employee Stock Options for the three months ended June 30, 2011 and 2010, respectively. Stock-based compensation expense related to employee Stock Options for the six months ended June 30, 2011 and the period from inception to June 30, 2010, totaled $5.8 million and $0.6 million, respectively.

b. Restricted Stock Unit Plan

The following is a summary of activity relating to RSUs:

	For the three months ended June 30,		**For the six months ended June 30,**	For the period from Inception to June 30,
	2011	2010	**2011**	2010
Beginning restricted stock units	**3,225,907**		**3,225,907**	
Shares awarded	**232,057**	2,450,000	**232,057**	2,450,000

Shares vested	**(843,975)**		**(843,975)**	
Shares forfeited				
Ending restricted stock units	**2,613,989**	2,450,000	**2,613,989**	2,450,000

At June 30, 2011, the outstanding RSUs are expected to vest as follows: 2012 895,477; 2013 874,530; 2014 843,982. The Company recorded $8.7 million and $1.7 million of stock-based compensation expense related to RSUs for the three months ended June 30, 2011 and 2010, respectively. Stock-based compensation expense related to RSUs for the six months ended June 30, 2011 and the period from inception to June 30, 2010, totaled $16.9 million and $1.7 million, respectively.

As of June 30, 2011, there was $59.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock-based payments 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 2.6 years.

8. Subsequent Events

During July 2011, one of our wholly-owned subsidiaries entered into a twelve-year $70.9 million secured term facility, with recourse to the Company, at a floating rate of LIBOR plus 1.50%. In addition, the Company entered into two separate fixed-rate amortizing unsecured facilities including a five-year $5.0 million facility with an interest rate of 3.85% and a three-year $35.0 million facility with an interest rate of 3.25%.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Air Lease Corporation:

We have audited the accompanying consolidated balance sheet of Air Lease Corporation and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, shareholders equity and cash flows for the period from inception to December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Air Lease Corporation and subsidiaries as of December 31, 2010, and the results of their operations and their cash flows for the period from inception to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California
February 21, 2011, except for Note 13, as to which the date is June 30, 2011

AIR LEASE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheet

(In thousands, except share data)		December 31, 2010
Assets		
Cash and cash equivalents	$	328,821
Restricted cash		48,676
Flight equipment subject to operating leases		1,649,071
Less accumulated depreciation		(19,262)
		1,629,809
Deposits on flight equipment purchases		183,367
Deferred debt issue costs less accumulated amortization of $4,754		46,422
Deferred taxes		8,875
Other assets		30,312
Total assets	$	2,276,282
Liabilities and Shareholders Equity		
Accrued interest and other payables	$	22,054
Debt financing		911,981
Security deposits and maintenance reserves on flight equipment leases		109,274
Rentals received in advance		8,038
Total liabilities		1,051,347
Shareholders Equity		
Preferred Stock, $0.01 par value; 50,000,000 shares authorized no shares issued or outstanding		
Class A Common Stock, $0.01 par value; 500,000,000 shares authorized 63,563,810 shares issued and outstanding		636
Class B Non-Voting Common Stock, $0.01 par value; 10,000,000 shares authorized 1,829,339 shares issued and outstanding		18
Paid-in capital		1,276,321
Accumulated deficit		(52,040)
Total shareholders equity		1,224,935
Total liabilities and shareholders equity	$	2,276,282

See Notes to Consolidated Financial Statements

AIR LEASE CORPORATION AND SUBSIDIARIES

Consolidated Statement of Operations

(In thousands, except share data)		For the period from Inception to December 31, 2010
Revenues		
Rental of flight equipment	$	57,075
Interest and other		1,291
Total revenues		58,366
Expenses		
Interest		11,062
Amortization of deferred debt issuance cost		4,883
Amortization of convertible debt discounts		35,798
Interest expense		51,743
Depreciation of flight equipment		19,262
Selling, general and administrative		24,232
Stock-based compensation		24,044
Total expenses		119,281
Loss before taxes		(60,915)
Income tax benefit		8,875
Net loss	$	(52,040)
Net loss attributable to common shareholders per share		
Net loss		
Basic	$	(1.32)
Diluted	$	(1.32)
Weighted-average shares outstanding		
Basic		39,511,045
Diluted		39,511,045

See Notes to Consolidated Financial Statements

AIR LEASE CORPORATION AND SUBSIDIARIES

Consolidated Statement of Shareholders Equity
For the period from Inception to December 31, 2010

	Preferred Stock		Class A Common Stock		Class B Non-Voting Common Stock		Paid-in	Accumulated	
ousands, except share data)	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**T**
ce at inception		$		$		$	$	$	$
A Common Stock issuance			55,750,972	558			1,026,082		1,026
B Non-Voting Common Stock ce					6,308,844	63	124,852		124
B conversion to Class A			4,479,505	45	(4,479,505)	(45)			
ce of warrants							5,578		5
rsion of convertible notes			3,333,333	33			59,967		60
rtible debt discounts							35,798		35
based compensation							24,044		24
oss)								(52,040)	(52
ce at December 31, 2010		$	**63,563,810**	**$ 636**	**1,829,339**	**$ 18**	**$ 1,276,321**	**$ (52,040)**	**$ 1,224**

See Notes to Consolidated Financial Statements

AIR LEASE CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows

(dollars in thousands)		For the period from Inception to December 31, 2010
Operating Activities		
Net loss	$	(52,040)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of flight equipment		19,262
Stock-based compensation		24,044
Deferred taxes		(8,875)
Amortization of deferred debt issue costs		4,883
Amortization of convertible debt discounts		35,798
Changes in operating assets and liabilities:		
Lease receivables and other assets		(8,040)
Accrued interest and other payables		22,054
Rentals received in advance		8,038
Net cash provided by operating activities		45,124
Investing Activities		
Acquisition of flight equipment under operating lease		(1,649,071)
Payments for deposits on flight equipment purchases		(183,367)
Acquisition of furnishings, equipment and other assets		(22,272)
Net cash used in investing activities		(1,854,710)
Financing Activities		
Issuance of common stock and warrants		1,157,133
Issuance of convertible notes		60,000
Proceeds from debt financings		916,921
Payments in reduction of debt financings		(4,940)
Restricted cash		(48,676)
Debt issue costs		(51,305)
Changes in security deposits and maintenance reserves on flight equipment leases		109,274
Net cash provided by financing activities		2,138,407
Net increase in cash		328,821
Cash at inception		
Cash at end of period	$	328,821

Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, excluding capitalized interest of $1,769	$	**12,723**
Supplemental Disclosure of Noncash Activities		
Conversion of convertible notes to Class A Common Stock	$	**60,000**

See Notes to Consolidated Financial Statements

Air Lease Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2010

1. Summary of Significant Accounting Policies

a. Organization

Air Lease Corporation (the Company , ALC , we , our or us) was incorporated in the State of Delaware and licens operate in the State of California. We commenced operations in February 2010 and elected a fiscal year end of December 31. The Company is principally engaged in the leasing of commercial aircraft to airlines throughout the world. We plan to supplement our leasing revenues by providing fleet management and remarketing services to third parties. We will typically provide many of the same services that we perform for our fleet, including leasing, re-leasing, lease management and sales services for which we will charge a fee, with the objective of assisting our clients to maximize lease or sale revenues.

b. Principles of Consolidation

The Company will consolidate financial statements of all entities in which we have a controlling financial interest, including the account of any Variable Interest Entity in which we have a controlling financial interest and for which we are thus the primary beneficiary. All material intercompany balances are eliminated in consolidation.

c. Rental of Flight Equipment

The Company leases flight equipment principally under operating leases and reports rental income ratably over the life of each lease. Rentals received, but unearned, under the lease agreements are recorded in Rentals received in advance on the Company s Consolidated Balance Sheet until earned. The difference between the rental income recorded and the cash received under the provisions of the lease is included in Lease receivables, as a component of Other assets on the Company s Consolidated Balance Sheet. An allowance for doubtful accounts will be recognized for past-due rentals based on management s assessment of collectability. Management will monitor all lessees with past due lease payments and discuss relevant operational and financial issues facing those lessees with its marketing executives in order to determine an appropriate allowance for doubtful accounts. In addition, if collection is not reasonably assured, the Company will not recognize rental income for amounts due under the Company s lease contracts and will recognize revenue for such lessees on a cash basis. As of December 31, 2010, the Company had no such allowance, and no leases were on a cash basis.

