

ANNUAL REPORT

AIR LEASE CORPORATION

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2014



Teamwork Throughout  
the Aircraft Life Cycle

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AIR LEASE CORPORATION IS A LEADING AIRCRAFT LEASING COMPANY BASED IN LOS ANGELES, CALIFORNIA. ALC AND ITS TEAM OF DEDICATED AND EXPERIENCED PROFESSIONALS ARE PRINCIPALLY ENGAGED IN PURCHASING NEW COMMERCIAL AIRCRAFT DELIVERING FROM ITS DIRECT ORDERS WITH BOEING, AIRBUS, EMBRAER, AND ATR, AND LEASING THEM TO ITS AIRLINE CUSTOMERS WORLDWIDE THROUGH CUSTOMIZED AIRCRAFT LEASING AND FINANCING SOLUTIONS. THE MISSION OF ALC IS TO WORK WITH THESE AIRLINES TO MODERNIZE AND GROW THEIR FLEETS, CONSULT WITH MANUFACTURERS AS THEY DEVELOP THE NEXT GENERATION OF FUEL-EFFICIENT AND ENVIRONMENTALLY FRIENDLY AIRCRAFT, AND CONTINUE TO EXPLORE STRATEGIC BUSINESS SOLUTIONS FOR OUR CLIENTS TO SUPPORT THEIR GROWTH AND SUCCESS. BEYOND LEASE EXPERTISE, ALC OFFERS ROUTE AND SCHEDULE ANALYSIS, FLEET OPTIMIZATION AND PLANNING, AIRCRAFT AND ENGINE PURCHASING CONSULTING, AIRCRAFT PROCUREMENT SERVICES, AIRCRAFT FINANCING SUPPORT, AIRCRAFT INVESTMENT ANALYSIS AND RECOMMENDATIONS, AND CAN ACT AS GLOBAL SERVICER AND MANAGER FOR AIRCRAFT LEASE PORTFOLIOS.



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**ORDER** → **MARKET** → **LEASE** → **BUILD** → **DELIVER** → **MAINTAIN** → **MANAGE** → **FINANCE**

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Our team members are the foundation for the strategic partnerships with our manufacturers, suppliers, and financiers that generate leading results. Our combined efforts impact every stage of the life cycle of an airplane relating to our leasing business. Throughout the pages of this annual report you will find a few of our own team members, illustrating the heart and talent behind ALC's collective success.



# Order



Anticipating the Needs  
of our Customers



As a leading customer of Boeing and Airbus, we control one of the largest order books in the aircraft leasing industry. Our pipeline of aircraft deliveries over the next decade ensures that we will have the most modern and in-demand narrowbody and widebody aircraft in our fleet. We help Boeing and Airbus shape aircraft design for the future of aviation. These insights along with regular consultation with our airline customers on their business objectives and route networks allow us to make informed decisions in constructing our fleet with aircraft that will have the broadest application in the market.





Pipeline of Growth  
Through 2023

419  
Aircraft on Order

(As of February 26, 2015 including orders subject to confirmation)





BRITISH AIRWAYS

2014 Global  
Airline Network

80  
Customers

47  
Countries



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# Market



Providing Solutions to  
a Global Customer Base

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Our Marketing team cultivates long-term customer relationships built on respect, trust, execution, responsiveness, creativity, and flexibility. After determining which fleet configuration will optimize an airline's operational requirements, we lease aircraft from our pipeline that are best suited to meet those requirements. Our team works collaboratively with our customers to anticipate their needs many years into the future. With the combination of favorable funding costs, volume pricing, and a strong balance sheet, ALC is able to deliver competitive lease terms to our airline customers.





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# Lease



## Documenting the Transaction

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An aircraft lease is not a short-term proposition, but rather a business agreement that lasts for many years. Our Legal team negotiates and documents the terms of the lease and works creatively to deliver lease provisions that support airline business objectives, while protecting ALC's long-term interests. We pride ourselves in being responsive to our customers' needs, and conducting ourselves with the highest ethical standards.





Aircraft Lease  
Agreements  
Signed in 2014

66  
Leases

25  
Customers





Aircraft Components  
Purchased in 2014

70+  
Vendors

64,000+  
Components





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# Build



Building the Aircraft  
of Tomorrow

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The Aircraft Procurement and Specification team turns a lease term sheet into a flying aircraft. In addition to the airframe purchase agreements with Boeing and Airbus, we negotiate master purchase agreements with numerous component manufacturers for engines, seats, galleys, and avionics. We work closely with our airline customers to determine the technical requirements for their aircraft, as well as their desired interior configuration. Our team orders all the various components and monitors the build and engineering behind each individually specified aircraft.





# Deliver



Connecting the Customer  
with the Aircraft



The Contracts team coordinates the related parties and documentation required to physically deliver ALC aircraft to our airline customers, ensuring compliance with each agreement written in the lease along the way. Our team confirms insurance, various registrations, tax compliance, and physical inspections of the aircraft. The documentation never stops, from the time the lease is signed until well beyond the delivery. We work tirelessly to make the delivery process seamless for our customers.





New Aircraft  
Delivered in 2014

36  
Aircraft

14  
Customers





Fleet Activity in 2014

600,000+  
Flight Hours

300,000+  
Flight Cycles





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# Maintain Protecting the Value of our Aircraft

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Every ALC aircraft lease is written as triple net, meaning that the airline is responsible for all taxes, insurance, and maintenance. Our Technical team monitors the utilization of each aircraft in our fleet and ensures the scheduled maintenance programs are properly performed in a timely fashion. The team facilitates our aircraft transitions at lease expiry, as well as sales of ALC aircraft to third parties. Our active approach in monitoring the maintenance condition of our fleet helps protect the value of our aircraft assets.



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# Manage



Leveraging our Expertise to  
Grow Management Services

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ALC has supplemented our core business model of purchasing, leasing, and selling aircraft by providing comprehensive management services to third party investors. By offering these services, we are able to better serve our airline customers who regularly ask us for additional leased aircraft beyond our current portfolio or available order pipeline, or where we are nearing ALC's established customer credit or regional risk limits. By charging a fee for these services, we are able to capitalize on incremental profitable lease transactions and leverage the broad capabilities of the existing ALC team.







2014 Financial  
Highlights

**\$11B**  
Total Assets

**\$1B**  
Revenue

**\$395M**  
Pretax Income

**38%**  
Pretax Margin





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# Finance



Building on our Strong  
Financial Profile

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From the outset, our financing strategy has been focused on building an investment grade credit profile. With our unsecured funding strategy primarily achieved by issuing long dated unsecured notes in the debt capital markets and supplemented with an unsecured bank revolver, we have a competitive advantage in the leasing market with increased operational flexibility. Our balance sheet has low leverage, targeting 2.5 to 1 debt to equity, and our fixed rate long-term debt exceeds 70% of our debt balance. This strategy has allowed ALC to achieve two investment grade corporate credit ratings to date, as we continue to strengthen our financial profile with each passing quarter.



Steven F. Udvar-Házy  
Chairman & Chief Executive Officer

John L. Plueger  
President & Chief Operating Officer



## To Our Fellow Shareholders

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By the time you read this, Air Lease Corporation will have celebrated its fifth anniversary and concluded another record year. ALC employees, officers, and members of the board of directors collectively own ten percent of the company. As significant stakeholders, we believe that consistently strong financial and operating results, quarter after quarter and year after year, is the right formula for building long-term shareholder value.

ALC concluded 2014 with its first year of over \$1 billion in revenues. Importantly, we continued to expand our profitability with an industry leading 38% pretax margin. Our team achieved these results with consistent portfolio yields from our leases, and simultaneously lengthened the tenor of our debt and maintained our cost of funding at 3.6%. We surpassed our long stated goal of having 70% of our outstanding debt at fixed rates and ended with a ratio of only 11% secured debt to total assets. These metrics were accomplished while staying below our targeted 2.5 to 1 debt to equity ratio. Our leading financial metrics have been well received by the capital and bank markets, which have consistently supported Air Lease Corporation's business objectives. We continue to run the Company with very conservative financial metrics that strengthen our financial profile with each passing quarter.

The International Air Transport Association (IATA) reports that global passenger traffic grew 5.9% during 2014, continuing a five year growth and profitability trend that underpins the continued need for new aircraft despite the presence of global volatility (geo-political, economic, fuel price, currency). To continue meeting these needs and to provide a steady, consistent growth platform well into the future, ALC became the launch customer for the Airbus A330neo as announced during the Farnborough Airshow in July 2014, and in January 2015 launched the Airbus A321neo 97 ton variant with longer range capabilities. These orders represent the conclusion of extensive work with the airframe manufacturer to help develop and design new products, which are key to the continued improvement in airline performance.

At the core of our business, we work closely with airlines to understand their operational needs and help develop their long-term fleet plans, and we monetize this work through lease placements from our orderbook. In so doing, our team has built a strong brand across our world-wide airline customer base. We've now built the aircraft leasing industry's largest order backlog of new aircraft purchased directly from aircraft manufacturers. We are confident this positions ALC as a leading distributor of the most modern aircraft for years to come.

As a global aircraft marketer, utilizing our well balanced leasing platform, ALC's owned and managed fleet expanded to include 80 airline customers in 47 countries during 2014. Placements remain strong and we've been able to generate consistent portfolio returns. Our owned fleet has remained very young at 3.5 years of age coupled with a very long portfolio lease term of 7.3 years remaining. These metrics speak to the fundamental difference in our business model, focusing on delivering new aircraft, which produces significantly better results than can be generated as a capital provider competing in the sale leaseback market. We compete with our orderbook of new aircraft, current fleet inventory, and the ability to provide fleet solutions in addition to our capital resources.

As we've previously communicated, we intend to hold aircraft in our fleet for about the first third of their 25 year useful lives. We witnessed strong demand from both established players and new capital sources looking to acquire quality used aircraft assets during the year and we acted on those opportunities. These sales are a natural part of our business that allows us to generate liquidity and keep the fleet young. Our conservative balance sheet and long-term lease agreements allow us to be selective in choosing when to hold and when to sell assets from our fleet, and we will continue to prudently harvest gains on sale as market conditions allow.

With our core business strong, we focused our attention on further building out our management business. This year we entered into a joint venture named Blackbird Capital I which will acquire up to \$2 billion in aircraft over the next two years. Our team will source and manage aircraft for the joint venture, as well as structure its financing. We are actively working with our airline customers to offer them incremental lease opportunities through the joint venture, allowing us to better serve their needs. The joint venture will also provide us with contingent capital that will further reduce our risk profile and generate management fees by leveraging the expertise of our existing team. We believe that this joint venture serves as a template for how we will build our management business in future years.

We have created a culture that fosters innovation with a unified objective to further strengthen and grow our business and shareholder value. We celebrate our fifth anniversary by saying thanks to our fabulous ALC team and world-class board of directors, as well as our investors, banks, and suppliers. We couldn't be more excited about the next five years.

Respectfully yours,



Steven F. Udvar-Házy  
Chairman & Chief Executive Officer



John L. Plueger  
President & Chief Operating Officer

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# Financial Review

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## Business

### OVERVIEW

Air Lease Corporation (the “Company”, “ALC”, “we”, “our” or “us”), is a leading aircraft leasing company that was founded by aircraft leasing industry pioneer, Steven F. Udvar-Házy. We are principally engaged in purchasing new commercial jet transport aircraft directly from aircraft manufacturers, such as The Boeing Company (“Boeing”) and Airbus S.A.S. (“Airbus”), and leasing those aircraft to airlines throughout the world. In addition to our leasing activities, we sell aircraft from our operating lease portfolio to third parties, including other leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee.

We currently have relationships with over 200 airlines across 70 countries. We operate our business on a global basis, providing aircraft to airline customers in every major geographical region, including markets such as Asia, the Pacific Rim, Latin America, the Middle East and Eastern Europe. Many of these markets are experiencing increased demand for passenger airline travel and have lower market saturation than more mature markets such as North America and Western Europe. We expect that these markets will also present significant replacement opportunities in upcoming years as some airlines in these markets look to replace aging aircraft with new, modern technology, fuel efficient jet aircraft. An important focus of our strategy is meeting the needs of this replacement market. Airlines in some of these markets have fewer financing alternatives, enabling us to command relatively higher lease rates compared to those in more mature markets.

We mitigate the risks of owning and leasing aircraft through careful management and diversification of our leases and lessees by geography, lease term, and aircraft age and type. We believe that diversification of our operating lease portfolio reduces the risks associated with individual lessee defaults and adverse geopolitical and regional economic events. We mitigate the risks associated with cyclical variations in the airline industry by managing customer concentrations and lease maturities in our operating lease portfolio to minimize periods of concentrated lease expirations. In order to maximize residual values and minimize the risk of obsolescence, our strategy is to own an aircraft during the first third of its expected 25 year useful life.

During the year ended December 31, 2014, we took delivery of 36 aircraft from our new order pipeline and we sold 16 aircraft, ending the year with a total of 213 aircraft. We leased the aircraft in our fleet to a globally diversified customer base comprised of 77 airlines in 46 countries. The weighted-average lease term remaining of our operating lease portfolio was 7.3 years and the weighted-average age of our fleet was 3.5 years as of December 31, 2014. In addition, we managed 17 jet aircraft for third parties as of December 31, 2014.

