

AIR LEASE CORP
Form 10-Q
August 12, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT**

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 001-35121

AIR LEASE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

27-1840403

(I.R.S. Employer
Identification No.)

**2000 Avenue of the Stars, Suite 1000N
Los Angeles, California**

(Address of principal executive offices)

90067

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

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

Number of shares of common stock outstanding as of August 12, 2011:

Class A Common Stock, \$0.01 par value: 98,885,131 shares

Class B Non-Voting Common Stock, \$0.01 par value: 1,829,339 shares

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FORM 10-Q QUARTERLY REPORT
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****AIR LEASE CORPORATION AND SUBSIDIARIES**Consolidated Balance Sheets
(Unaudited)

<i>(in thousands, except share data)</i>	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 445,038	\$ 328,821
Restricted cash	68,862	48,676
Flight equipment subject to operating leases	2,876,962	1,649,071
Less accumulated depreciation	(62,036)	(19,262)
	2,814,926	1,629,809
Deposits on flight equipment purchases	319,102	183,367
Deferred debt issue costs less accumulated amortization of \$9,418 and \$4,754 as of June 30, 2011 and December 31, 2010, respectively	47,974	46,422
Deferred taxes	3,261	8,875
Other assets	54,336	30,312
Total assets	\$ 3,753,499	\$ 2,276,282
Liabilities and Shareholders Equity		
Accrued interest and other payables	\$ 28,986	\$ 22,054
Debt financing	1,383,570	911,981
Security deposits and maintenance reserves on flight equipment leases	199,390	109,274
Rentals received in advance	15,205	8,038
Total liabilities	1,627,151	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; authorized 500,000,000 shares; issued and outstanding 98,885,131 and 63,563,810 shares at June 30, 2011 and December 31, 2010, respectively	984	636
Class B Non-Voting Common Stock, \$0.01 par value; authorized 10,000,000 shares; issued and outstanding 1,829,339 shares	18	18
Paid-in capital	2,167,187	1,276,321
Accumulated deficit	(41,841)	(52,040)
Total shareholders equity	2,126,348	1,224,935

Total liabilities and shareholders equity	\$ 3,753,499	\$ 2,276,282
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See Notes to Consolidated Financial Statements

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AIR LEASE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	For the three months ended		For the six	For the period
	June 30,		months	from
	2011		ended	Inception to
	2010		June 30,	June 30,
<i>(in thousands, except share data)</i>	2011		2011	2010
Revenues				
Rental of flight equipment	\$ 74,004	\$ 1,235	\$ 128,616	\$ 1,235
Interest and other	340	474	943	474
Total revenues	74,344	1,709	129,559	1,709
Expenses				
Interest	10,090	1,838	19,150	1,838
Amortization of deferred debt issue costs	2,336	875	4,664	875
Extinguishment of debt	3,349		3,349	
Amortization of convertible debt discounts		35,798		35,798
Interest expense	15,775	38,511	27,163	38,511
Depreciation of flight equipment	24,644	327	42,774	327
Selling, general and administrative	11,284	5,759	21,149	6,236
Stock-based compensation	11,753	2,255	22,660	2,255
Total expenses	63,456	46,852	113,746	47,329
Income (loss) before taxes	10,888	(45,143)	15,813	(45,620)
Income tax (expense) benefit	(3,865)	4,002	(5,614)	4,002
Net income (loss)	\$ 7,023	\$ (41,141)	\$ 10,199	\$ (41,618)
Net income (loss) attributable to common shareholders per share				
Net income (loss)				
Basic	\$ 0.08	\$ (2.37)	\$ 0.13	\$ (4.17)
Diluted	\$ 0.08	\$ (2.37)	\$ 0.13	\$ (4.17)
Weighted-average shares outstanding				
Basic	91,039,329	17,394,121	78,287,085	9,981,375
Diluted	91,163,657	17,394,121	78,408,463	9,981,375

See Notes to Consolidated Financial Statements

Table of Contents**AIR LEASE CORPORATION AND SUBSIDIARIES**Consolidated Statement of Shareholders Equity
(Unaudited)

	Preferred Stock	Class A		Class B Non-Voting		Paid-in Capital	Accumulated Deficit	Total
		Common Stock	Common Stock	Common Stock	Common Stock			
<i>(in thousands, except share data)</i>	Shares	Shares	Amount	Shares	Amount			
Balance at December 31, 2010	\$ 63,563,810	\$ 636	1,829,339	\$ 18	\$ 1,276,321	\$ (52,040)	\$ 1,224,935	
Class A Common Stock issuance	34,825,470	348			868,206		868,554	
Issuance of restricted stock units, net		495,851						
Stock based compensation					22,660		22,660	
Net income						10,199	10,199	
Balance at June 30, 2011	\$ 98,885,131	\$ 984	1,829,339	\$ 18	\$ 2,167,187	\$ (41,841)	\$ 2,126,348	

See Notes to Consolidated Financial Statements

Table of Contents**AIR LEASE CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows
(Unaudited)

<i>(dollars in thousands)</i>	For the six months ended June 30, 2011	For the period from Inception to June 30, 2010
Operating Activities		
Net income (loss)	\$ 10,199	\$ (41,618)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
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
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Supplemental Disclosure of Noncash Activities

Deposits on flight equipment purchases applied to acquisition of flight equipment under operating leases	\$	33,408	\$ 250
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See Notes to Consolidated Financial Statements

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AIR LEASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

1. Company Background and Overview

Organization

Air Lease Corporation (the Company, ALC, we, our or us) was incorporated in the State of Delaware and licensed to 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, releasing, 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) 61,810,867 shares of Class A Common Stock, including up to 482,625 shares of Class A Common Stock issuable upon exercise of outstanding warrants and up to 1,829,339 shares of Class A Common Stock issuable upon conversion of outstanding Class B Non-Voting Common Stock, 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.

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Notes to Consolidated Financial Statements

(Unaudited)

3. Debt Financing

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

<i>(dollars in thousands)</i>	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:

<i>(dollars in thousands)</i>	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.

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Notes to Consolidated Financial Statements

(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.

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Notes to Consolidated Financial Statements

(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.