All of the Company s lease agreements are triple net leases whereby the lessee is responsible for all taxes, insurance, and aircraft maintenance. In the future, we may incur repair and maintenance expenses for off-lease aircraft. We recognize overhaul expense in our Consolidated Statement of Operations for all such expenditures. In many operating lease contracts, the lessee is obligated to make periodic payments of supplemental maintenance rent, which is calculated with reference to the utilization of the airframe, engines and other major life-limited components during the lease. In these leases, we will make a payment to the lessee to compensate the lessee for the cost of the actual major maintenance incurred, up to the maximum of the amount of supplemental maintenance rental payments made by the lessee during the lease term. These payments are made upon the lessee s presentation of invoices evidencing the completion of such qualifying major maintenance. The Company records as rental revenue, the portion of supplemental maintenance rent that is virtually certain will not be reimbursed to the lessee. Supplemental maintenance rental payments which we may be required to reimburse to the lessee are reflected in our overhaul reserve liability, as a component of Security deposits and overhaul reserves on flight equipment leases in our Consolidated Balance Sheet.

Lessee-specific modifications are expected to be capitalized as initial direct costs and amortized over the term of the lease into rental revenue in our Consolidated Statement of Operations.

d. Initial Direct Costs

The Company records as period costs those internal and other costs incurred in connection with identifying, negotiating and delivering aircraft to the Company s lessees. Amounts paid by us to lessees, or other parties, in connection with the lease transactions are capitalized and amortized as a reduction to lease revenue over the lease term.

e. Cash and Cash Equivalents

The Company considers cash and cash equivalents to be cash on hand and highly liquid investments with original maturity dates of 90 days or less.

f. Restricted Cash

Restricted cash consists of pledged security deposits, maintenance reserves, and rental payments related to secured aircraft financing arrangements.

g. Flight Equipment

Flight equipment under operating lease is stated at cost less accumulated depreciation. Purchases, major additions and modifications, and interest on deposits during the construction phase are capitalized. The Company generally depreciates passenger aircraft on a straight-line basis over a 25-year life from the date of manufacture to a 15% residual value. Changes in the assumption of useful lives or residual values for aircraft could have a significant impact on the Company s results of operations and financial condition.

At the time flight equipment is retired or sold, the cost and accumulated depreciation are removed from the related accounts and the difference, net of proceeds, is recorded as a gain or loss on our Consolidated Statement of Operations.

Management evaluates on a quarterly basis the need to perform an impairment test whenever facts or circumstances indicate a potential impairment has occurred. An assessment is performed whenever events or changes in circumstances indicate that the carrying amount of an aircraft may not be recoverable. Recoverability of an aircraft s carrying amount is measured by comparing the carrying amount of the aircraft to future undiscounted net cash flows expected to be generated by the aircraft. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates and estimated residual or scrap values for each aircraft. We develop assumptions used in the recoverability analysis based on our knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type, and historical experience in the aircraft leasing market and aviation

industry, as well as information received from third-party industry sources. The factors considered in estimating the undiscounted cash flows are affected by changes in future periods due to changes in contracted lease rates, economic conditions, technology and airline demand for a particular aircraft type. In the event that an aircraft does not meet the recoverability test, the aircraft will be recorded at fair value in accordance with the Company s Fair Value Policy, resulting in an impairment charge. Our Fair Value Policy is described below under Fair Value Measurements . As of December 31, 2010, no impairment charges have been incurred to date.

h. Capitalized Interest

The Company may borrow funds to finance deposits on flight equipment purchases. The Company capitalizes interest expense on such borrowings. The capitalized amount is calculated using our composite borrowing rate and is recorded as an increase to the cost of the flight equipment on our Consolidated Balance Sheet.

i. Fair Value Measurements

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of certain assets on a non-recurring basis, principally our flight equipment, when Generally Accepted Accounting Principles (GAAP) requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable.

The Company records flight equipment at fair value when we determine the carrying value may not be recoverable. The Company principally uses the income approach to measure the fair value of flight equipment. The income approach is based on the present value of cash flows from contractual lease agreements and projected future lease payments, including contingent rentals, net of expenses, which extend to the end of the aircraft s economic life in its highest and best use configuration, as well as a disposition value based on expectations of market participants. These valuations are considered Level 3 valuations, as the valuations contain significant non-observable inputs.

j. Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in the tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance for deferred tax assets when the probability of realization of the full value of the asset is less than 50%. The Company recognizes the impact of a tax position, if that position is more than 50% likely to be sustained on audit, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

k. Deferred Costs

The Company incurs debt issue costs in connection with debt financings. Those costs are deferred and amortized over the life of the specific loan using the effective interest method and charged to interest expense. The Company also incurs costs in connection with equity offerings. Such costs are deferred until the equity offering is completed and either netted against the equity raised, or expensed if the equity offering is abandoned.

l. Stock-based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award. The Company recognizes compensation costs for shares that are expected to vest, on a straight-line basis, over the requisite service period of the award.

m. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Debt Financing

The Company s consolidated debt as of December 31, 2010 is summarized below:

(dollars in thousands)		**December 31, 2010**
Warehouse credit facility	$	**554,915**
Secured term debt financing		**223,981**
Unsecured financing		**133,085**
Total	$	**911,981**

a. Warehouse Facility

On May 26, 2010, a wholly-owned subsidiary of the Company entered into a revolving credit facility to finance the acquisition of aircraft. This facility provides the Company with access to $1.5 billion from a bank syndicate (the Warehouse Facility). The Company is able to draw on this facility during the initial two-year availability period. The Warehouse Facility accrues interest during the initial two-year period based on LIBOR plus 3.25% on drawn balances and at a fixed rate of 1.00% on un-drawn balances. The outstanding drawn balance at the end of the initial two-year period may be converted at our option to an amortizing, four-year term loan with an interest rate of LIBOR plus 4.25% for the initial three years of the term and margin step-ups during the remaining year that increase the interest rate to LIBOR plus 5.25%.