During 2014, we entered into definitive agreements with Airbus, Boeing and Avions de Transport Régional (“ATR”) to purchase 97 additional aircraft. From Airbus, we agreed to purchase 60 A321neo aircraft, two A321-200 aircraft and one A320-200 aircraft. From Boeing, we agreed to purchase six Boeing 777-300ER aircraft, one 737-800 aircraft and confirmed the purchase of 20 737-8/9 MAX aircraft which were previously subject to reconfirmation. From ATR, we agreed to purchase seven ATR 72-600 aircraft. Deliveries of the aircraft are scheduled to commence in 2015 and continue through 2023. As of December 31, 2014, we had, in the aggregate, 364 aircraft on order with Boeing, Airbus and ATR for delivery through 2023, with an estimated aggregate purchase price of \$28.8 billion, making us one of the largest customers of Boeing and Airbus.

We were the first launch customer for the Airbus A330neo aircraft and A321LR aircraft. In July 2014, we entered into a non-binding memorandum of understanding with Airbus to purchase 25 A330neo aircraft. In January 2015, we entered into a non-binding memorandum of understanding with Airbus to purchase 30 A321LR aircraft. Deliveries of the aircraft are scheduled to commence in 2018 and continue through 2023.

As of December 31, 2014, all of our 213 aircraft were leased. Our airline customers were obligated to make \$7.5 billion in minimum future rental payments over the non-cancellable lease term. In addition, we have signed lease agreements for 99 aircraft that we ordered from the manufacturers for delivery through 2023. Under these lease agreements our airline customers are contractually obligated to make \$9.0 billion in minimum future rental payments over the non-cancellable lease term. In the aggregate, between aircraft we own in our operating lease portfolio and those that we have leased from our orderbook, our customers are contractually obligated to make \$16.5 billion in minimum future rental payments.

We finance the purchase of aircraft and our business with available cash balances, internally generated funds, including aircraft sales and trading activities, and debt financings. Our debt financing strategy is focused on raising unsecured debt in the global bank and capital markets, with a limited utilization of export credit or secured financing. We ended 2014 with total debt outstanding of \$6.7 billion, of which 75.2% was at a fixed rate and 82.3% of which was unsecured, with a composite cost of funds of 3.64%.

In 2014, we had total revenues of \$1.1 billion, representing an increase of \$191.8 million or 22.3% compared to 2013. This is comprised of rental revenues on our operating lease portfolio of \$991.2 million and aircraft sales, trading and other revenue of \$59.3 million. We recorded earnings before income taxes of \$394.8 million in 2014, an increase of \$101.3 million or 34.5% compared to 2013, for a pretax profit margin of 37.6%. Our operating performance is principally driven by the growth of our fleet, the terms of our leases and the interest rates on our indebtedness, supplemented by the gains of our aircraft sales and trading activities and management fees.

## OPERATIONS TO DATE

### Current Fleet

As of December 31, 2014, we owned 213 aircraft, comprised of 163 single-aisle narrowbody jet aircraft, 32 twin-aisle widebody jet aircraft and 18 turboprop aircraft, with a weighted-average age of 3.5 years. As of December 31, 2013, we owned 193 aircraft, comprised of 146 single-aisle narrowbody jet aircraft, 31 twin-aisle widebody jet aircraft and 16 turboprop aircraft, with a weighted-average age of 3.7 years. In addition, we also managed 17 jet aircraft for third party owners on a fee basis as of December 31, 2014.

### Geographic Diversification

Over 95% of our aircraft are operated internationally. The following table sets forth the dollar amount and percentage of our rental of flight equipment revenues attributable to the respective geographical regions based on each airline's principal place of business:

Region	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
Asia	\$409,014	41.3%	\$299,472	35.8%	\$204,675	31.7%
Europe	337,349	34.0%	300,761	36.0%	253,376	39.2%
Central America, South America and Mexico	111,583	11.3%	107,857	12.9%	84,341	13.1%
The Middle East and Africa	47,958	4.9%	55,624	6.6%	39,398	6.1%
Pacific, Australia, New Zealand	30,330	3.1%	15,436	1.8%	10,862	1.7%
U.S. and Canada	55,007	5.4%	57,366	6.9%	53,201	8.2%
<b>Total</b>	<b>\$991,241</b>	<b>100.0%</b>	<b>\$836,516</b>	<b>100.0%</b>	<b>\$645,853</b>	<b>100.0%</b>



The following table sets forth the regional concentration of our owned aircraft portfolio based on net book value as of December 31, 2014 and 2013:

Region	December 31, 2014		December 31, 2013	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Asia	\$3,838,523	42.9%	\$3,165,367	41.6%
Europe	2,953,232	33.0%	2,656,816	34.9%
Central America, South America and Mexico	778,991	8.7%	829,930	10.9%
The Middle East and Africa	498,896	5.6%	372,618	4.9%
Pacific, Australia, New Zealand	471,630	5.2%	151,751	2.0%
U.S. and Canada	412,532	4.6%	436,653	5.7%
Total	\$8,953,804	100.0%	\$7,613,135	100.0%

At December 31, 2014, 2013 and 2012, we owned and managed leased aircraft to customers in the following regions:

Region	December 31, 2014		December 31, 2013		December 31, 2012	
	Number of Customers <sup>(1)</sup>	% of Total	Number of Customers <sup>(1)</sup>	% of Total	Number of Customers <sup>(1)</sup>	% of Total
Asia	29	36.3%	29	36.7%	26	37.7%
Europe	24	30.0%	21	26.6%	17	24.6%
Central America, South America and Mexico	10	12.5%	12	15.2%	9	13.0%
The Middle East and Africa	7	8.8%	7	8.9%	8	11.6%
Pacific, Australia, New Zealand	2	2.4%	2	2.5%	2	3.0%
U.S. and Canada	8	10.0%	8	10.1%	7	10.1%
Total	80	100.0%	79	100.0%	69	100.0%

<sup>(1)</sup> A customer is an airline with its own operating certificate.

In 2014, rental of flight equipment revenue attributable to China was \$218.6 million or 22.1%, and represented our only country concentration in excess of 10%. In 2013, rental of flight equipment revenue attributable to China was \$129.8 million or 15.5%, and represented our only country concentration in excess of 10%. In 2012, three countries represented at least 10% of our rental revenue. Rental of flight equipment revenue attributable to China, Italy and France was \$75.5 million or 11.7%, \$71.0 million or 11.0% and \$67.4 million or 10.4%, respectively.

In 2014 and 2013, no individual airline represented at least 10% of our rental of flight equipment revenue. In 2012, one airline represented at least 10% of our rental of flight equipment revenue. For the year ended December 31, 2012, Alitalia attributed for \$71.0 million of 11.0% of our rental flight equipment revenue.

#### AIRCRAFT ACQUISITION STRATEGY

We seek to acquire the most highly in demand and widely distributed, modern technology, fuel efficient narrowbody and widebody commercial jet transport aircraft. Our strategy is to order new aircraft directly from the manufacturers. When placing new aircraft orders with the manufacturers, we strategically target the replacement of aging aircraft with modern technology aircraft. Additionally, we look to supplement our order pipeline with opportunistic purchases of aircraft in the secondary market and participate in sale-leaseback transactions with airlines.

Prior to ordering aircraft, we evaluate the market for specific types of aircraft. We consider the overall demand for the aircraft in the marketplace based on our deep knowledge of the aviation industry and our customer relationships. It is important to assess the airplane's economic viability, the operating performance characteristics, engine variant options, intended utilization by our customers, and which aircraft types it will replace or compete with in the global market. Additionally, we study the effects of global airline passenger traffic growth in order to determine the likely demand for our new aircraft.

For new aircraft deliveries, we source many components separately, which include seats, safety equipment, avionics, galleys, cabin finishes, engines and other equipment. Often times we are able to achieve lower pricing through direct bulk purchase contracts with the component manufacturers than would be achievable if the airframe manufacturers sourced the components for the airplane. Manufacturers such as Boeing and Airbus install this buyer furnished equipment in our aircraft during the final assembly process at their facilities. With this purchasing strategy, we are able to meet specific customer configuration requirements and lower the total acquisition cost of the aircraft.

#### **AIRCRAFT LEASING STRATEGY**

The airline industry is a complex industry with constantly evolving competition, code shares (where two or more airlines share the same flight), alliances and passenger traffic patterns. This requires frequent updating and flexibility within an airline's fleet. The operating lease allows airlines to effectively adapt and manage their fleets through varying market conditions without bearing the full financial risk associated with these capital intensive assets which have an expected 25 year useful life. This fleet flexibility enables airlines to more effectively operate and compete in their respective markets. We work closely with our airline customers throughout the world to help optimize their long-term aircraft fleet strategies.

We work to mitigate the risks of owning and leasing aircraft through careful management of our fleet, including managing customer concentrations by geography and region, staggering lease maturities, balancing aircraft type exposures, and maintaining a young fleet age. We believe that diversification of our operating lease portfolio reduces the risks associated with individual customer defaults and the impact of adverse geopolitical and regional economic events. We work to mitigate the risks associated with cyclical variations in the airline industry by entering into long-term leases and staggering our lease maturities. In order to maximize residual values and minimize the risk of obsolescence, our strategy is generally to own an aircraft for approximately the first third of its expected 25 year useful life.

Our management team identifies prospective airline customers based upon industry knowledge and long-standing relationships. Prior to leasing an aircraft, we evaluate the competitive positioning of the airline, the strength and quality of the management team, and the financial performance of the airline. Management obtains and reviews relevant business materials from all prospective customers before entering into a lease agreement. Under certain circumstances, the customer may be required to obtain guarantees or other financial support from a financial institution. We work closely with our existing customers and potential lessees to develop customized lease structures that address their specific needs. We typically enter into a lease agreement 18 to 36 months in advance of the delivery of a new aircraft from our order pipeline. Once the aircraft has been delivered and operated by the airline, we look to remarket the aircraft and sign a follow-on lease six to 12 months ahead of the scheduled expiry of the initial lease term. Our leases typically contain the following key provisions:

- our leases are primarily structured as operating leases, whereby we retain the residual rights to the aircraft;
- our leases are triple net leases, whereby the lessee is responsible for all operating costs including taxes, insurance, and aircraft maintenance;
- our leases typically require all payments be made in U.S. dollars;
- our leases are typically for fixed rates and terms;
- our leases typically require cash security deposits and maintenance reserve payments; and
- our leases contain provisions which require payment whether or not the aircraft is operated, irrespective of the circumstances.

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

Some foreign countries have currency and exchange laws regulating the international transfer of currencies. When necessary, we may require, as a condition to any foreign transaction, that the lessee or purchaser in a foreign country obtain the necessary approvals of the appropriate government agency, finance ministry or central bank for the remittance of all funds contractually owed in U.S. dollars. We attempt to minimize our currency and exchange risks by negotiating the designated payment currency in our leases to be U.S. dollars. To meet the needs of certain of our airline customers, we have agreed to accept certain of our lease payments in a foreign currency. After we agree to the rental payment currency with an airline, the negotiated currency typically remains for the term of the lease. We may enter into contracts to mitigate our foreign currency risk, but we expect that the economic risk arising from foreign currency denominated leases will be insignificant to us.

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

### **Monitoring**

During the lease term, we closely follow the operating and financial performance of our lessees. We maintain a high level of communication with the lessee and frequently evaluate the state of the market in which the lessee operates, including the impact of changes in passenger air travel and preferences, emerging competition, new government regulations, regional catastrophes and other unforeseen shocks that are relevant to the airline's market. This enables us to identify lessees that may be experiencing operating and financial difficulties. This identification assists us in assessing the lessee's ability to fulfill its obligations under the lease. This monitoring also identifies candidates, where appropriate, to restructure the lease prior to the lessee's insolvency or the initiation of bankruptcy or similar proceedings. Once an insolvency or bankruptcy occurs we typically have less control over, and would most likely incur greater costs in connection with, the restructuring of the lease or the repossession of the aircraft.

During the life of the lease, situations may lead us to restructure leases with our lessees. When we repossess an aircraft leased in a foreign country, we generally expect to export the aircraft from the lessee's jurisdiction. In some very limited situations, the lessees may not fully cooperate in returning the aircraft. In those cases, we will take legal action in the appropriate jurisdictions, a process that could ultimately delay the return and export of the aircraft. In addition, in connection with the repossession of an aircraft, we may be required to pay outstanding mechanics' liens, airport charges, and navigation fees and other amounts secured by liens on the repossessed aircraft. These charges could relate to other aircraft that we do not own but were operated by the lessee.

### **Remarketing**

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

## **AIRCRAFT SALES & TRADING STRATEGY**

Our strategy is to maintain a portfolio of young aircraft with a widely diversified customer base. In order to achieve this profile, we primarily order new planes directly from the manufacturers, place them on long-term leases, and sell the aircraft when they near the end of the first third of their expected 25 year economic useful lives. We typically sell aircraft that are currently operated by an airline with multiple years of lease term remaining on the contract, in order to achieve the maximum disposition value of the aircraft. Buyers of the aircraft may include leasing companies, financial institutions and airlines. We also buy and sell aircraft on an opportunistic basis for trading profits. Additionally, we may provide management services of the aircraft asset to the buyer for a fee.

## **AIRCRAFT MANAGEMENT STRATEGY**

We supplement our core business model by providing fleet management services to third party investors and owners of aircraft portfolios for a management fee. This allows us to better serve our airline customers and expand our existing airline customer base by providing additional leasing opportunities beyond our own aircraft portfolio, new order pipeline and customer or regional concentration limits.