Based on the terms of the Warehouse Facility Agreement, the Company has pledged $200.0 million in aircraft collateral as a precondition to borrowing under the Warehouse Facility. As of December 31, 2010, the Company has borrowed $554.9 million under the Warehouse Facility and pledged 23 aircraft as collateral with a net book value of $930.0 million. In addition, the Company was required to pledge cash collateral, which accretes to $75.0 million over the revolving period of the Warehouse Facility. As of December 31, 2010, the Company had pledged $48.3 million in cash collateral and lessee deposits.

b. Secured Financing

The Company funds some aircraft purchases through secured bilateral term financings. Wholly-owned subsidiaries of the Company will borrow through secured bank facilities to purchase an aircraft. The aircraft are then leased by the wholly-owned subsidiaries to airlines. The Company may guarantee the obligations of the wholly-owned subsidiaries under the loan agreements. The loans may be secured by a pledge of the shares of the subsidiary, the aircraft, the lease receivables, security deposits, maintenance reserves or a combination thereof.

During the period from inception to December 31, 2010, six of our wholly-owned subsidiaries entered into six secured term facilities with terms ranging from 4.6 to 7.0 years, yielding $226.2 million, with interest rates ranging from LIBOR plus 2.55% to LIBOR plus 3.00%, and pledged $336.8 million in aircraft collateral under these facilities. As of December 31, 2010, the outstanding balance on these facilities was $224.0 million. The Company has guaranteed $205.7 million of the obligations outstanding under these facilities as of December 31, 2010.

c. Seller Financing

On July 9, 2010, a wholly-owned subsidiary of the Company borrowed $1.3 million of unsecured seller-financing through a sale-leaseback transaction to purchase an aircraft. The aircraft was leased by the wholly-owned subsidiary to the seller. The loan accrues interest based on a rate of 3.00%. The loan partially amortizes over the lease term and matures in 2012. At December 31, 2010, the outstanding loan balance was $1.1 million.

d. Unsecured Credit Facilities

The Company funds some aircraft purchases through unsecured term financings. During the period from inception to December 31, 2010, we entered into nine unsecured two-year and three-year revolving credit facilities, aggregating $240.0 million. The facilities accrue interest during the term based on the election of the Company at each individual funding date. The Company is permitted to elect a LIBOR based loan plus 2.00% or the higher of (i) Prime or (ii) 2.00%. The Company is obligated to pay 0.25% to 0.50% on the unused portion of the facilities. As of December 31, 2010, we had drawn $120.0 million across all our unsecured revolving credit facility agreements. All of our unsecured revolving credit facilities bear interest at LIBOR plus 2.00%. As of December 31, 2010, the Company maintained $26.0 million in compensating balances with the lenders under these facility agreements.

Finally, we entered into a $12.0 million, five-year term unsecured facility at a fixed rate of 3.90%. This facility was fully drawn as of December 31, 2010.

e. Shareholder Promissory Note

In February 2010, the Company borrowed $250,000 under a promissory note agreement with an entity controlled by the Company s Chairman and CEO. Interest due under the promissory note was at an annual rate of 3.00%, compounded quarterly. This note matured on June 4, 2010, upon the successful offering of the Company s common stock pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended.

f. Shareholder Revolving Loan

In March 2010, the Company s Chairman and CEO entered into an unlimited revolving credit agreement with the Company. Interest due under the revolving loan was based on LIBOR plus 3.50%, compounded quarterly, on the outstanding balance of the loan. There were no fees for any un-drawn balance. The Shareholder Revolving Loan matured on June 4, 2010, upon the successful offering of the Company s common stock pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended. At maturity the outstanding loan balance was $50,336.

g. Underwriter Promissory Note

In April 2010, the Company borrowed $2.0 million under a promissory note agreement with the Company s underwriter for our June 2010 equity offering. Interest due under the promissory note was based on LIBOR plus 3.50%, compounded annually. This note matured on June 4, 2010, upon the successful offering of the Company s common stock pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended.

h. Shareholder Promissory Note

In April 2010, the Company borrowed $2.0 million under a promissory note agreement with an entity controlled by the Company s Chairman and CEO. Interest due under the promissory note was based on LIBOR plus 3.50%, compounded annually. This note matured on June 4, 2010, upon the successful offering of the Company s common stock pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended.

i. Convertible Notes

On May 7, 2010, two investors (the Early Investors) agreed to lend the Company $50.0 million, and certain members of the Company s management (and their respective families or affiliates) and Board of Directors agreed to lend the Company $10.0 million, pursuant to convertible promissory note agreements. Interest accrued under the notes at an annual rate of 6.00% and was payable quarterly in cash. The notes were automatically converted on June 4, 2010, in satisfaction of the lenders obligations to purchase shares of the Company s common stock at a price equal to $18.00 per share, in connection with the successful offering of the Company s common stock pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended.

On May 7, 2010, the Early Investors contingently committed to purchase $250.0 million of the Company s common stock at the lesser of (i) $18.00 per share and (ii) 90% of the offering price per share upon the completion of the Company s common stock offering pursuant to Rule 144A, Regulation S, and Regulation D of the Securities Act of 1933, as amended, prior to December 31, 2010, including $50.0 million of the Company s common stock that would be acquired upon conversion of the convertible promissory notes. On June 4, 2010, the Early Investors purchased $250.0 million of the Company s common stock at a price equal to $18.00 per share upon the completion of the Company s common stock offering, including $50.0 million of the Company s common stock that was acquired upon conversion of the convertible promissory notes.

The Early Investors simultaneously entered into a convertible note agreement and a contingent stock purchase agreement. The Company allocated the proceeds received between the convertible note and the stock purchase agreement based on their relative fair value at issuance. An independent appraiser determined that the relative aggregate fair value of the

convertible notes and stock purchase agreement was $35.4 million and $14.6 million, respectively. Consequently the Company recorded a $14.6 million discount at the issuance of the convertible notes, with an offsetting increase to Paid-in capital on the Company s Consolidated Balance Sheet. The Company fully amortized this debt discount into Interest expense on the Consolidated Statement of Operations upon the conversion of the notes.

The Company evaluated the conversion option within the convertible notes to determine whether the conversion price was beneficial to the note holders. For the convertible notes issued to the Early Investors, management measured the intrinsic value in the conversion option based on the proceeds allocated to the convertible debt after proceeds were allocated to the contingent stock purchase agreement. As a result, the Company determined that the beneficial conversion features within the convertible notes was $21.2 million. The Company recorded the beneficial conversion feature as a discount at the issuance of the convertible notes, with an offsetting increase to Paid-in capital on the Company s Consolidated Balance Sheet. The Company fully amortized this debt discount into Interest expense on the Consolidated Statement of Operations upon the conversion of the notes.

j. Maturities

Maturities of debt outstanding at December 31, 2010 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	**$ 29,605**
2012	**128,494**
2013	**192,007**
2014	**129,457**
2015	**145,435**
Thereafter	**286,983**
Total	**$ 911,981**(1)

(1) As of December 31, 2010 the Company had $554.9 million of debt outstanding under the Warehouse Facility which will come due beginning in May 2012. The outstanding drawn balance at the end of the initial two-year period of the Warehouse Facility may be converted at the Company s option to an amortizing, four-year term loan with an increasing interest rate.

As of December 31, 2010 the Company was restricted from making dividend payments under the most restrictive provisions of our debt agreements, as we are in a net loss position for the period from inception to December 31, 2010. In addition, the Company had no plans to make dividend payments as of December 31, 2010.

3. Shareholders Equity

As of December 31, 2010, the Company had authorized 500,000,000 shares of Class A Common Stock, $0.01 par value per share, of which 63,563,810 shares were issued and outstanding. As of December 31, 2010, the Company had authorized 10,000,000 shares of Class B Non-Voting Common Stock, $0.01 par value per share, of which 1,829,339 shares were issued and outstanding. The rights and obligations of the holders of Class A and Class B Non-Voting Common Stock are identical, except with respect to voting rights and conversion rights. The holders of Class A Common Stock possess all voting power, and are not convertible into Class B Non-Voting Common Stock.

Each share of Class B Non-Voting Common Stock is convertible into one share of Class A Common Stock at the option of the holder, and is automatically converted at the time it is transferred to a third party unaffiliated with such initial holder, subject to the transfer restrictions.

As of December 31, 2010 the Company authorized 50,000,000 shares of preferred stock, $0.01 par value per share, of which no shares were issued or outstanding.

On June 4, 2010, the Company issued 482,625 warrants to two institutional investors (the Committed Investors). The warrants have a seven-year term and an exercise price of $20 per share. The Company uses the Black-Scholes option pricing model to determine the fair value of warrants. The fair value of warrants was calculated on the date of grant by an option-pricing model using a number of complex and subjective variables. These variables include expected stock price volatility over the term of the warrant, projected exercise behavior, a risk-free interest rate and expected dividends. The warrants have a fair value at the grant date of $5.6 million. The warrants are classified as an equity instrument and the proceeds from the issuance of common stock to the Committed Investors was split between the warrants and the stock based on fair value of the warrants and recorded as an increase to Paid-in capital on the Consolidated Balance Sheet.

4. Rental Income

At December 31, 2010 minimum future rentals on non-cancelable operating leases of flight equipment, which have been delivered as of December 31, 2010, are as follows:

(dollars in thousands)

Years ending December 31,	
2011	$ 197,870
2012	176,545
2013	153,650
2014	138,601
2015	118,142
Thereafter	289,000
Total	**$** 1,073,808

Through December 31, 2010, the Company earned $3.6 million in contingent rentals based on our lessees usage of the aircraft.

The following table shows the scheduled lease terminations (for the minimum non-cancelable period which does not include lease extension options contractually available to our lessees) by aircraft type for our operating lease portfolio at December 31, 2010:

Aircraft Type	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Airbus A319-100	1		3		1	1	1						7
Airbus A320-200		2	2		1	1	1				1		8
Airbus A321-200						1	1						2
Airbus A330-200						1						1	2
Boeing B737-700	1	1				1			1		1		5
Boeing B737-800	1	1	3	1	4	1	3						14
Boeing B777-300ER								1			1		2
Total	3	4	8	1	6	6	6	1	1		3	1	40

5. Concentration of Risk

a. Geographical and Credit Risks

As of December 31, 2010, all of the Company s revenues were generated by leasing flight equipment to foreign and domestic airlines, and currently the Company leases aircraft to 25 lessees.

As of December 31, 2010, we have entered into aircraft acquisition, lease and future lease commitments with airlines in Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Ireland, Italy, Japan, Kazakhstan, Kenya, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Russia, South Africa, South Korea, Spain, Sri Lanka, Trinidad & Tobago, Turkey, United Arab Emirates, United States and Vietnam.

During the period from inception to December 31, 2010 the Company had two customers that accounted for greater than 10% of rental of flight equipment revenues as follows:

	December 31, 2010
Air Berlin	**26.5**%
Air France	**15.1**%

As of December 31, 2010, accounts receivable balances from Air Berlin and Air France were insignificant.

As our portfolio grows, we anticipate that a growing percentage of our aircraft will be located in the Asia/Pacific, Central America and South America and Middle East regions. The table below illustrates in terms of net book value the regions where our aircraft are operated as of December 31, 2010 and illustrates that most of our aircraft are operated internationally.

	December 31, 2010
Europe	**42.3**%
Asia/Pacific	**26.1**
Central America, South America and Mexico	**10.0**
U.S. and Canada	**15.6**
Middle East	**6.0**
Total	**100.0**%

b. Currency 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.

6. Income Taxes

The provision for income taxes consists of the following:

(dollars in thousands)		**For the Period from Inception to December 31, 2010**
Current:		
Federal	$	
State		
Deferred:		
Federal		**(8,547)**
State		**(328)**
Income tax benefit	**$**	**(8,875)**

Differences between the provision for income taxes and income taxes at the statutory federal income tax rate are as follows:

(dollars in thousands)	For the Period from Inception to December 31, 2010 Amount	Percent
Income taxes at statutory federal rate	$ (21,320)	(35.0)%
State income taxes, net of federal income tax effect	(213)	(0.4)
Nondeductible interest convertible note	12,529	20.6
Other	129	0.2
	$ (8,875)	(14.6)%

The Company s net deferred tax assets are as follows:

ASSETS (LIABILITIES)		
Equity compensation	$	**8,616**
Net operating losses		**5,726**
Rents received in advance		**2,920**
Accrued bonus		**2,575**
Other		**489**
Aircraft depreciation		**(11,451)**
Total assets	$	**8,875**

At December 31, 2010, the Company has net operating loss carry-forwards (NOLs) for federal and state income tax purposes of $15.7 million, which are available to offset future taxable income in future periods.

The Company has not recorded a deferred tax valuation allowance as of December 31, 2010 as realization of the deferred tax asset is considered more likely than not. There was no change in the valuation allowance during the period from inception to December 31, 2010. In order to fully realize the deferred tax asset the Company would need to generate taxable income of $25.4 million. In assessing the realizability of the deferred tax assets management considered whether future taxable income will be sufficient during the periods in which those temporary differences are deductible or before NOLs expire. Management considers the scheduled reversal of deferred tax liabilities, projected taxable income and tax planning strategies in making this assessment. Management anticipates the timing differences on aircraft depreciation will reverse and be available for offsetting the reversal of deferred tax assets. The Company was formed in February 2010 and has incurred losses before tax during the period from inception to December 31, 2010 of $60.9 million. This loss included a charge of $35.8 million for the amortization of convertible debt discounts which is not deductible for tax purposes. In addition to budgets and long range forecasts which are dependent on future events management considered projected taxable income from aircraft leases in place at December 31, 2010. By projecting out future revenue and related costs from existing, executed contracts management concluded there was sufficient future income not subject to the risks of future aircraft purchases, related financing and new leases that deferred tax assets will more likely than not be realized.

As of December 31, 2010, the Company has not recorded any liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to examinations by the major tax jurisdictions for the 2010 tax year.

7. Commitments and Contingencies

a. Aircraft Acquisition

As of December 31, 2010, we have commitments to acquire a total of 148 new and used aircraft through 2017 for delivery as follows:

Aircraft Type	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
A320/321-200	10	9	13	12	7			51
A330-200/300	2	4						6
B737-800(1)	5	3	12	12	12	12	9	65
B777-300ER	1							1
E190	4	8	3					15
ATR 72-600	2	8						10
Total	24	32	28	24	19	12	9	148

(1) Four of the five Boeing B737-800s that we will acquire in 2011 will be used aircraft.