## **FINANCING STRATEGY**

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

## **INSURANCE**

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

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

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

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

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

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

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

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

## **COMPETITION**

The leasing, remarketing and sale of aircraft is highly competitive. We face competition from aircraft manufacturers, banks, financial institutions, other leasing companies, aircraft brokers and airlines. Some of our competitors may have greater operating and financial resources and access to lower capital costs than we have. Competition for leasing transactions is based on a number of factors, including delivery dates, lease rates, lease terms, other lease provisions, aircraft condition and the availability in the marketplace of the types of aircraft required to meet the needs of airline customers. Competition in the purchase and sale of used aircraft is based principally on the availability of used aircraft, price, the terms of the lease to which an aircraft is subject and the creditworthiness of the lessee, if any.

## **GOVERNMENT REGULATION**

The air transportation industry is highly regulated. We do not operate commercial aircraft, and thus may not be directly subject to many industry laws and regulations, such as regulations of the U.S. Department of State (the “DOS”), the U.S. Department of Transportation, or their counterpart organizations in foreign countries regarding the operation of aircraft for public transportation of passengers and property. As discussed below, however, we are subject to government regulation in a number of respects. In addition, our lessees are subject to extensive regulation under the laws of the jurisdictions in which they are registered or operate. These laws govern, among other things, the registration, operation, maintenance and condition of the aircraft.

We are required to register our aircraft with an aviation authority mutually agreed upon with our lessee. Each aircraft registered to fly must have a Certificate of Airworthiness, which is a certificate demonstrating the aircraft’s compliance with applicable government rules and regulations and that the aircraft is considered airworthy. Each airline we lease to must have a valid operation certificate to operate our aircraft. Our lessees are obligated to maintain the Certificates of Airworthiness for the aircraft they lease.

Our involvement with the civil aviation authorities of foreign jurisdictions consists largely of requests to register and deregister our aircraft on those countries’ registries.

We are also subject to the regulatory authority of the DOS and the U.S. Department of Commerce (the “DOC”) to the extent such authority relates to the export of aircraft for lease and sale to foreign entities and the export of parts to be installed on our aircraft. We may be required to obtain export licenses for parts installed in aircraft exported to foreign countries. The DOC and the U.S. Department of the Treasury (through its Office of Foreign Assets Control) impose restrictions on the operation of U.S.-made goods, such as aircraft and engines, in sanctioned countries, as well as on the ability of U.S. companies to conduct business with entities in those countries. The U.S. Patriot Act of 2001 (the “Patriot Act”) prohibits financial transactions by U.S. persons, including U.S. individuals, entities and charitable organizations, with individuals and organizations designated as terrorists and terrorist supporters by the U.S. Secretary of State or the U.S. Secretary of the Treasury. The U.S. Customs and Border Protection, a law enforcement agency of the U.S. Department of Homeland Security, enforces regulations related to the import of aircraft into the United States for maintenance or lease and the importation of parts into the U.S. for installation.

Jurisdictions in which aircraft are registered as well as jurisdictions in which they operate may impose regulations relating to noise and emission standards. In addition, most countries’ aviation laws require aircraft to be maintained under an approved maintenance program with defined procedures and intervals for inspection, maintenance and repair. To the extent that aircraft are not subject to a lease or a lessee is not in compliance, we are required to comply with such requirements, possibly at our own expense.

## **EMPLOYEES**

As of December 31, 2014, we had 65 full-time employees. On average, our senior management team has approximately 24 years of experience in the commercial aviation industry. None of our employees are represented by a union or collective bargaining agreements.

## **ACCESS TO OUR INFORMATION**

We file annual, quarterly, current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). We make our public SEC filings available, at no cost, through our website at [www.airleasecorp.com](http://www.airleasecorp.com) as soon as reasonably practicable after the report is electronically filed with, or furnished to, the SEC. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the SEC. We will also provide these reports in electronic or paper format free of charge upon written request made to Investor Relations at 2000 Avenue of the Stars, Suite 1000N, Los Angeles, California 90067. Our SEC filings are also available free of charge on the SEC’s website at [www.sec.gov](http://www.sec.gov). The public may also read and copy any document we file with the SEC at the SEC’s public reference room located at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

## **CORPORATE INFORMATION**

Air Lease Corporation incorporated in Delaware and launched in February 2010. Our website is [www.airleasecorp.com](http://www.airleasecorp.com). We may post information that is important to investors on our website. Information included or referred to on, or otherwise accessible through, our website is not intended to form a part of or be incorporated by reference into this report.

## Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### MARKET INFORMATION

Our Class A common stock has been quoted on the New York Stock Exchange (the "NYSE") under the symbol "AL" since April 19, 2011. Prior to that time, there was no public market for our stock. As of December 31, 2014, there were 102,392,208 shares of Class A common stock outstanding held by approximately 196 holders of record.

On February 25, 2015 the closing price of our Class A common stock was \$38.76 per share as reported by the NYSE. The table below sets forth for the indicated periods the high and low sales prices for our Class A common stock as reported on the NYSE.

Fiscal Year 2014 Quarters Ended:	High	Low
March 31, 2014	\$37.69	\$30.27
June 30, 2014	\$42.44	\$34.68
September 30, 2014	\$38.88	\$32.50
December 31, 2014	\$38.74	\$31.06

Fiscal Year 2013 Quarters Ended:	High	Low
March 31, 2013	\$29.36	\$21.89
June 30, 2013	\$30.58	\$26.18
September 30, 2013	\$28.67	\$25.80
December 31, 2013	\$33.29	\$27.73

### DIVIDENDS

In February 2013, our Board of Directors adopted a cash dividend policy pursuant to which we intended to pay quarterly cash dividends of \$0.025 per share on our outstanding common stock. In November 2013, we raised our quarterly cash dividend by 20% to \$0.03 per share on our outstanding common stock. In November 2014, we raised our quarterly cash dividend by 33% to \$0.04 per share on our outstanding common stock. There were no dividends declared or paid during 2012 or 2011.

While the Board of Directors paid a quarterly cash dividend in 2014 and currently expects to continue paying a quarterly cash dividend of \$0.04 per share for the foreseeable future, the cash dividend policy can be changed at any time at the discretion of the Board of Directors.

### STOCK AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Set forth below is certain information about the Class A common stock authorized for issuance under the Company's equity compensation plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,580,283	\$20.34	6,648,524
Equity compensation plans not approved by security holders	—	—	—
Total	3,580,283	\$20.34	6,648,524



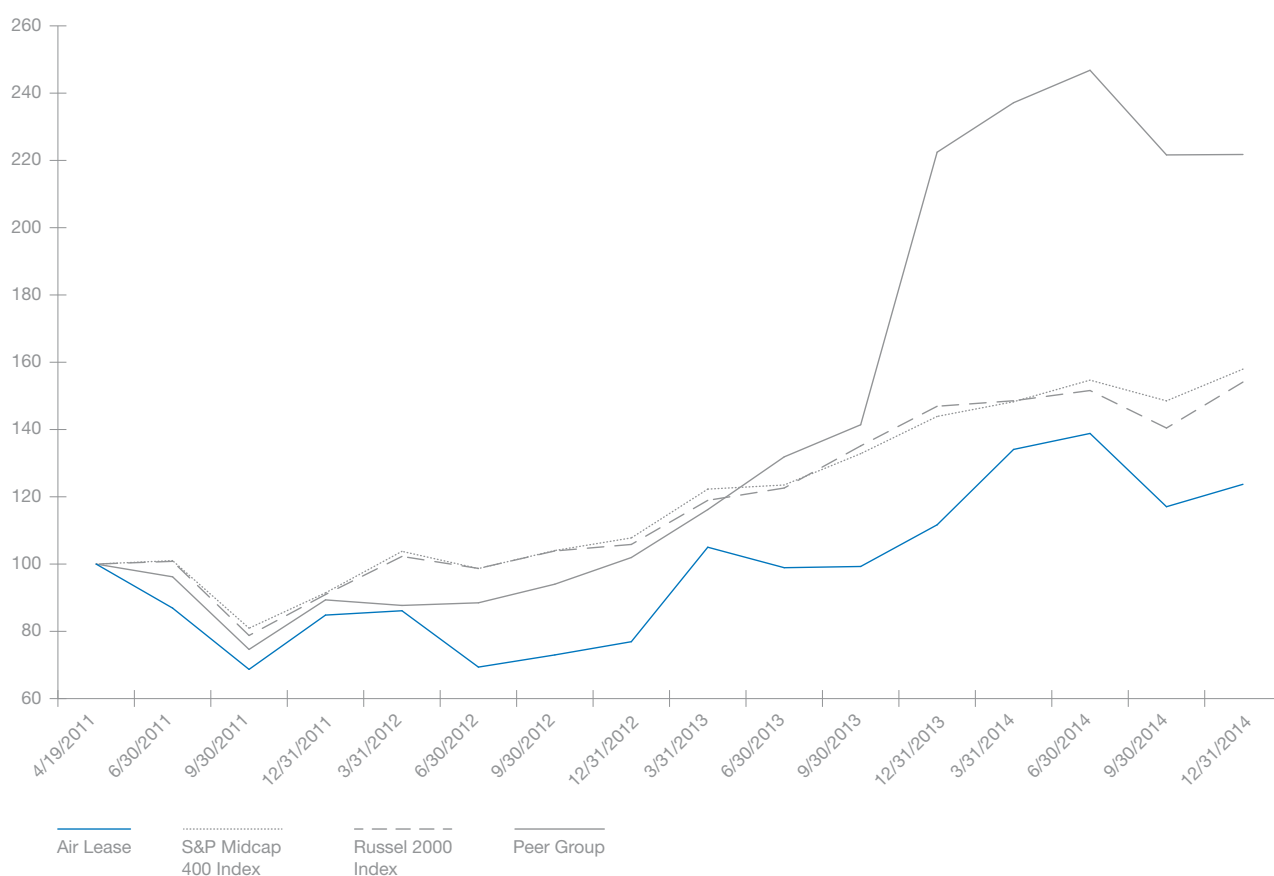
## PERFORMANCE GRAPH

The graph below compares the cumulative return since April 19, 2011 of the Company's Class A common stock, the S&P Midcap 400 Index, the Russell 2000 Index and a customized peer group. The peer group consists of three companies: Airastle Limited (NYSE: AYR), AerCap Holdings NV (NYSE: AER) and FLY Leasing Limited (NYSE: FLY). The peer group investment is weighted by market capitalization as of April 19, 2011, and is adjusted monthly. An investment of \$100, with reinvestment of all dividends, is assumed to have been made in our Class A common stock, in the peer group and in the S&P Midcap 400 Index and in the Russell 2000 Index on April 19, 2011, and the relative performance of each is tracked through December 31, 2014. The stock price performance shown in the graph is not necessarily indicative of future stock price performance.

### Comparison of 44 Month Cumulative Total Return

Assumes Initial Investment of \$100

December 31, 2014



## COMPANY PURCHASES OF STOCK

The Company did not purchase any shares of its Class A common stock during 2014.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## OVERVIEW

Air Lease Corporation is a leading aircraft leasing company that was founded by aircraft leasing industry pioneer, Steven F. Udvar-Házy. We are principally engaged in purchasing new commercial jet transport aircraft directly from aircraft manufacturers, such as Boeing and Airbus, and leasing those aircraft to airlines throughout the world. In addition to our leasing activities, we sell aircraft from our operating lease portfolio to third parties, including other leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee. Our operating performance is driven by the growth of our fleet, the terms of our leases, the interest rates on our indebtedness and the terms of our aircraft sales and trading activities.

We ended 2014 with 213 aircraft in our operating lease portfolio and an additional 364 aircraft on order with Boeing, Airbus and ATR. Our operating lease portfolio of 213 aircraft as of December 31, 2014, is comprised of 163 single-aisle narrowbody jet aircraft, 32 twin-aisle widebody jet aircraft and 18 turboprop aircraft, with a weighted-average age of 3.5 years. We ended 2013 with 193 aircraft, comprised of 146 single-aisle jet aircraft, 31 twin-aisle widebody aircraft and 16 turboprop aircraft, with a weighted-average age of 3.7 years. Our fleet grew by 17.6% based on net book value to \$9.0 billion as of December 31, 2014 compared to \$7.6 billion as of December 31, 2013.

We increased our rental revenue by 18.5% or \$154.7 million to \$991.2 million for the year ended December 31, 2014, compared to \$836.5 million for the year ended December 31, 2013. The increase in rental revenue was primarily due to the delivery of 36 additional aircraft, all of which were leased at the time of delivery, partially offset by the sale of 16 aircraft from our operating lease portfolio. Due to the timing of aircraft deliveries and sales, the impact on rental revenue will be reflected in subsequent periods.

We recorded earnings before income taxes of \$394.8 million for the year ended December 31, 2014 compared to \$293.4 million for the year ended December 31, 2013, an increase of \$101.3 million or 34.5%. Our profitability increased year over year as our pretax profit margin increased to 37.6% for the year ended December 31, 2014, compared to 34.2% for the year ended December 31, 2013. Our earnings per share also increased, as we recorded diluted earnings per share of \$2.38 for the year ended December 31, 2014, compared to \$1.80 for the year ended December 31, 2013, an increase of 32.2%.

As of December 31, 2014, all of our 213 aircraft were leased. Our airline customers were obligated to pay us \$7.5 billion in minimum future rental payments over the non-cancellable lease term. In addition, we have signed lease agreements for 99 aircraft that we ordered from the manufacturers for delivery through 2023. Under these lease agreements our airline customers are contractually obligated to pay us \$9.0 billion in minimum future rental payments over the non-cancellable lease term. In the aggregate, between aircraft we own in our operating lease portfolio and those that we have leased from our orderbook, our customers are contractually obligated to pay us \$16.5 billion in minimum future rental payments.