Commitments for the acquisition of these aircraft at an estimated aggregate purchase price (including adjustments for inflation) of approximately $6.2 billion at December 31, 2010 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	**$ 1,172,086**
2012	**1,259,316**
2013	**1,089,748**
2014	**1,057,055**
2015	**818,378**
Thereafter	**791,475**
Total	**$ 6,188,058**

As of December 31, 2010, we had made non-refundable deposits of $183.4 million on the aircraft which we have committed to purchase. If we are unable to satisfy our purchase commitments we may be forced to forfeit our deposits. Further, we would be exposed to potential breach of contract claims by our lessees and manufacturers.

b. Office Lease

As of December 31, 2010, the Company modified its existing operating lease for office space and office equipment extending through 2024. The lease provides for step rentals over the term, and those rentals are considered in the evaluation of recording rent expense on a straight-line basis over the term of the lease. Tenant improvement allowances received from the lessor are deferred and amortized in selling, general and administrative expenses against rent expense. Commitments for minimum rentals under the non-cancelable lease term at December 31, 2010 are as follows:

(dollars in thousands)

Years ending December 31,	
2011	$ **217**
2012	**1,441**
2013	**2,325**
2014	**2,395**
2015	**2,467**
Thereafter	**23,389**
Total	**$ 32,234**

8. Net Loss Per Share

Basic net loss 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 their effect is anti-dilutive. The Company s two classes of common stock, Class A and Class B Non-Voting, have equal rights to dividends and income and thus basic and diluted earnings per share are the same for each class.

Diluted net loss per share takes into account the potential conversion of the convertible notes using the if-converted method and the treasury stock method for stock options, restricted stock units and warrants. For the period from inception to December 31, 2010, the Company excluded 206,749 shares related to these potentially dilutive securities from the computation of diluted earnings per share because they were anti-dilutive.

The following table sets forth the reconciliation of basic and diluted net loss per share for the period from inception to December 31, 2010:

(In thousands, except share data)	**For the period from Inception to December 31, 2010**
Numerator:	
Net loss available to common shareholders basic and diluted EPS	$ **(52,040)**
Denominator:	
Weighted average common shares outstanding basic and diluted EPS	**39,511,045**

Net loss per share:		
Basic	**$**	**(1.32)**
Diluted	**$**	**(1.32)**

9. Interest

The following table shows the components of interest for the period from inception to December 31, 2010:

		For the period from Inception to December 31, 2010
Interest on borrowings	$	12,831
Less capitalized interest		(1,769)
Interest		11,062
Amortization of deferred debt issuance cost		4,883
Amortization of convertible debt discounts		35,798
Interest expense	$	51,743

10. Fair Value Measurements

a. Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company has no assets or liabilities which are measured at fair value on a recurring basis as of December 31, 2010.

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

The Company measures the fair value of flight equipment on a non-recurring basis, when GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. The Company principally uses the income approach to measure the fair value of these assets and liabilities when appropriate, as described below:

Flight Equipment

The Company records flight equipment at fair value when we determine the carrying value may not be recoverable. The fair value is measured using an income approach based on the present value of cash flows from contractual lease agreements and projected future lease payments, including contingent rentals, net of expenses, which extend to the end of the flight equipment s economic life in its highest and best use configuration, as well as a disposition value, based on expectations of market participants.

The Company has no assets or liabilities that were measured at fair value on a non-recurring basis as of December 31, 2010.

11. Fair Value of Financial Instruments

The carrying value reported on the balance sheet for cash and cash equivalents, restricted cash and other payables approximates their 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. The estimated fair value of debt financing as of December 31, 2010 was $931.2 million compared to a book value of $912.0 million.

12. Equity Based Compensation

In accordance with the Company s 2010 Equity Incentive Plan (Plan), the amount of Stock Options (Stock Options) and Restricted Stock Units (RSUs) authorized under the Plan is dependent on the total number of shares sold in the offering of the Company s common stock pursuant to Rule 144A of the Securities Act of 1933, as amended. As of December 31, 2010, under the Plan, the Company was authorized to grant 3,225,908 Stock Options and 3,225,907 RSUs. As of December 31, 2010, the Company granted 3,225,908 Stock Options and 3,225,907 RSUs.

a. Incentive Stock Options

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. The fair value of stock-based payment awards on the date of grant is determined by an option-pricing model using a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and expected dividends. The Stock Options vest ratably over a three-year period and have a 10-year term. The options are exercisable at $20 per share.

Estimated volatility of the Company s common stock for new grants is determined by using historical volatility of the Company s peer group. Due to our limited operating history, there is no historical exercise data to provide a reasonable basis which the Company can use to estimate expected terms. Accordingly, the Company uses the simplified method as permitted under Staff Accounting Bulletin No. 110. The risk-free interest rate used in the option valuation model is derived from U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an assumed dividend yield of zero in the option valuation model. In accordance with ASC Topic 718, Compensation Stock Compensation, the Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The average assumptions used to value stock-based payments are as follows:

Dividend yield	0.0%
Expected term	6.0 years
Risk-free interest rate	2.3%
Volatility	52.7%
Forfeiture rate	0.4%

Activity under the Company s stock option plan is as follows:

	Shares	Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at inception				
Granted	3,225,908	$ 20.00		$
Exercised				
Cancelled				
Options outstanding as of December 31, 2010	3,225,908	$ 20.00	9.5	$
Options exercisable at December 31, 2010				

b. Restricted Stock Unit Plan

The Company determines the fair value of its restricted stock awards is equal to the value of the underlying shares at the date of grant. The Company granted 3,225,907 RSUs as of December 31, 2010. The RSUs vest ratably on a four-year schedule subject to a performance measure.

The grant date fair value of stock-based awards was as follows:

(dollars in thousands)	June 4, 2010	July 14, 2010	August 4, 2010	August 11, 2010	Total
Options	$ 26,314	$ 4,998	$ 61	$ 1,209	$ 32,582
RSU	49,000	11,847	150	3,217	64,214
Total	$ 75,314	$ 16,845	$ 211	$ 4,426	$ 96,796

As of December 31, 2010, there was $72.8 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock-based payments 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 period of 3.5 years. The Company recorded $24.0 million, in stock compensation expense from continuing operations for the period from inception through December 31, 2010.

As of December 31, 2010 no stock options were exercisable.

13. Subsequent Events

During the first quarter of 2011, four of our wholly-owned subsidiaries entered into four separate secured term facilities aggregating $218.5 million. The four facilities consisted of a six-year $26.0 million facility at a fixed rate of 4.89%, a six-year $92.0 million facility at a fixed rate of 4.57%, an eight-year $14.5 million facility at a fixed rate of 4.58% and an eight-year $86.0 million facility with a $40.0 million tranche at a fixed rate of 4.34% and a $46.0 million tranche at a floating rate of LIBOR plus 2.35%. In connection with these facilities, the Company pledged $328.6 million in aircraft collateral. Additionally, we entered into three bilateral revolving unsecured credit facilities aggregating $63.0 million, each with a borrowing rate of LIBOR plus 2.00%, and increased the capacity of one existing three-year revolving unsecured credit facility from $25.0 million to $30.0 million. We also entered into three fixed-rate amortizing unsecured facilities aggregating $24.0 million, which consisted of a four-year $6.0 million facility at 4.15%, a five-year $12.0 million facility at 4.05% and a five-year $6.0 million facility at 3.95%. Finally, during the first quarter of 2011, the Company drew a net $49.5 million under the Warehouse Facility and incrementally pledged $86.3 million in aircraft collateral. As of March 31, 2011, we had borrowed approximately $604.4 million under the Warehouse Facility.

On April 1, 2011, the Company executed an amendment to the Warehouse Facility that took effect in April 2011. This facility, as amended, provides us with financing of up to $1.25 billion, modified from the original facility size of $1.5 billion. We are able to draw on this facility, as amended, during an availability period that ends in June 2013. Prior to the amendment of the Warehouse Facility, the Warehouse Facility accrued interest during the availability period based on LIBOR plus 3.25% on drawn balances and at a fixed rate of 1.00% on undrawn balances. Following the amendment, the Warehouse Facility accrues interest during the availability period based on LIBOR plus 2.50% on drawn balances and at a fixed rate of 0.75% on undrawn balances. Pursuant to the amendment, the advance level under the facility was increased from 65.0% of the appraised value of the aircraft pledged and 50.0% of the cash pledged to the Warehouse Facility to 70.0% of the appraised value of the aircraft pledged and 50.0% of the cash pledged to the Warehouse Facility. The outstanding drawn balance at the end of the availability period may be converted at our option to an amortizing, four-year term loan with an interest rate of LIBOR plus 3.25% for the initial three years of the term and margin step-ups during the remaining year that increase the interest to LIBOR plus 4.75%. As a result of amending the Warehouse Facility, we will record an extinguishment of debt charge of up to $4.7 million from the write-off of deferred debt issuance costs when the amendment became effective in April 2011.

In April 2011, we completed an initial public offering of our Class A Common Stock in which we sold an aggregate of 34,825,470 shares of Class A Common Stock. The shares in the initial public offering were sold at the price of $26.50, less underwriting discounts and commissions of $1.4575 per share. After deducting the underwriting discounts and commissions and offering expenses, the Company received net proceeds of approximately $868.1 million.

During the second quarter of 2011, we entered into commitments to acquire up to 24 additional aircraft from Airbus, Boeing and Embraer for an estimated aggregate purchase price (including adjustment for anticipated inflation) of approximately $1.0 billion. Deliveries of the additional aircraft are scheduled to commence in 2012 and to continue through 2018. From Airbus, we agreed to purchase one additional Airbus A321 aircraft. From Boeing, we agreed to purchase an additional 18 Boeing 737-800 aircraft and have cancellation rights with respect to four of the additional 18 Boeing 737-800 aircraft. From Embraer, we agreed to purchase an additional five Embraer E190 aircraft.

In June 2011, the Company issued $120 million in senior unsecured notes in a private placement to institutional investors. The notes have a five-year term and a coupon of 5.0%.

59,981,528 shares of Class A Common Stock
1,829,339 shares of Class B Non-Voting Common Stock
Prospectus

, 2011

We and the selling stockholders have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or the selling stockholders or to which we or the selling stockholders have referred you. We and the selling stockholders take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The selling stockholders are offering to sell, and seeking offers to buy, Common Stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our Common Stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our Common Stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until , 2011, all dealers that buy, sell or trade in our Common Stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part II
Information not required in prospectus

Item 13. ***Other expenses of issuance and distribution***

The following table sets forth estimates of the costs and expenses paid or to be paid by the registrant in connection with the sale of the Common Stock being registered hereby:

	Amount
SEC registration fee	$ 221,277
FINRA filing fee	75,500
Printing expenses	10,000
Legal fees and expenses	400,000
Accounting fees and expenses	10,000
Miscellaneous	8,223
Total	$ 725,000

Item 14. ***Indemnification of directors and officers***

Section 102(b)(7) of the Delaware General Corporation Law (DGCL) allows a corporation to provide in its certificate of incorporation that a director of the corporation will not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached the duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Our restated certificate of incorporation provides for this limitation of liability.

Section 145 of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation

or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Our amended and restated bylaws provide for the indemnification of officers and directors of our Company consistent with Section 145 of the DGCL.

The indemnification rights set forth above are not exclusive of any other right which an indemnified person may have or hereafter acquire under any statute, provision of our restated certificate of incorporation, our amended and restated bylaws, agreement, vote of stockholders or directors or otherwise. We also entered into indemnification agreements with our directors that generally provide for mandatory indemnification to the fullest extent permitted by law.

Delaware law also provides that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other entity, against any liability asserted against and incurred by such person, whether or not the corporation would have the power to indemnify such person against such liability. We maintain, at our expense, an insurance policy that insures our officers and directors, subject to customary exclusions and deductions, against specified liabilities that may be incurred in those capacities.

Item 15. ***Recent sales of unregistered securities***

Since February 5, 2010, the registrant has sold the following securities without registration under the Securities Act of 1933, as amended (the Act):

1. From February 5, 2010 through April 20, 2010, the registrant issued and sold to certain employees an aggregate of 875,000 shares of Class A Common Stock for an aggregate purchase price of $1.75 million in cash.

2. On June 4, 2010, the registrant issued and sold to funds managed by each of Leonard Green & Partners, L.P. and Ares Management LLC an aggregate of 13,888,888 shares of Class A Common Stock for an aggregate purchase price of $250 million, $200 million of which was paid in cash and $50 million of which was represented by cancellation of senior convertible notes issued by the registrant to such persons on May 7, 2010.

3. On June 4, 2010, the registrant issued and sold to certain members of its management (and their family members and affiliates) and members of its board of directors an

aggregate of 555,556 shares of Class A Common Stock for an aggregate purchase price of $10 million, which was represented by cancellation of senior convertible notes issued by the registrant to such persons on May 7, 2010.

4. From June 4, 2010 through July 13, 2010, the registrant issued and sold to institutional and individual investors an aggregate of 50,050,205 shares of Common Stock for an aggregate purchase price of $1 billion in cash.

5. On June 4, 2010, the registrant issued a warrant to purchase 214,500 shares of Common Stock and a warrant to purchase 268,125 shares of Common Stock to Société Générale S.A. and Commonwealth Bank of Australia, respectively, at an exercise price of $20.00 per share.

6. From June 4, 2010 through August 11, 2010, the registrant granted to certain employees options to purchase an aggregate of 3,223,658 shares of Class A Common Stock at an exercise price of $20.00 per share and restricted stock units with respect to an aggregate of 3,222,357 shares of Class A Common Stock under its Air Lease Corporation 2010 Equity Incentive Plan.

7. On June 17, 2010, the registrant issued to Commonwealth Bank of Australia 3,779,442 shares of Class A Common Stock in exchange for the surrender by Commonwealth Bank of Australia of the same number of shares of Class B Non-Voting Common Stock.

8. On July 14, 2010, the registrant granted to certain employees options to purchase an aggregate of 2,250 shares of Class A Common Stock at an exercise price of $20.00 per share and restricted stock units with respect to an aggregate of 3,550 shares of Class A Common Stock under its Air Lease Corporation 2010 Equity Incentive Plan.

9. From July 16, 2010 through July 26, 2010, the registrant issued and sold to certain employees an aggregate of 23,500 shares of Class A Common Stock for an aggregate purchase price of $470,000 in cash.

10. On July 22, 2010, the registrant issued to Société Générale S.A. 700,083 shares of Class A Common Stock in exchange for the surrender by Société Générale S.A. of the same number of shares of Class B Non-Voting Common Stock.

11. On April 25, 2011, the registrant granted to Jie Chen, Executive Vice President and Managing Director, Asia, time-vesting restricted stock units with respect 45,833 shares of Class A Common Stock, performance-based restricted stock units with respect to 150,000 shares of Class A Common Stock, and options to purchase 150,000 shares of Class A Common Stock at an exercise price of $28.80 per share, under the Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan.