During 2014, the Company entered into definitive agreements with Airbus, Boeing and ATR to purchase 97 additional aircraft. From Airbus, we agreed to purchase 60 A321neo aircraft, two A321-200 aircraft and one A320-200 aircraft. From Boeing, we agreed to purchase six Boeing 777-300ER aircraft, one 737-800 aircraft and confirmed the purchase of 20 737-8/9 MAX aircraft which were previously subject to reconfirmation. From ATR, we agreed to purchase seven ATR 72-600 aircraft. Deliveries of the aircraft are scheduled to commence in 2015 and continue through 2023.

We were the first launch customer for the Airbus A330neo aircraft and the A321LR aircraft. In July 2014, we entered into a non-binding memorandum of understanding with Airbus to purchase 25 A330neo aircraft. In January 2015, we entered into a non-binding memorandum of understanding with Airbus to purchase 30 A321LR aircraft. Deliveries of the aircraft are scheduled to commence in 2018 and continue through 2023.



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

Our financing plans remain focused on raising unsecured debt in the global bank and capital markets, reinvesting cash flow from operations and, to a limited extent, export credit financing. In March 2014, we issued \$500 million in aggregate principal amount of senior unsecured notes due 2021 that bear interest at a rate of 3.875%. In May 2014, we amended our unsecured revolving credit facility increasing the capacity by \$100.0 million to \$2.1 billion and extended the availability period to May 2018. In July 2014, we amended our 2010 Warehouse Facility reducing the capacity by \$250.0 million to \$750.0 million, extending the availability to June 2016 and reducing the interest rate by 0.25% to LIBOR plus 2.00%. In September 2014, we issued \$1.0 billion in aggregate principal amount of senior unsecured notes comprised of \$500.0 million in aggregate principal amount of senior unsecured notes due 2018 that bear interest at a rate of 2.125% and \$500.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.25%. We ended 2014 with total debt outstanding of \$6.7 billion, of which 75.2% was at a fixed rate and 82.3% was unsecured, with a composite cost of funds of 3.64%. Since the end of 2014, we issued \$600.0 million in aggregate principal amount of senior unsecured notes due 2022 that bear interest at a rate of 3.75%.

## OUR FLEET

We have continued to build one of the world’s youngest operating lease portfolios, comprised of the currently most fuel efficient commercial jet transport aircraft. During the year ended December 31, 2014, we took delivery of 36 aircraft from our new order pipeline and sold 16 aircraft, ending the year with a total of 213 aircraft. Our weighted-average fleet age and weighted-average remaining lease term as of December 31, 2014 were 3.5 years and 7.3 years, respectively. We also managed 17 aircraft as of December 31, 2014.

Portfolio metrics of our fleet as of December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
(dollars in thousands)		
Fleet size	213	193
Weighted-average fleet age <sup>(1)</sup>	3.5 years	3.7 years
Weighted-average remaining lease term <sup>(1)</sup>	7.3 years	7.1 years
Aggregate net book value	\$8,953,804	\$7,613,135

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

The following table sets forth the net book value and percentage of the net book value of our aircraft portfolio operating in the indicated regions as of December 31, 2014 and 2013:

Region	December 31, 2014		December 31, 2013	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Asia	\$3,838,523	42.9%	\$3,165,367	41.6%
Europe	2,953,232	33.0%	2,656,816	34.9%
Central America, South America and Mexico	778,991	8.7%	829,930	10.9%
The Middle East and Africa	498,896	5.6%	372,618	4.9%
Pacific, Australia, New Zealand	471,630	5.2%	151,751	2.0%
U.S. and Canada	412,532	4.6%	436,653	5.7%
Total	\$8,953,804	100.0%	\$7,613,135	100.0%

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

Aircraft Type	December 31, 2014		December 31, 2013	
	Number of Aircraft	% of Total	Number of Aircraft	% of Total
Airbus A319-100	5	2.3%	6	3.1%
Airbus A320-200	39	18.3%	42	21.8%
Airbus A321-200	20	9.4%	7	3.6%
Airbus A330-200	16	7.5%	16	8.3%
Airbus A330-300	5	2.3%	5	2.6%
Boeing 737-700	8	3.8%	10	5.2%
Boeing 737-800	61	28.6%	50	25.9%
Boeing 767-300ER	1	0.5%	3	1.6%
Boeing 777-200ER	1	0.5%	1	0.5%
Boeing 777-300ER	9	4.2%	6	3.1%
Embraer E175	7	3.3%	8	4.1%
Embraer E190	23	10.8%	23	11.9%
ATR 72-600	18	8.5%	16	8.3%
<b>Total</b>	<b>213</b>	<b>100.0%</b>	<b>193</b>	<b>100.0%</b>

As of December 31, 2014, we had contracted to buy 364 new aircraft for delivery through 2023, with an estimated aggregate purchase price (including adjustments for inflation) of \$28.8 billion, for delivery as follows:

Aircraft Type	2015	2016	2017	2018	2019	Thereafter	Total
Airbus A320/321-200 <sup>(1)</sup>	9	—	—	—	—	—	9
Airbus A320/321neo	—	3	12	17	21	57	110
Airbus A350-900/1000	—	—	—	1	2	22	25
Boeing 737-800	21	15	11	—	—	—	47
Boeing 737-8/9 MAX	—	—	—	8	18	78	104
Boeing 777-300ER	8	6	2	—	—	—	16
Boeing 787-9/10	—	3	1	7	8	26	45
ATR 72-600	2	5	1	—	—	—	8
<b>Total</b>	<b>40</b>	<b>32</b>	<b>27</b>	<b>33</b>	<b>49</b>	<b>183</b>	<b>364</b>

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

Our lease placements are progressing in line with expectations. As of December 31, 2014, we have entered into contracts for the lease of new aircraft scheduled to be delivered as follows:

Delivery Year	Number of Aircraft	Number Leased	% Leased
2015	40	40	100.0%
2016	32	25	78.1%
2017	27	15	55.6%
2018	33	12	36.4%
2019	49	5	10.2%
Thereafter	183	2	1.1%
<b>Total</b>	<b>364</b>	<b>99</b>	

## **AIRCRAFT INDUSTRY AND SOURCES OF REVENUES**

Our revenues are principally derived from operating leases with scheduled and charter airlines. In the last three years, we derived more than 95% of our revenues from airlines domiciled outside of the U.S., and we anticipate that most of our revenues in the future will be generated from foreign customers.

Demand for air travel has consistently grown in terms of both the passenger traffic and number of aircraft in service. According to the International Air Transport Association (“IATA”), global passenger traffic demand grew 5.9% in 2014 over the prior year. In 2013, global passenger traffic demand grew 5.2% compared to 2012, which was aligned with the annual growth rate over the past 30 years. The number of aircraft in service also has grown steadily. Additionally, the number of leased aircraft in the global fleet has increased. The long-term outlook for aircraft demand remains robust due to increased passenger traffic and the need to replace aging aircraft.

The success of the commercial airline industry is linked to the strength of global economic development, which may be negatively impacted by macroeconomic conditions, geopolitical and policy risks. While the airline industry is cyclical, the leasing industry has remained resilient over time. Despite airline business cycle downturns, demand for aircraft has trended upward consistently, and many aircraft are delivered during downturns.

From time to time, our airlines customers face financial difficulties. In January 2015, Skymark Airlines filed for civil rehabilitation proceedings in Japan (similar to U.S. Bankruptcy reorganization). Skymark Airlines operates two of our Boeing 737-800 aircraft and we expect the airline to continue to make payments to us during these proceedings.

Despite industry cyclical and economic stresses, we remain optimistic about the long-term growth prospects for air transportation. We see a growing demand for aircraft leasing in the broader industry and a role for us in helping airlines modernize their fleets to support the growth of the airline industry.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **OVERVIEW**

We finance the purchase of aircraft and our business with available cash balances, internally generated funds, including aircraft sales and trading activity, and debt financings. From our inception in 2010, we have structured the Company to be an investment grade company and our debt financing strategy has focused on funding our business on an unsecured basis. Unsecured financing provides us with operational flexibility when selling or transitioning aircraft from one airline to another. We may, to a limited extent, utilize export credit financing in support of our new aircraft deliveries.

In 2013, we received a corporate credit rating of A– from Kroll Bond Ratings, followed by a second investment grade corporate credit rating of BBB– from S&P. Our credit rating from Kroll Bond Ratings was reconfirmed in 2014. Our investment grade credit ratings further lowered our cost of funds and broadened our access to attractively priced capital. Our long-term debt financing strategy will be focused on continuing to raise unsecured debt in the global bank and capital markets.

During the year ended December 31, 2014, we incurred additional debt financing and capacity aggregating \$1.8 billion, which included \$1.5 billion in senior unsecured notes, the addition of \$100 million in capacity to our unsecured revolving credit facility which now totals \$2.1 billion, the reduction of \$250 million in capacity to our 2010 Warehouse Facility and additional debt facilities aggregating \$175.0 million. We ended 2014 with total debt outstanding of \$6.7 billion compared to \$5.9 billion in 2013. We ended 2014 with total unsecured debt outstanding of \$5.5 billion compared to \$4.3 billion in 2013, increasing our unsecured debt as a percentage of total debt to 82.3% as of December 31, 2014 compared to 73.4% as of December 31, 2013. Our fixed rate debt as a percentage of total debt increased to 75.2% as of December 31, 2014 from 61.9% as of December 31, 2013.



We increased our cash flows from operations by 17.5% or \$114.8 million to \$769.0 million in 2014 as compared to \$654.2 million in 2013. Our cash flows from operations increased primarily because of the lease of additional aircraft. Our cash used in investing activities decreased by 17.4% or \$380.2 million to \$1.8 billion in 2014 as compared to \$2.2 billion in 2013. Our cash used in investing activities decreased primarily because of the increase in our cash flows from aircraft sales, trading and other activities which increased by 517.8% or \$506.1 million to \$603.8 million in 2014 as compared to \$97.7 million in 2013. Our cash flows from financing activities decreased by 33.2% or \$522.5 million to \$1.0 billion in 2014 as compared to \$1.6 billion in 2013 primarily because of the increase in cash flows from aircraft sales, trading and other activities. Our cash flows from operations and aircraft sales, trading and other activities contributed significantly to our liquidity position.

We ended 2014 with available liquidity of \$2.1 billion which is comprised of unrestricted cash of \$282.8 million and undrawn balances under our warehouse facilities and unsecured revolving credit facilities of \$1.8 billion. We believe that we have sufficient liquidity to satisfy the operating requirements of our business through the next twelve months.

Our financing plan for 2015 is focused on funding the purchase of aircraft and our business with available cash balances, internally generated funds, including aircraft sales and trading activity, and debt financings. Our debt financing plan will remain focused on continuing to raise unsecured debt in the global bank and capital markets. In addition, we may utilize, to a limited extent, export credit financing in support of our new aircraft deliveries.

Our liquidity plans are subject to a number of risks and uncertainties, including those described in “Item 1A. Risk Factors” of this Annual Report on Form 10-K.

## DEBT

Our debt financing was comprised of the following at December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
(dollars in thousands)		
<b>UNSECURED</b>		
Senior notes	\$4,579,194	\$3,055,620
Revolving credit facilities	569,000	808,000
Term financings	196,146	247,722
Convertible senior notes	200,000	200,000
	5,544,340	4,311,342
<b>SECURED</b>		
Warehouse facilities	484,513	828,418
Term financings	636,411	654,369
Export credit financing	64,884	71,539
	1,185,808	1,554,326
Total secured and unsecured debt financing	6,730,148	5,865,668
Less: Debt discount	(15,786)	(12,351)
Total debt	\$6,714,362	\$5,853,317
<b>SELECTED INTEREST RATES AND RATIOS</b>		
Composite interest rate <sup>(1)</sup>	3.64%	3.60%
Composite interest rate on fixed rate debt <sup>(1)</sup>	4.22%	4.56%
Percentage of total debt at fixed rate	75.20%	61.90%

<sup>(1)</sup> This rate does not include the effect of upfront fees, undrawn fees or issuance cost amortization.

### Senior unsecured notes

During the year ended December 31, 2014, the Company issued \$1.5 billion in aggregate principal amount of senior unsecured notes.

As of December 31, 2014, the Company had \$4.6 billion in senior unsecured notes outstanding with remaining terms ranging from one to 10 years and bearing interest at fixed rates ranging from 2.125% to 7.375%. As of December 31, 2013, the Company had \$3.1 billion in senior unsecured notes outstanding with remaining terms ranging from two to six years and bearing interest at fixed rates ranging from 3.375% to 7.375%. Since the end of 2014, we issued \$600.0 million in aggregate principal amount of senior unsecured notes due 2022 that bear interest at a rate of 3.75%.

### Registered senior unsecured notes issued prior to November 2013

Our 5.625% unsecured notes due 2017, of which \$1.1 billion in aggregate principal amount was outstanding as of December 31, 2014 and which are governed by an indenture, dated as of March 16, 2012, as amended and supplemented, between us and Deutsche Bank Trust Company Americas, as trustee (the "5.625% indenture"), our 4.500% unsecured notes due 2016, of which \$500.0 million in aggregate principal amount was outstanding as of December 31, 2014 and which are governed by an indenture, dated as of September 26, 2012, as amended and supplemented, between us and Deutsche Bank Trust Company Americas, as trustee (the "4.500% indenture") and our 4.750% unsecured notes due 2020, of which \$400.0 million in aggregate principal amount was outstanding as of December 31, 2014 and which are governed by an indenture, dated as of October 11, 2012, as amended and supplemented, between us and Deutsche Bank Trust Company Americas, as trustee (the "4.750% indenture" and, together with the 5.625% indenture and the 4.500% indenture, the "2012 indentures"), are registered with the SEC. All of these notes may be redeemed in part or in full at any time and from time to time prior to maturity at specified redemption prices. All of these notes also require us to purchase all or a portion of the notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest if a change of control repurchase event (as defined in the applicable indenture) occurs.

The 2012 indentures contain financial maintenance covenants relating to our consolidated net worth, consolidated unencumbered assets and interest coverage. In addition, the indenture as it relates to these notes contains covenants that, among other things, (i) limit our ability and the ability of our subsidiaries to pay dividends on or purchase certain equity interests, prepay subordinated obligations, alter their lines of business and engage in affiliate transactions; (ii) limit the ability of our subsidiaries to incur unsecured indebtedness; and (iii) limit our ability and the ability of each note guarantor subsidiary, if any, to consolidate, merge or sell all or substantially all of its assets. As of December 31, 2014, management believes that we were in compliance with all covenants contained in the 2012 indentures in all material respects. These covenants are subject to a number of important exceptions and qualifications set forth in the applicable indenture, including the limitation on the payment of dividends on or purchases of certain equity interests and prepayments of subordinated indebtedness at such time as the notes are rated investment grade (as defined in the applicable indenture).

These notes were not guaranteed by any of our subsidiaries on the date the notes were issued or as of December 31, 2014 or as of the date of this report. However, the notes will be required to be guaranteed on a senior unsecured basis by any of our existing and future direct and indirect subsidiaries that guarantee certain of our indebtedness. The note guarantees, if any, would be the senior unsecured obligations of our subsidiaries that guarantee the notes.

The 2012 indentures also provide for customary events of default including, but not limited to, the failure to pay scheduled principal and interest payments on the notes, the failure to comply with covenants and agreements specified in the indenture, the acceleration of certain other indebtedness resulting from non-payment of that indebtedness and certain events of insolvency. If any event of default occurs, any amount then outstanding under the relevant indentures may immediately become due and payable. These events of default are subject to a number of important exceptions and qualifications set forth in the 2012 indentures.

### **Registered senior unsecured notes issued during or subsequent to November 2013**

All of our unsecured notes that were issued during or subsequent to November 2013, of which \$2.2 billion in aggregate principal amount was outstanding as of December 31, 2014, have been registered with the SEC. Such notes are governed by an indenture, dated as of October 11, 2012, as amended and supplemented, between us and Deutsche Bank Trust Company Americas, as trustee (the “shelf registration statement indenture”). All such notes may be redeemed in part or in full at any time and from time to time prior to maturity at specified redemption prices. All such notes also require us to purchase all or a portion of the notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest if a change of control repurchase event (as defined in the applicable supplemental indenture) occurs. None of our subsidiaries will guarantee or otherwise be obligated to pay any of our obligations under these notes.

The shelf registration statement indenture requires us to comply with certain covenants, including restrictions on our ability to (i) incur liens on assets and (ii) merge, consolidate or transfer substantially all of our assets. As of December 31, 2014, management believes that we were in compliance with all covenants contained in the shelf registration statement indenture in all material respects. The shelf registration statement indenture also provides for customary events of default including, but not limited to, the failure to pay scheduled principal and interest payments on the notes, the failure to comply with covenants and agreements specified in the indenture, the acceleration of certain other indebtedness resulting from non-payment of that indebtedness and certain events of insolvency. If any event of default occurs, any amount then outstanding under the relevant indentures may immediately become due and payable. These covenants and events of default are subject to a number of important exceptions and qualifications set forth in the shelf registration statement indenture.

### **Unregistered senior unsecured notes**

Our 5.000% unsecured notes due 2016, 7.375% unsecured notes due 2019, 3.64% unsecured notes due 2016 and 4.49% unsecured notes due 2019 of which, in the aggregate, \$325.0 million was outstanding as of December 31, 2014, are governed by various purchase agreements. These notes are not registered with the SEC. All such notes may be redeemed in part or in full at any time and from time to time prior to maturity at specified redemption prices. All such notes also require us to purchase all of the notes at a purchase price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest if a change of control (as defined in the applicable purchase agreement) occurs.

These purchase agreements contain financial maintenance covenants relating to our consolidated net worth, consolidated unencumbered assets, interest coverage and consolidated leverage ratio. In addition, the purchase agreements as they relate to these notes contain covenants that, among other things, (i) limit our ability and the ability of our subsidiaries to pay dividends on or purchase certain equity interests, prepay subordinated obligations, alter their lines of business and engage in affiliate transactions; (ii) limit the ability of our subsidiaries to incur unsecured indebtedness; and (iii) limit our ability and the ability of each note guarantor subsidiary, if any, to consolidate, merge or sell all or substantially all of its assets. As of December 31, 2014, management believes that we were in compliance with all covenants contained in these note purchase agreements in all material respects. These covenants are subject to a number of important exceptions and qualifications set forth in the applicable purchase agreement, including the limitation on the payment of dividends on, or purchases of, certain equity interests and prepayments of subordinated indebtedness at such time as the notes are rated investment grade (as defined in the applicable purchase agreement).

These notes were not guaranteed by any of our subsidiaries on the date the notes were issued or as of December 31, 2014 or as of the date of this report. The note guarantees, if any, would be the senior unsecured obligations of our subsidiaries that guarantee the notes.

The purchase agreements also provide for customary events of default including, but not limited to, the failure to pay scheduled principal and interest payments on the notes, the failure to comply with covenants and agreements specified in the purchase agreements, the acceleration of certain other indebtedness resulting from non-payment of that indebtedness and certain events of insolvency. If any event of default occurs, any amount then outstanding under the relevant purchase agreement may immediately become due and payable. These events of default are subject to a number of important exceptions and qualifications set forth in the purchase agreements.



### **Unsecured revolving credit facilities**

We have a senior unsecured revolving credit facility governed by a second amended and restated credit agreement, dated May 5, 2014, with JP Morgan Chase Bank, N.A., as administrative agent, and the lenders from time to time party thereto. The unsecured revolving credit facility currently provides us with financing capacity of up to \$2.1 billion subject to the terms and conditions set forth therein. The unsecured revolving credit facility replaced our \$2.0 billion amended and restated credit agreement dated May 7, 2013 with JP Morgan Chase Bank, N.A. as administrative agent and the lenders from time to time party thereto. The unsecured revolving credit facility will mature on May 5, 2018 (subject to our ability to extend the maturity date for two one-year extension periods on the terms and conditions set forth in the unsecured revolving credit facility) and contains an uncommitted accordion feature under which its aggregate principal amount can be increased by up to \$500.0 million under certain circumstances. The unsecured revolving credit facility contains sub-limits of \$150.0 million for the issuance of letters of credit and \$150.0 million for swingline loans.

Borrowings under the unsecured revolving credit facility will generally (and as of December 31, 2014 did) bear interest at either (a) LIBOR plus a margin of 125 basis points per year or (b) an alternative base rate plus a margin of 25 basis points per year, subject to reductions based on improvements in the credit ratings for our debt or increases based on declines in the credit ratings for our debt. We are required to pay a facility fee of 25 basis points per year (also subject to reductions based on improvements in the credit ratings for our debt or increases based on declines in the credit ratings for our debt) in respect of total commitments under the unsecured revolving credit facility. Borrowings under the unsecured revolving credit facility are used to finance our working capital needs in the ordinary course of business and for other general corporate purposes.

The total amount outstanding under our unsecured revolving credit facilities was \$569.0 million and \$808.0 million as of December 31, 2014 and December 31, 2013, respectively.

The unsecured revolving credit facility provides for certain affirmative and negative covenants, including covenants that limit our subsidiaries' ability to incur, create or assume certain unsecured indebtedness, and our subsidiaries' ability to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The unsecured revolving credit facility also requires us to comply with certain financial covenants (measured at the end of each fiscal quarter) including a maximum consolidated leverage ratio, minimum consolidated shareholders' equity and minimum consolidated unencumbered assets, as well as an interest coverage test that will be suspended when the unsecured revolving credit facility or certain of our other indebtedness is rated investment grade (as defined in the unsecured revolving credit facility). As of December 31, 2014, management believes that we were in compliance with all covenants contained in the unsecured revolving credit facility in all material respects. In addition, the unsecured revolving credit facility contains customary events of default. In the case of an event of default, the lenders may terminate the commitments under the unsecured revolving credit facility and require immediate repayment of all outstanding borrowings and the cash collateralization of all outstanding letters of credit. Such termination and acceleration will occur automatically in the event of certain bankruptcy events. These provisions are subject to a number of important exceptions and qualifications set forth in the credit agreement governing the unsecured revolving credit facility.

The unsecured revolving credit facility is not currently guaranteed by any of our subsidiaries. However, the unsecured revolving credit facility will be required to be guaranteed by any of our subsidiaries that guarantee certain of our other indebtedness.

### **Unsecured term financings**

From time to time, we enter into unsecured term facilities. During 2014, we entered into four additional unsecured term facilities aggregating \$65.0 million with terms ranging from four to five years and bearing interest at fixed rates ranging from 2.85% to 3.125% per annum. The outstanding balance on our unsecured term facilities as of December 31, 2014 and December 31, 2013 was \$196.1 million and \$247.7 million, respectively. As of December 31, 2014, the remaining maturities of all unsecured term facilities ranged from approximately 0.1 years to approximately 5.0 years.

### Convertible senior notes

In November 2011, we issued \$200.0 million in aggregate principal amount of 3.875% convertible senior notes due 2018 in an offering exempt from registration under the Securities Act. The convertible notes are senior unsecured obligations of the Company and bear interest at a rate of 3.875% per annum, payable in arrears on June 1 and December 1 of each year, commencing on June 1, 2012. The convertible notes are convertible at the option of the holder into shares of our Class A common stock at a price of \$30.01 per share.

### Warehouse facilities

On March 27, 2014, we refinanced a portfolio of secured debt facilities including one of our wholly-owned subsidiary's ("2012 Warehouse Borrower") \$192.8 million senior secured warehouse facility through an amended and restated credit agreement dated as of March 27, 2014 (as amended, the "2012 Warehouse Facility"). We reduced the aggregate principal amount outstanding under the portfolio of loans from \$178.5 million to \$101.0 million, reduced the interest rate on the floating rate debt facilities from LIBOR plus 2.25% to LIBOR plus 1.55% while the interest rate on the fixed rate debt facilities remained at 4.58% and modified the amortization schedule of the loans, which now have final maturities in March 2019. The outstanding balance on our 2012 Warehouse Facility as of December 31, 2014 and December 31, 2013 was \$88.1 million and \$171.6 million, respectively.

The 2012 Warehouse Facility contains customary affirmative and negative covenants, including covenants that limit 2012 Warehouse Borrower's and certain of its subsidiaries' ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. In addition, the 2012 Warehouse Facility contains customary events of default. In the case of an event of default, the lenders may terminate the availability period under the 2012 Warehouse Facility and require immediate repayment of all outstanding loans. Such termination and acceleration will occur automatically in the event of certain bankruptcy events. These provisions are subject to a number of important exceptions and qualifications set forth in the loan agreement governing the 2012 Warehouse Facility. As of December 31, 2014 the 2012 Warehouse Borrower was in compliance in all material respects with all covenants contained in the 2012 Warehouse Facility.

We provide a guaranty of the obligations of 2012 Warehouse Borrower and certain of its subsidiaries under the 2012 Warehouse Facility. The obligations under the 2012 Warehouse Facility are secured by a pledge of the 2012 Warehouse Borrower's equity interests by the Company, by certain cash collateral and by substantially all of the personal property, including aircraft, of the 2012 Warehouse Borrower and certain subsidiaries of the 2012 Warehouse Borrower, subject to certain exceptions.

On July 23, 2014, one of our wholly owned subsidiaries ("2010 Warehouse Borrower") entered into an amendment to its amended and restated warehouse loan agreement dated as of June 21, 2013 (as amended, the "2010 Warehouse Facility") with Credit Suisse AG, New York Branch, as agent, and the lenders party thereto. The 2010 Warehouse Facility, as amended, provides the 2010 Warehouse Borrower with financing of up to \$750 million, modified from the previous facility size of \$1.0 billion. The 2010 Warehouse Facility contains an uncommitted accordion feature under which its aggregate principal amount can be increased to \$2.0 billion under certain circumstances. The interest rate on the 2010 Warehouse Facility, as amended, was reduced from LIBOR plus 2.25% to LIBOR plus 2.00% on drawn balances and continues to bear interest at a rate of 0.50% on undrawn balances. The 2010 Warehouse Borrower is able to draw on the 2010 Warehouse Facility, as amended, during an availability period that was extended from June 2015 to June 2016 and the maturity date of the 2010 Warehouse Facility was extended from June 2019 to June 2020. Borrowings under the 2010 Warehouse Facility are generally used by the 2010 Warehouse Borrower and certain of its subsidiaries to finance directly or indirectly the purchase of aircraft, leases related thereto and improvements thereof.