12. On April 25, 2011, the registrant granted to its non-employee directors restricted stock units with respect to 36,224 shares of Class A Common Stock, under the Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan.

13. On June 6, 2011, the registrant issued to certain institutional investors $120 million in aggregate principal amount of senior unsecured notes with a 5% coupon for a five-year term.

The transactions described above in Items 1 3, 6, 9 and 13 were effected without registration under the Act in reliance on the exemptions from registration provided pursuant to Section 4(2) of the Act and Rule 506 of Regulation D thereunder relating to transactions not involving any public offering. The recipients of the securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for offer or sale in connection with any distribution thereof. The recipients of such securities also represented that they were accredited investors within the meaning of Rule 501 of Regulation D promulgated under the Act, or the registrant otherwise received assurance of their status as accredited investors. Appropriate legends were affixed to share certificates, and/or investors were informed of the limitations on resale of the Class A Common Stock through the use of appropriate disclosure and contractual representations. J.P. Morgan Securities LLC acted as agent for the Company in the transaction described in Item 13. The transactions described in Items 11-12 were effected without registration under the Act in reliance on the exemption from registration pursuant to Section 4(2) of the Act.

The transactions described in Items 4 and 5 were effected without registration under the Act in reliance on the exemptions from registration pursuant to Rule 144A, Rule 506 of Regulation D, and Regulation S promulgated under the Act, with FBR Capital Markets & Co. (formerly Friedman Billings Ramsey & Co., Inc.) acting as initial purchaser and placement agent. A portion of the securities were sold directly by the registrant to accredited investors in transactions exempt from registration under Section 4(2) of the Act and Rule 506 of Regulation D thereunder relating to sales not involving any public offering. The remainder of the securities were sold to the initial purchaser who resold the shares to persons it reasonably believed were qualified institutional buyers (as defined by Rule 144A under the Act) or to non-U.S. persons (as defined under Regulation S of the Act). The securities were sold only to investors that the registrant believed were qualified institutional buyers, accredited investors and/or non-U.S. persons. Additionally, none of these sales were made by any form of general solicitation or general advertising. Finally, the registrant took reasonable precautions to ensure that all of the purchasers were purchasing shares for their own account and were informed of the limitations on resale of the securities through the use of appropriate disclosure and contractual representations that were obtained from the purchasers. For its role as initial purchaser and placement agent, FBR Capital Markets & Co., generally received an initial purchaser s discount or placement fee equal to $1.05 per share (or 5.25% of the per share consideration), except with respect to 10 million shares for which it received an initial purchaser s discount or placement fee of $0.20 per share (or 1.00% of the per share consideration) and 3,912,500 shares with respect to which it did not receive an initial purchaser s discount or fee. Following the closing of the transactions described in Items 4 and 5, FBR Capital Markets & Co. reimbursed to the registrant an amount equal to 1.15% of the gross proceeds received from such offering.

The transactions described in Items 7 and 10 were effected without registration under the Act in reliance on either Section 3(a)(9) of the Act as an exchange by the registrant with an existing security holder where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange, or the exemption from registration provided under Section 4(2) of the Act as a transaction not involving a public offering.

The transactions described above in Item 8 were effected without registration under the Act in reliance on the exemption from registration provided pursuant to either or both of Section 4(2) of the Act or Rule 701 thereunder, as transactions pursuant to compensatory benefit plans and contracts relating to compensation.

Item 16. ***Exhibits and financial statement schedules***

A. Exhibits

Exhibit No.	**Description**
3.1*	Restated Certificate of Incorporation of Air Lease Corporation
3.2*	Amended and Restated Bylaws of Air Lease Corporation
4.1*	Form of Specimen Stock Certificate
4.2*	Registration Rights Agreement, dated as of June 4, 2010, between Air Lease Corporation and FBR Capital Markets & Co., as the initial purchaser/placement agent
5.1	Opinion of Munger, Tolles & Olson LLP
10.1*	Warehouse Loan Agreement, dated as of May 26, 2010, among ALC Warehouse Borrower, LLC, as Borrower, the Lenders from time to time party hereto, and Credit Suisse AG, New York Branch, as Agent
10.2*	Pledge and Security Agreement, dated as of May 26, 2010, among Air Lease Corporation, as Parent, ALC Warehouse Borrower, LLC, as Borrower, the subsidiaries of the Borrower from time to time party hereto, Deutsche Bank Trust Company Americas, as Collateral Agent, and Credit Suisse AG, New York Branch, as Agent
10.3*	Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan
10.4*	Form of Restricted Stock Unit Award Agreement
10.5*	Form of Option Award Agreement
10.6	Warrant No. 3 to purchase 214,500 shares of Common Stock, dated August 25, 2010 (in replacement of Warrant No. 1 to purchase 214,500 shares of Common Stock, dated June 4, 2010)
10.7*	Warrant No. 2 to purchase 268,125 shares of Common Stock, dated June 4, 2010

Exhibit No.	Description
10.8*	Employment Agreement, dated as of February 5, 2010, by and between Air Lease Corporation and Steven F. Udvar-Házy
10.9*	Amendment to Employment Agreement, dated as of August 11, 2010, by and between Air Lease Corporation and Steven F. Udvar-Házy
10.10*	Employment Agreement, dated as of March 29, 2010, by and between Air Lease Corporation and John L. Plueger
10.11*	Amendment to Employment Agreement, dated as of August 11, 2010, by and between Air Lease Corporation and John L. Plueger
10.12*	Form of Indemnification Agreement with directors and officers
10.13*	A320 Family Purchase Agreement, dated July 19, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.14*	A330-200 Purchase Agreement, dated September 2, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.15*	Purchase Agreement Number PA-03524, dated as of September 30, 2010, by and between Air Lease Corporation and The Boeing Company
10.16*	Purchase Agreement, dated October 5, 2010, by and between Air Lease Corporation and Embraer Empresa Brasileira de Aeronáutica S.A.
10.17*	Amended and Restated Deferred Bonus Plan
10.18*	Form of Grant Notice for Non-Employee Director Restricted Stock Units
10.19*	Amendment N° 1 to the A320 Family Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.20*	Amendment N° 2 to the A320 Family Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.21*	Amendment N° 1 to the A330-200 Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.22*	Amendment N° 2 to the A330-200 Purchase Agreement, dated January 6, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.23*	Amendment N° 3 to the A330-200 Purchase Agreement, dated January 14, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.24*	Amendment N° 4 to the A330-200 Purchase Agreement, dated February 11, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.25*	Amendment No. 1 to the Purchase Agreement COM0188-10, dated January 4, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.26*	Amendment No. 2 to the Purchase Agreement COM0188-10, dated February 11, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.27*	Aircraft Sale and Purchase Agreement, dated November 5, 2010, by and among Air Lease Corporation, the other purchasers listed in Schedule 1 thereto and the sellers listed in Schedule 1 thereto
10.28*	Amendment No. 4 to the Purchase Agreement COM0188-10, dated March 21, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.29*	Amendment No. 5 to the Purchase Agreement COM0188-10, dated March 21, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de

	Aeronáutica S.A.)
10.30*	Amendment No. 3 to the Purchase Agreement COM0188-10, dated February 28, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)

Exhibit No.	Description
10.31*	First Amendment to Warehouse Loan Agreement, dated as of April 1, 2011, among ALC Warehouse Borrower, LLC, as Borrower, the Lenders from time to time party hereto, and Credit Suisse AG, New York Branch, as Agent
10.32	Supplemental Agreement No. 1 to Purchase Agreement Number PA-03524, dated as of June 30, 2011, by and between Air Lease Corporation and The Boeing Company
10.33	Purchase Agreement PA-03658, dated August 5, 2011, by and between Air Lease Corporation and The Boeing Company
21.1	List of Subsidiaries of Air Lease Corporation
23.1	Consent of KPMG LLP
23.2	Consent of Munger, Tolles & Olson LLP (included in Exhibit 5.1)
23.3	Consent of AVITAS, Inc.
24.1	Power of Attorney

* Incorporated by reference to the exhibit of the same number filed with the Registrant s Registration Statement on Form S-1 (File No. 333-171734) for our initial public offering.