The 2010 Warehouse Facility contains customary affirmative and negative covenants, including covenants that limit the 2010 Warehouse Borrower's and its subsidiaries' ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The 2010 Warehouse Facility also contains limitations on our ability to guarantee the obligations of the 2010 Warehouse Borrower and its subsidiaries. In addition, the 2010 Warehouse Facility contains customary events of default. In the case of an event of default, the lenders may terminate the availability period under the 2010 Warehouse Facility and require immediate repayment of all outstanding loans. Such termination and acceleration will occur automatically in the event of certain bankruptcy events. These provisions are subject to a number of important exceptions and qualifications set forth in the loan agreement governing the 2010 Warehouse Facility. As of December 31, 2014 the 2010 Warehouse Borrower was in compliance in all material respects with all covenants contained in the 2010 Warehouse Facility.

We provide a limited guaranty of the obligations of 2010 Warehouse Borrower and its subsidiaries under the 2010 Warehouse Facility. The obligations under the 2010 Warehouse Facility are secured by a pledge of the 2010 Warehouse Borrower's equity interests by the Company, by certain cash collateral and by substantially all of the personal property, including aircrafts, of 2010 Warehouse Borrower and certain subsidiaries of 2010 Warehouse Borrower, subject to certain exceptions.

As of December 31, 2014, the 2010 Warehouse Borrower had borrowed \$484.5 million under the 2010 Warehouse Facility and pledged 18 aircraft as collateral with a net book value of \$729.5 million. As of December 31, 2013, the Warehouse Borrower and 2012 Warehouse Borrower had borrowed \$828.4 million under their warehouse facilities and pledged 32 aircraft as collateral with a net book value of \$1.2 billion. During 2014, we substituted letters of credit for cash collateral and lessee deposits pledged under the 2010 Warehouse Facility, reducing the total amount of restricted cash pledged to secure the 2010 Warehouse Facility from \$87.3 million at December 31, 2013 to \$7.5 million at December 31, 2014.

#### **Secured term financing**

We fund some aircraft purchases through secured term financings. Our various consolidated entities will borrow through secured bank facilities to purchase an aircraft. The aircraft are then leased by our entities to airlines. We may guarantee the obligations of the entities under the loan agreements. The loans may be secured by a pledge of the shares of the entities, the aircraft, the lease receivables, security deposits, maintenance reserves or a combination thereof.

During the year ended December 31, 2014, we entered into an additional secured term facility of \$110.0 million with a three year term bearing interest at a floating rate of LIBOR plus a margin of 1.15% per annum.

The secured term facilities contain customary affirmative and negative covenants for financings of these types, including covenants that limit the borrowers' actions to those of special purpose entities engaged in the ownership and leasing of a particular aircraft and restrict their ability to incur, create or assume certain indebtedness, to incur or assume certain liens, to purchase, hold or acquire certain investments, to declare or make certain dividends and distributions and to engage in certain mergers, consolidations and asset sales. The secured term facilities also contain limitations on the Company's ability to transfer the equity interests of such subsidiaries or to incur, create or assume liens on such equity interests or the collateral securing such secured term facilities. Certain of the facilities require us to comply with certain financial covenants. In addition, the secured term facilities contain customary events of default for such financings. In the case of an event of default, the lenders may require immediate repayment of all outstanding loans. Such termination and acceleration will occur automatically in the event of certain bankruptcy events. These provisions are subject to a number of important exceptions and qualifications set forth in the loan agreements governing the secured term facilities. As of December 31, 2014 we were in compliance in all material respects with all covenants contained in our secured term facilities.



As of December 31, 2014, the outstanding balance on our secured term facilities (including the 2012 Warehouse Facility) was \$636.4 million and we had pledged 18 aircraft as collateral with a net book value of \$1.1 billion. The outstanding balance under our secured term facilities (including the 2012 Warehouse Facility) as of December 31, 2014 was comprised of \$104.7 million fixed rate debt and \$531.7 million floating rate debt, with interest rates ranging from 4.28% to 5.36% and LIBOR plus 1.15% to LIBOR plus 3.0%, respectively. As of December 31, 2014, the remaining maturities of all secured term facilities (including the 2012 Warehouse Facility) ranged from approximately 1.0 years to approximately 8.5 years.

As of December 31, 2013, the outstanding balance on our secured term facilities was \$654.4 million and we had pledged 18 aircraft as collateral with a net book value of \$1.14 billion. The outstanding balance under our secured term facilities as of December 31, 2013 was comprised of \$153.9 million fixed rate debt and \$505.5 million floating rate debt, with interest rates ranging from 4.25% to 5.36% and LIBOR plus 1.5% to LIBOR plus 3.0%, respectively.

### Export credit financings

In March 2013, we issued \$76.5 million in secured notes due 2024 guaranteed by the Bank. The notes mature on August 15, 2024 and bear interest at a rate of 1.617% per annum. We used the proceeds of the offering to refinance a portion of the purchase price of two Boeing aircraft and the related premium charged by Bank for its guarantee of the notes.

As of December 31, 2014, we had \$64.9 million in export credit financing outstanding.

### Credit ratings

The following table summarizes our current credit ratings:

Rating Agency	Long-term Debt	Corporate Rating	Outlook	Date of Last Ratings Action
S&P	BBB-	BBB-	Stable Outlook	August 26, 2013
Kroll Bond Ratings	A-	A-	Stable Outlook	October 16, 2014

While a ratings downgrade would not result in a default under any of our debt agreements, it could adversely affect our ability to issue debt and obtain new financings, or renew existing financings, and it would increase the cost of our financings.

### Results of Operations

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(in thousands)			
<b>REVENUES</b>			
Rental of flight equipment	\$ 991,241	\$ 836,516	\$645,853
Aircraft sales, trading and other	59,252	22,159	9,893
Total revenues	1,050,493	858,675	655,746
<b>EXPENSES</b>			
Interest	192,818	168,743	130,419
Amortization of discounts and deferred debt issuance costs	27,772	23,627	16,994
Interest expense	220,590	192,370	147,413
Depreciation of flight equipment	336,657	280,037	216,219
Selling, general and administrative	82,422	71,212	56,453
Stock-based compensation	16,048	21,614	31,688
Total expenses	655,717	565,233	451,773
<b>Income before taxes</b>	<b>394,776</b>	<b>293,442</b>	<b>203,973</b>
Income tax expense	(138,778)	(103,031)	(72,054)
<b>Net income</b>	<b>\$ 255,998</b>	<b>\$ 190,411</b>	<b>\$131,919</b>

## 2014 COMPARED TO 2013

### Rental revenue

As of December 31, 2014, we owned 213 aircraft at a total cost of \$9.8 billion and recorded \$991.2 million in rental revenue for the year then ended, which included overhaul revenue of \$25.2 million. In the prior year, as of December 31, 2013, we owned 193 aircraft at a total cost of \$8.2 billion and recorded \$836.5 million in rental revenue for the year ended December 31, 2013, which included overhaul revenue of \$34.4 million. The increase in rental revenue was primarily due to the delivery of 36 additional aircraft, all of which were leased at the time of delivery, partially offset by the sale of 16 aircraft from our operating lease portfolio. Due to the timing of aircraft deliveries and sales, the impact on rental revenue will be reflected in subsequent periods.

All of the aircraft in our fleet were leased as of December 31, 2014 and 2013.

### Aircraft sales, trading and other revenue

Aircraft sales, trading and other revenue totaled \$59.3 million for the year ended December 31, 2014 compared to \$22.2 million for the year ended December 31, 2013. During the year ended December 31, 2014, we sold 16 aircraft from our operating lease portfolio and a corporate aircraft, received insurance proceeds in excess of the book value relating to the loss of an aircraft in 2013 and traded six Boeing 737-300 aircraft, recording gains on aircraft sales and trading activity of \$55.8 million. During the year ended December 31, 2013, we sold one aircraft from our operating lease portfolio and traded 11 737-300 aircraft, two spare engines and a corporate aircraft recording gains on aircraft sales and trading activity of \$18.9 million.

### Interest expense

Interest expense totaled \$220.6 million for the year ended December 31, 2014 compared to \$192.4 million for the year ended December 31, 2013. The change was primarily due to an increase in our average outstanding debt balances and our composite cost of funds, resulting in a \$24.1 million increase in interest and a \$4.1 million increase in amortization of our discounts and deferred debt issue costs. We expect that our interest expense will increase as our average debt balance outstanding continues to increase. Interest expense will also be impacted by changes in our composite cost of funds.

### Depreciation expense

We recorded \$336.7 million in depreciation expense of flight equipment for the year ended December 31, 2014 compared to \$280.0 million for the year ended December 31, 2013. The increase in depreciation expense for 2014, compared to 2013, was primarily attributable to the acquisition of 36 additional aircraft aggregating \$2.2 billion. The full impact on depreciation expense for aircraft added during the year will be reflected in subsequent periods.

### Selling, general and administrative expenses

We recorded selling, general and administrative expenses of \$82.4 million for the year ended December 31, 2014 compared to \$71.2 million for the year ended December 31, 2013. Selling, general and administrative expense as a percentage of revenue decreased to 7.8% for the year ended December 31, 2014 compared to 8.3% for the year ended December 31, 2013.

### Stock-based compensation expense

Stock-based compensation expense totaled \$16.0 million for the year ended December 31, 2014 compared to \$21.6 million for the year ended December 31, 2013. This decrease is primarily a result of the effects of the expense recognition pattern related to our book value RSUs, which is calculated based on a tranche by tranche vesting schedule. Additionally, as of June 30, 2013, all of our outstanding employee stock options had fully vested, further contributing to the decrease in stock-based compensation expense.

## **Taxes**

The effective tax rate for the year ended December 31, 2014 was 35.2% compared to 35.1% for the year ended December 31, 2013. The change in effective tax rate for the respective periods is due to the effect of changes in permanent differences.

## **Net income**

For the year ended December 31, 2014, we reported consolidated net income of \$256.0 million, or \$2.38 per diluted share, compared to a consolidated net income of \$190.4 million, or \$1.80 per diluted share, for the year ended December 31, 2013. The increase in net income for 2014, compared to 2013, was primarily attributable to the acquisition and lease of additional aircraft and an increase in aircraft sales, trading and other revenue.

## **2013 COMPARED TO 2012**

### **Rental revenue**

As of December 31, 2013, we owned 193 aircraft at a total cost of \$8.2 billion and recorded \$836.5 million in rental revenue for the year then ended, which included overhaul revenue of \$34.4 million. In the prior year, as of December 31, 2012, we owned 155 aircraft at a total cost of \$6.6 billion and recorded \$645.9 million in rental revenue for the year ended December 31, 2012, which included overhaul revenue of \$25.0 million. The increase in rental revenue was primarily due to the delivery of 40 additional aircraft, all of which were leased at the time of delivery, partially offset by the sale of one aircraft from our operating lease portfolio. Due to the timing of aircraft deliveries and sales, the impact on rental revenue will be reflected in subsequent periods.

All of the aircraft in our fleet were leased as of December 31, 2013. All of the aircraft in our fleet were leased as of December 31, 2012, except for one aircraft with respect to which we had entered into a non-binding lease commitment but for which delivery had not yet occurred.

### **Aircraft sales, trading and other revenue**

Aircraft sales, trading and other revenue totaled \$22.2 million for the year ended December 31, 2013 compared to \$9.9 million for the year ended December 31, 2012. During the year ended December 31, 2013, we sold one aircraft from our operating lease portfolio and traded 11 737-300 aircraft, two spare engines and a corporate aircraft, recording gains on aircraft sales and trading activity of \$18.9 million. During the year ended December 31, 2012, we sold one aircraft from our operating lease portfolio and traded two 737-300 aircraft and one spare engine recording gains on aircraft sales and trading activity of \$3.9 million.

### **Interest expense**

Interest expense totaled \$192.4 million for the year ended December 31, 2013 compared to \$147.4 million for the year ended December 31, 2012. The change was primarily due to an increase in our average outstanding debt balances, partially offset by a decrease in our composite cost of funds, resulting in a \$38.3 million increase in interest and a \$6.6 million increase in amortization of our discounts and deferred debt issue costs.

### **Depreciation expense**

We recorded \$280.0 million in depreciation expense of flight equipment for the year ended December 31, 2013 compared to \$216.2 million for the year ended December 31, 2012. The increase in depreciation expense for 2013, compared to 2012, was primarily attributable to the acquisition of 40 additional aircraft for a total cost of \$1.7 billion. The full impact on depreciation expense for aircraft added during the year will be reflected in subsequent periods.

### **Selling, general and administrative expenses**

We recorded selling, general and administrative expenses of \$71.2 million for the year ended December 31, 2013 compared to \$56.5 million for the year ended December 31, 2012. Selling, general and administrative expense as a percentage of revenue decreased to 8.3% for the year ended December 31, 2013 compared to 8.6% for the year ended December 31, 2012.



### Stock-based compensation expense

Stock-based compensation expense totaled \$21.6 million for the year ended December 31, 2013 compared to \$31.7 million for the year ended December 31, 2012. This decrease is primarily a result of the effects of the expense recognition pattern related to our book value RSUs, which is calculated based on a tranche by tranche vesting schedule. Additionally, as of June 30, 2013, all of our outstanding employee stock options had fully vested, further contributing to the decrease in stock-based compensation expense.

### Taxes

The effective tax rate for the year ended December 31, 2013 was 35.1% compared to 35.3% for the year ended December 31, 2012. The change in effective tax rate for the respective periods is due to the effect of changes in permanent differences.

### Net income

For the year ended December 31, 2013, we reported consolidated net income of \$190.4 million, or \$1.80 per diluted share, compared to a consolidated net income of \$131.9 million, or \$1.28 per diluted share, for the year ended December 31, 2012. The increase in net income for 2013, compared to 2012, was primarily attributable to the acquisition and lease of additional aircraft, an increase in aircraft sales, trading and other revenue and lower interest rates on our indebtedness.