** To be filed by amendment.

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 406 promulgated under the Securities Act of 1933, as amended.

Previously filed.

B. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the information is included in the financial statements or related notes.

Item 17. ***Undertakings***

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 5 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Los Angeles, state of California, on September 2, 2011.

AIR LEASE CORPORATION

By: /s/ John L. Plueger

Name: John L. Plueger
Title: President & Chief Operating Officer

Power of Attorney

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 5 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven F. Udvar-Házy	Principal Executive Officer	September 2, 2011
Steven F. Udvar-Házy		
/s/ James C. Clarke	Principal Financial Officer	September 2, 2011
James C. Clarke		
/s/ Gregory B. Willis	Principal Accounting Officer	September 2, 2011
Gregory B. Willis		
/s/ Steven F. Udvar-Házy	Director	September 2, 2011
Steven F. Udvar-Házy		
/s/ John L. Plueger	Director	September 2, 2011
John L. Plueger		
*	Director	September 2, 2011
John G. Danhakl		
*	Director	September 2, 2011
Matthew J. Hart		
*	Director	September 2, 2011
Robert A. Milton		

*	Director	September 2, 2011
Michel M.R.G. Péretié		
*	Director	September 2, 2011
Antony P. Ressler		
*	Director	September 2, 2011
Wilbur L. Ross, Jr.		

Signature	Title	Date
*	Director	September 2, 2011

EXHIBIT INDEX

Exhibit No.	Description
3.1*	Restated Certificate of Incorporation of Air Lease Corporation
3.2*	Amended and Restated Bylaws of Air Lease Corporation
4.1*	Form of Specimen Stock Certificate
4.2*	Registration Rights Agreement, dated as of June 4, 2010, between Air Lease Corporation and FBR Capital Markets & Co., as the initial purchaser/placement agent
5.1	Opinion of Munger, Tolles & Olson LLP
10.1*	Warehouse Loan Agreement, dated as of May 26, 2010, among ALC Warehouse Borrower, LLC, as Borrower, the Lenders from time to time party hereto, and Credit Suisse AG, New York Branch, as Agent
10.2*	Pledge and Security Agreement, dated as of May 26, 2010, among Air Lease Corporation, as Parent, ALC Warehouse Borrower, LLC, as Borrower, the subsidiaries of the Borrower from time to time party hereto, Deutsche Bank Trust Company Americas, as Collateral Agent, and Credit Suisse AG, New York Branch, as Agent
10.3*	Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan
10.4*	Form of Restricted Stock Unit Award Agreement
10.5*	Form of Option Award Agreement
10.6	Warrant No. 3 to purchase 214,500 shares of Common Stock, dated August 25, 2010 (in replacement of Warrant No. 1 to purchase 214,500 shares of Common Stock, dated June 4, 2010)
10.7*	Warrant No. 2 to purchase 268,125 shares of Common Stock, dated June 4, 2010
10.8*	Employment Agreement, dated as of February 5, 2010, by and between Air Lease Corporation and Steven F. Udvar-Házy
10.9*	Amendment to Employment Agreement, dated as of August 11, 2010, by and between Air Lease Corporation and Steven F. Udvar-Házy
10.10*	Employment Agreement, dated as of March 29, 2010, by and between Air Lease Corporation and John L. Plueger
10.11*	Amendment to Employment Agreement, dated as of August 11, 2010, by and between Air Lease Corporation and John L. Plueger
10.12*	Form of Indemnification Agreement with directors and officers
10.13*	A320 Family Purchase Agreement, dated July 19, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.14*	A330-200 Purchase Agreement, dated September 2, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.15*	Purchase Agreement Number PA-03524, dated as of September 30, 2010, by and between Air Lease Corporation and The Boeing Company
10.16*	Purchase Agreement, dated October 5, 2010, by and between Air Lease Corporation and Embraer Empresa Brasileira de Aeronáutica S.A.
10.17*	Amended and Restated Deferred Bonus Plan
10.18*	Form of Grant Notice for Non-Employee Director Restricted Stock Units
10.19*	Amendment N° 1 to the A320 Family Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.

Exhibit No.	Description
10.20*	Amendment N° 2 to the A320 Family Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.21*	Amendment N° 1 to the A330-200 Purchase Agreement, dated December 1, 2010, by and between Air Lease Corporation and Airbus S.A.S.
10.22*	Amendment N° 2 to the A330-200 Purchase Agreement, dated January 6, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.23*	Amendment N° 3 to the A330-200 Purchase Agreement, dated January 14, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.24*	Amendment N° 4 to the A330-200 Purchase Agreement, dated February 11, 2011, by and between Air Lease Corporation and Airbus S.A.S.
10.25*	Amendment No. 1 to the Purchase Agreement COM0188-10, dated January 4, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.26*	Amendment No. 2 to the Purchase Agreement COM0188-10, dated February 11, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.27*	Aircraft Sale and Purchase Agreement, dated November 5, 2010, by and among Air Lease Corporation, the other purchasers listed in Schedule 1 thereto and the sellers listed in Schedule 1 thereto
10.28*	Amendment No. 4 to the Purchase Agreement COM0188-10, dated March 21, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.29*	Amendment No. 5 to the Purchase Agreement COM0188-10, dated March 21, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.30*	Amendment No. 3 to the Purchase Agreement COM0188-10, dated February 28, 2011, by and between Air Lease Corporation and Embraer S.A. (f/k/a Embraer Empresa Brasileira de Aeronáutica S.A.)
10.31*	First Amendment to Warehouse Loan Agreement, dated as of April 1, 2011, among ALC Warehouse Borrower, LLC, as Borrower, the Lenders from time to time party hereto, and Credit Suisse AG, New York Branch, as Agent
10.32	Supplemental Agreement No. 1 to Purchase Agreement Number PA-03524, dated as of June 30, 2011, by and between Air Lease Corporation and The Boeing Company
10.33	Purchase Agreement PA-03658, dated as of August 5, 2011, by and between Air Lease Corporation and The Boeing Company
21.1	List of Subsidiaries of Air Lease Corporation
23.1	Consent of KPMG LLP
23.2	Consent of Munger, Tolles & Olson LLP (included in Exhibit 5.1)
23.3	Consent of AVITAS, Inc.
24.1	Power of Attorney

* Incorporated by reference to the exhibit of the same number filed with the Registrant s Registration Statement on Form S-1 (File No. 333-171734) for our initial public offering.

** To be filed by amendment.

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 406 promulgated under the Securities Act of 1933, as amended.

Previously filed.