### CONTRACTUAL OBLIGATIONS

Our contractual obligations as of December 31, 2014 are as follows:

	2015	2016	2017	2018	2019	Thereafter	Total
(dollars in thousands)							
Long-term debt obligations <sup>(1) (2)</sup>	\$ 171,558	\$ 870,682	\$1,415,419	\$1,542,706	\$1,173,489	\$ 1,556,294	\$ 6,730,148
Interest payments on debt outstanding <sup>(3)</sup>	249,400	234,782	177,831	124,611	87,476	153,842	1,027,942
Purchase commitments	2,381,857	2,315,276	1,907,137	2,919,369	3,998,600	15,297,344	28,819,583
Operating leases	2,467	2,541	2,617	2,696	2,777	12,610	25,708
Total	\$2,805,282	\$3,423,281	\$3,503,004	\$4,589,382	\$5,262,342	\$17,020,090	\$36,603,381

<sup>(1)</sup> As of December 31, 2014, we had \$484.5 million of debt outstanding under the 2010 Warehouse Facility, as amended. We are able to draw on the facility during an availability period that ends in June 2016 with a subsequent term out option, through the maturity date of the facility, which is the maturity reflected in the contractual obligations schedule above.

<sup>(2)</sup> As of December 31, 2014, the Company had \$569.0 million of debt outstanding under our revolving unsecured credit facilities. The outstanding drawn balances may be rolled until the maturity date of each respective facility and have been presented as such in the contractual obligation schedule above.

<sup>(3)</sup> Future interest payments on floating rate debt are estimated using floating rates in effect at December 31, 2014.

### OFF-BALANCE SHEET ARRANGEMENTS

We have not established any unconsolidated entities for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. We have, however, from time to time established subsidiaries and created partnership arrangements or trusts for the purpose of leasing aircraft or facilitating borrowing arrangements all of which are consolidated. We have a 9.5% non-controlling interest in a joint venture that we do not control and are not the primary beneficiary of but have significant influence over, therefore we account for our investment in the joint venture under the equity method of accounting.

## CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies can have a significant impact on our results of operations, financial position and financial statement disclosures, and may require subjective and complex estimates and judgments.

### Lease revenue

We lease flight equipment principally under operating leases and report 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 our 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 our Consolidated Balance Sheet. An allowance for doubtful accounts will be recognized for past due rentals based on management's assessment of collectability. Our management team monitors all lessees with past due lease payments (if any) and discusses relevant operational and financial issues facing those lessees with our marketing executives in order to determine an appropriate allowance for doubtful accounts. In addition, if collection is not reasonably assured, we will not recognize rental income for amounts due under our lease contracts and will recognize revenue for such lessees on a cash basis. Should a lessee's credit quality deteriorate, we may be required to record an allowance for doubtful accounts and/or stop recognizing revenue until cash is received, both of which could have a material impact on our results of operations and financial condition.

Our aircraft lease agreements typically contain provisions which require the lessee to make additional contingent rental payments based on either the usage of the aircraft, measured on the basis of hours or cycles flown per month (a cycle is one take-off and landing), or calendar-based time ("Maintenance Reserves"). These payments represent contributions to the cost of major future maintenance events ("Qualifying Events") associated with the aircraft and typically cover major airframe structural checks, engine overhauls, the replacement of life-limited parts contained in each engine, landing gear overhauls and overhauls of the auxiliary power unit. These Maintenance Reserves are generally collected monthly based on reports of usage by the lessee or collected as fixed monthly rates.

In accordance with our lease agreements, Maintenance Reserves are subject to reimbursement to the lessee upon the occurrence of a Qualifying Event. The reimbursable amount is capped by the amount of Maintenance Reserves received by the Company, net of previous reimbursements. The Company is only required to reimburse for Qualifying Events during the lease term. The Company is not required to reimburse for routine maintenance or additional maintenance costs incurred during a Qualifying Event. All amounts of Maintenance Reserves unclaimed by the lessee at the end of the lease term are retained by the Company.

We record as rental revenue the portion of Maintenance Reserves that we are virtually certain we will not reimburse to the lessee as a component of "Rental of flight equipment" in our Consolidated Statement of Income. Maintenance Reserves which we may be required to reimburse to the lessee are reflected in our overhaul reserve liability, as a component of "Security deposits and maintenance reserves on flight equipment leases" in our Consolidated Balance Sheet.

Estimating when we are virtually certain that Maintenance Reserves payments will not be reimbursed requires judgments to be made as to the timing and cost of future maintenance events. In order to determine virtual certainty with respect to this contingency, our Technical Asset Management department analyzes the terms of the lease, utilizes available cost estimates published by the equipment manufacturers, and thoroughly evaluates an airline's Maintenance Planning Document ("MPD"). The MPD describes the required inspections and the frequency of those inspections. Our Technical Asset Management department utilizes this information, combined with their cumulative industry experience, to determine when major Qualifying Events are expected to occur for each relevant component of the aircraft, and translates this information into a determination of how much we will ultimately be required to reimburse to the lessee. We record Maintenance Reserves revenue as the aircraft is operated when we determine that a Qualifying Event will occur outside the non-cancellable lease term or after we have collected Maintenance Reserves equal to the amount that we expect to reimburse to the lessee as the aircraft is operated.

Should such estimates be inaccurate, we may be required to reverse revenue previously recognized. In addition, if we can no longer make accurate estimates with respect to a particular lease, we will stop recognizing any Maintenance Reserves revenue until the end of such lease.

All of our 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 repair and maintenance in our Consolidated Statements of Income for all such expenditures.

Lessee-specific modifications such as those related to modifications of the aircraft cabin are expected to be capitalized as initial direct costs and amortized over the term of the lease into rental revenue in our Consolidated Statements of Income.

### **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. We generally depreciate 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 our 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.

Our management team 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 our Fair Value Policy, resulting in an impairment charge. Deterioration of future lease rates and the residual values of our aircraft could result in impairment charges which could have a significant impact on our results of operations and financial condition. To date, we have not recorded any impairment charges.

We record flight equipment at fair value if we determine the carrying value may not be recoverable. We principally use the income approach to measure the fair value of aircraft. The income approach is based on the present value of cash flows from contractual lease agreements and projected future lease payments, including contingent rentals and 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.



### Stock-based compensation

To compensate and incentivize our employees and directors, we grant stock-based compensation awards. To date, we have granted stock options (“Stock Options”) and restricted stock units (“RSUs”). All share-based payment awards granted have been equity classified awards. We account for Stock Options by estimating the grant date fair value of the award as calculated by the Black-Scholes-Merton (“BSM”) option pricing model and amortizing that value on a straight line basis over the requisite service period less any anticipated forfeitures. The fair value of book value RSUs is determined based on the closing market price of the Company’s Class A common stock on the date of grant, while the fair value of Total Shareholder Return (“TSR”) RSUs is determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model are certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk free interest rate and expected dividends. To appropriately value the award, the risk free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities are estimated based on a historical timeframe equal to the time from the valuation date until the end date of the performance period. Due to our limited stock history since the completion of our initial public offering on April 25, 2011, historical volatility was estimated based on all available information including peer group volatility.

The estimation of the fair value of share-based awards requires considerable judgment. For future awards, we will be required to continue to make such judgments, and while we intend to continue to use the approach discussed above to make key estimates, there can be no assurance that changes in such estimates will not have a significant impact to our results of operations in the future.

### Income taxes

We use 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 basis 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. We record a valuation allowance for deferred tax assets when the probability of realization of the full value of the asset is less than 50%. Based on the timing of reversal of deferred tax liabilities, future anticipated taxable income based on lease and debt arrangements in place at the balance sheet date and tax planning strategies available to us, our management considers the deferred tax asset recoverable. Should events occur in the future that make the likelihood of recovery of deferred tax assets less than 50%, a deferred tax valuation allowance will be required that could have a significant impact on our results of operations and financial condition.

We recognize the impact of a tax position, if that position has a probability of greater than 50% that it would be sustained on audit, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that has a probability of more than 50% of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As our business develops, we may take tax positions that have a probability of less than 50% of being sustained on audit which will require us to reserve for such positions. If these tax positions are audited by a taxing authority, there can be no assurance that the ultimate resolution of such tax positions will not result in further losses. Such losses could have a significant impact on our results of operations and financial condition.

## Quantitative and Qualitative Disclosures About Market Risk

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

### **INTEREST RATE RISK**

The nature of our business exposes us to market risk arising from changes in interest rates. Changes, both increases and decreases, in our cost of borrowing, as reflected in our composite interest rate, directly impact our net income. Our lease rental stream is generally fixed over the life of our leases, whereas we have used floating rate debt to finance a significant portion of our aircraft acquisitions. As of December 31, 2014, we had \$1.7 billion in floating rate debt. As of December 31, 2013, we had \$2.2 billion in floating rate debt. If interest rates increase, we would be obligated to make higher interest payments to our lenders. If we incur significant fixed rate debt in the future, increased interest rates prevailing in the market at the time of the incurrence of such debt would also increase our interest expense. If our composite rate were to increase by 1.0%, we would expect to incur additional interest expense on our existing indebtedness as of December 31, 2014 and December 31, 2013 of approximately \$16.7 million and \$22.3 million, each on an annualized basis, which would put downward pressure on our operating margins. The decrease in additional interest expense the Company would incur is primarily due to a decrease in the floating rate debt outstanding as of December 31, 2014 compared to December 31, 2013.

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

### **FOREIGN EXCHANGE RATE RISK**

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

## Selected Financial Data

You should read the following selected consolidated financial data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report.

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands, except share data)					
<b>OPERATING DATA</b>					
Rentals of flight equipment	\$ 991,241	\$ 836,516	\$ 645,853	\$ 332,719	\$ 57,075
Aircraft sales, trading and other	59,252	22,159	9,893	4,022	1,291
Total revenues	1,050,493	858,675	655,746	336,741	58,366
Expenses	655,717	565,233	451,773	253,900	119,281
Income (loss) before taxes	394,776	293,442	203,973	82,841	(60,915)
Income tax (expense) benefit	(138,778)	(103,031)	(72,054)	(29,609)	8,875
Net income (loss)	\$ 255,998	\$ 190,411	\$ 131,919	\$ 53,232	\$ (52,040)
<b>NET INCOME (LOSS) PER SHARE</b>					
Basic	\$ 2.51	\$ 1.88	\$ 1.31	\$ 0.59	\$ (1.32)
Diluted	\$ 2.38	\$ 1.80	\$ 1.28	\$ 0.59	\$ (1.32)
Cash dividends declared per share	\$ 0.13	\$ 0.11	\$ —	\$ —	\$ —
<b>WEIGHTED-AVERAGE SHARES OUTSTANDING</b>					
Basic	102,142,828	101,529,137	100,991,871	89,592,945	39,511,045
Diluted	110,192,771	108,963,550	107,656,463	90,416,346	39,511,045
<b>CASH FLOW DATA</b>					
Net cash flows provided by (used in):					
Operating activities	\$ 769,018	\$ 654,213	\$ 491,029	\$ 267,166	\$ 41,934
Investing activities	(1,805,657)	(2,185,894)	(2,344,924)	(2,977,156)	(1,851,520)
Financing activities	1,049,285	1,571,765	1,802,179	2,662,974	2,138,407
As of December 31,					
	2014	2013	2012	2011	2010
(in thousands, except share and aircraft data)					
<b>BALANCE SHEET DATA</b>					
Flight equipment subject to operating leases (net of accumulated depreciation)	\$ 8,953,804	\$7,613,135	\$6,251,863	\$4,237,416	\$1,629,809
Total assets	10,774,784	9,332,604	7,353,624	5,164,593	2,276,282
Total debt	6,714,362	5,853,317	4,384,732	2,602,799	911,981
Total liabilities	8,002,722	6,809,170	5,021,003	2,988,310	1,051,347
Shareholders' equity	2,772,062	2,523,434	2,332,621	2,176,283	1,224,935
<b>OTHER OPERATING DATA</b>					
Aircraft lease portfolio at period end:					
Owned	213	193	155	102	40
Managed	17	4	4	2	—



# Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Air Lease Corporation:

We have audited the accompanying consolidated balance sheets of Air Lease Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2014. These consolidated financial statements are the responsibility of Air Lease Corporation and subsidiaries' 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Air Lease Corporation and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 26, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

San Francisco, California

February 26, 2015

# Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
(in thousands, except share data)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 282,819	\$ 270,173
Restricted cash	7,469	87,308
Flight equipment subject to operating leases	9,832,421	8,234,315
Less accumulated depreciation	(878,617)	(621,180)
	8,953,804	7,613,135
Deposits on flight equipment purchases	1,144,603	1,075,023
Deferred debt issuance costs—less accumulated amortization of \$72,783 and \$51,578 as of December 31, 2014 and December 31, 2013, respectively	83,604	90,249
Other assets	302,485	196,716
<b>Total assets</b>	<b>\$10,774,784</b>	<b>\$9,332,604</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accrued interest and other payables	\$190,952	\$131,223
Debt financing, net of discounts	6,714,362	5,853,317
Security deposits and maintenance reserves on flight equipment leases	698,172	569,847
Rentals received in advance	75,877	61,520
Deferred tax liability	323,359	193,263
<b>Total liabilities</b>	<b>\$ 8,002,722</b>	<b>\$6,809,170</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued or outstanding	—	—
Class A common stock, \$0.01 par value; authorized 500,000,000 shares; issued and outstanding 102,392,208 and 101,822,676 shares at December 31, 2014 and December 31, 2013, respectively	1,010	1,009
Class B Non-Voting common stock, \$0.01 par value; authorized 10,000,000 shares; no shares issued or outstanding	—	—
Paid-in capital	2,215,479	2,209,566
Retained earnings	555,573	312,859
<b>Total shareholders' equity</b>	<b>\$ 2,772,062</b>	<b>\$2,523,434</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$10,774,784</b>	<b>\$9,332,604</b>

See Notes to Consolidated Financial Statements

# Consolidated Statements of Income

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
<small>(in thousands, except share data)</small>			
<b>REVENUES</b>			
Rental of flight equipment	\$ 991,241	\$ 836,516	\$645,853
Aircraft sales, trading and other	59,252	22,159	9,893
Total revenues	1,050,493	858,675	655,746
<b>EXPENSES</b>			
Interest	192,818	168,743	130,419
Amortization of discounts and deferred debt issuance costs	27,772	23,627	16,994
Interest expense	220,590	192,370	147,413
Depreciation of flight equipment	336,657	280,037	216,219
Selling, general and administrative	82,422	71,212	56,453
Stock-based compensation	16,048	21,614	31,688
Total expenses	655,717	565,233	451,773
<b>Income before taxes</b>	<b>394,776</b>	<b>293,442</b>	<b>203,973</b>
Income tax expense	(138,778)	(103,031)	(72,054)
<b>Net income</b>	<b>\$ 255,998</b>	<b>\$ 190,411</b>	<b>\$131,919</b>
Net income per share of Class A and Class B common stock:			
Basic	\$ 2.51	\$ 1.88	\$ 1.31
Diluted	\$ 2.38	\$ 1.80	\$ 1.28
Weighted-average shares outstanding			
Basic	102,142,828	101,529,137	100,991,871
Diluted	110,192,771	108,963,550	107,656,463

See Notes to Consolidated Financial Statements



# Consolidated Statements of Shareholders' Equity

	Preferred Stock		Class A Common Stock		Class B Non-Voting Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
(in thousands, except share data)									
<b>Balance at December 31, 2011</b>	—	—	98,885,131	\$ 984	1,829,339	\$18	\$2,174,089	\$ 1,192	\$2,176,283
Class A common stock issuance	—	—	—	—	—	—	(97)	—	(97)
Issuance of common stock upon exercise of options and vesting of restricted stock units	—	—	897,110	7	—	—	133	—	140
Tax withholdings on stock based compensation	—	—	(364,243)	—	—	—	(7,312)	—	(7,312)
Stock-based compensation	—	—	—	—	—	—	31,688	—	31,688
Net income	—	—	—	—	—	—	—	131,919	131,919
<b>Balance at December 31, 2012</b>	—	—	99,417,998	\$ 991	1,829,339	\$18	\$2,198,501	\$133,111	\$2,332,621
Issuance of common stock upon exercise of options and warrants and vesting of restricted stock units	—	—	1,023,521	—	—	—	—	—	—
Common stock exchanged	—	—	1,829,339	18	(1,829,339)	(18)	—	—	—
Cash dividends declared (\$0.105 per share)	—	—	—	—	—	—	—	(10,663)	(10,663)
Tax benefits from stock based compensation arrangements	—	—	—	—	—	—	2,115	—	2,115
Tax withholdings on stock based compensation	—	—	(448,182)	—	—	—	(12,664)	—	(12,664)
Stock-based compensation	—	—	—	—	—	—	21,614	—	21,614
Net income	—	—	—	—	—	—	—	190,411	190,411
<b>Balance at December 31, 2013</b>	—	—	101,822,676	\$1,009	—	—	\$2,209,566	\$312,859	\$2,523,434
Issuance of common stock upon exercise of options and vesting of restricted stock units	—	—	1,028,654	1	—	—	943	—	944
Stock-based compensation expense	—	—	—	—	—	—	16,048	—	16,048
Cash dividends (declared \$0.13 per share)	—	—	—	—	—	—	—	(13,284)	(13,284)
Tax benefits from stock-based compensation arrangements	—	—	—	—	—	—	7,011	—	7,011
Tax withholdings on stock based compensation	—	—	(459,122)	—	—	—	(18,089)	—	(18,089)
Net income	—	—	—	—	—	—	—	255,998	255,998
<b>Balance at December 31, 2014</b>	—	—	102,392,208	\$1,010	—	—	\$2,215,479	\$555,573	\$2,772,062

See Notes to Consolidated Financial Statements

# Consolidated Statements of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(dollars in thousands)			
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 255,998	\$ 190,411	\$ 131,919
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of flight equipment	336,657	280,037	216,219
Stock-based compensation	16,048	21,614	31,688
Deferred taxes	137,107	102,636	72,050
Tax benefits from stock-based compensation arrangements	(7,011)	(2,115)	—
Amortization of discounts and deferred debt issuance costs	27,772	23,627	16,994
Gain on aircraft sales, trading and other activity	(56,457)	(19,234)	(3,884)
Changes in operating assets and liabilities:			
Other assets	(1,191)	(2,653)	(14,874)
Accrued interest and other payables	45,738	39,507	25,797
Rentals received in advance	14,357	20,383	15,120
Net cash provided by operating activities	769,018	654,213	491,029
<b>INVESTING ACTIVITIES</b>			
Acquisition of flight equipment under operating lease	(1,568,748)	(1,329,619)	(1,899,231)
Payments for deposits on flight equipment purchases	(601,307)	(828,839)	(418,278)
Proceeds from aircraft sales, trading and other activity	603,849	97,748	47,490
Acquisition of furnishings, equipment and other assets	(239,451)	(125,184)	(74,905)
Net cash used in investing activities	(1,805,657)	(2,185,894)	(2,344,924)
<b>FINANCING ACTIVITIES</b>			
Issuance of common stock upon exercise of options	944	—	43
Cash dividends paid	(12,243)	(7,608)	—
Tax withholdings on stock-based compensation	(18,089)	(12,664)	(7,312)
Tax benefits from stock-based compensation arrangements	7,011	2,115	—
Net change in unsecured revolving facilities	(239,000)	388,000	62,000
Proceeds from debt financings	1,663,120	1,608,854	2,115,607
Payments in reduction of debt financings	(577,212)	(531,831)	(432,129)
Net change in restricted cash	79,839	18,999	(10,150)
Debt issuance costs	(7,975)	(37,535)	(42,149)
Security deposits and maintenance reserve receipts	185,639	172,662	142,541
Security deposits and maintenance reserve disbursements	(32,749)	(29,227)	(26,272)
Net cash provided by financing activities	1,049,285	1,571,765	1,802,179
Net increase (decrease) in cash	12,646	40,084	(51,716)
Cash and cash equivalents at beginning of period	270,173	230,089	281,805
Cash and cash equivalents at end of period	\$ 282,819	\$ 270,173	\$ 230,089
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the period for interest, including capitalized interest of \$42,775, \$32,659 and \$19,388 at December 31, 2014, 2013 and 2012, respectively	\$ 211,345	\$ 188,464	\$ 124,731
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>			
Buyer furnished equipment, capitalized interest, deposits on flight equipment purchases and seller financing applied to acquisition of flight equipment and other assets applied to payments for deposits on flight equipment purchases	\$ 756,286	\$ 459,432	\$ 377,892
Cash dividends declared, not yet paid	\$ 4,096	\$ 3,055	\$ —

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

## Note 1. Summary of Significant Accounting Policies

### Organization

Air Lease Corporation is a leading aircraft leasing company that was founded by aircraft leasing industry pioneer, Steven F. Udvar-Házy. We are principally engaged in purchasing new commercial jet transport aircraft from Boeing and Airbus. We lease these aircraft to airlines throughout the world to generate attractive returns on equity. As of December 31, 2014 we owned a fleet of 213 aircraft and had 364 aircraft on order with the manufacturers. In addition to our leasing activities, we sell aircraft from our fleet to other leasing companies, financial services companies and airlines. We also provide fleet management services to investors and owners of aircraft portfolios for a management fee.

### Principles of consolidation

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 the primary beneficiary. All material intercompany balances are eliminated in consolidation.

### Investments

Our investment in the Blackbird joint venture, where we own 9.5% of the equity of the venture, is accounted for using the equity method of accounting due to our level of influence and involvement in the joint venture. This investment is recorded at the amount invested plus or minus our 9.5% share of net income or loss less any distributions or return of capital received from the entity.

### 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 monitors all lessees with past due lease payments and discuss relevant operational and financial issues facing those lessees 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, 2014 and 2013, 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 repair and maintenance expense in our Consolidated Statements of Income for all such expenditures. In many operating lease contracts, the lessee is obligated to make periodic payments, which are 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 Qualifying Event incurred, up to the maximum of the amount of Maintenance Reserves made by the lessee during the lease term, net of previous reimbursements. These payments are made upon the lessee's presentation of invoices evidencing the completion of such Qualifying Event. The Company records as "Rental of flight equipment" revenue, the portion of Maintenance Reserves that is virtually certain will not be reimbursed to the lessee. Maintenance Reserves 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 capitalized as initial direct costs and amortized over the term of the lease into rental revenue in our Consolidated Statements of Income.

#### **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.

#### **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.

#### **Restricted cash**

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

#### **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 in our Consolidated Statements of Income.

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, 2014 and 2013, no impairment charges have been incurred to date.

#### **Capitalized interest**

The Company may borrow funds to finance deposits on new 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.

#### **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.

#### **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 basis 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.

#### **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.

#### **Stock-based compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award. Stock-based compensation expense includes an estimate for forfeitures and is recognized over the requisite service periods of the awards on a straight line basis.

#### **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.

#### **Recent accounting pronouncements**

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which supersedes most of the current revenue recognition requirements. The guidance requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

## Note 2. Debt Financing

The Company's consolidated debt as of December 31, 2014 and 2013 is summarized below:

	December 31, 2014	December 31, 2013
(dollars in thousands)		
<b>UNSECURED</b>		
Senior notes	\$4,579,194	\$3,055,620
Revolving credit facilities	569,000	808,000
Term financings	196,146	247,722
Convertible senior notes	200,000	200,000
	<b>5,544,340</b>	<b>4,311,342</b>
<b>SECURED</b>		
Warehouse facilities	484,513	828,418
Term financings	636,411	654,369
Export credit financing	64,884	71,539
	<b>1,185,808</b>	<b>1,554,326</b>
Total secured and unsecured debt financing	<b>6,730,148</b>	<b>5,865,668</b>
Less: Debt discount	<b>(15,786)</b>	<b>(12,351)</b>
<b>Total debt</b>	<b>\$6,714,362</b>	<b>\$5,853,317</b>

At December 31, 2014, we were in compliance in all material respects with the covenants in our debt agreements, including our financial covenants concerning debt-to-equity, tangible net equity and interest coverage ratios.

The Company's secured obligations as of December 31, 2014 and 2013 are summarized below:

	December 31, 2014	December 31, 2013
(dollars in thousands)		
Nonrecourse	\$ 484,513	\$ 847,684
Recourse	701,295	706,642
Total	<b>\$1,185,808</b>	<b>\$1,554,326</b>
Number of aircraft pledged as collateral	38	52
Net book value of aircraft pledged as collateral	<b>\$1,935,711</b>	<b>\$2,454,350</b>

### Senior unsecured notes

As of December 31, 2014, the Company had \$4.6 billion in senior unsecured notes outstanding with remaining terms ranging from one to 10 years and bearing interest at fixed rates ranging from 2.125% to 7.375%. As of December 31, 2013, the Company had \$3.1 billion in senior unsecured notes outstanding with remaining terms ranging from two to six years and bearing interest at fixed rates ranging from 3.375% to 7.375%. Since the end of 2014, we issued \$600.0 million in aggregate principal amount of senior unsecured notes due 2022 that bear interest at a rate of 3.75%.

During the year ended December 31, 2014, the Company issued \$1.5 billion in aggregate principal amount of senior unsecured notes.

On January 22, 2014, the Company issued \$25.0 million in aggregate principal amount of senior unsecured notes due 2024 that bear interest at a rate of 4.85%.

On March 11, 2014, the Company issued \$500.0 million in aggregate principal amount of senior unsecured notes due 2021 that bear interest at a rate of 3.875%.

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

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

### **Unsecured revolving credit facilities**

The total amount outstanding under our unsecured revolving credit facilities was \$569.0 million and \$808.0 million as of December 31, 2014 and December 31, 2013, respectively.

The Company has in place a senior unsecured revolving credit facility governed by a second amended and restated credit agreement, dated May 5, 2014, which provides us with financing of up to \$2.1 billion. The unsecured revolving credit facility accrues interest at a rate of either LIBOR plus 1.25% or an alternative base rate plus 0.25% on drawn balances and includes a 0.25% facility fee. The facility will mature in May 2018.

### **Unsecured term financings**

From time to time, the Company enters into unsecured term facilities. During 2014, the Company entered into four additional unsecured term facilities aggregating \$65.0 million with terms ranging from four to five years and bearing interest at fixed rates ranging from 2.85% to 3.125% per annum. The outstanding balance on our unsecured term facilities as of December 31, 2014 and December 31, 2013 was \$196.1 million and \$247.7 million, respectively.

### **Convertible senior notes**

In November 2011, the Company issued \$200.0 million in aggregate principal amount of 3.875% convertible senior notes due 2018 (the "Convertible Notes") in an offering exempt from registration under the Securities Act. The Convertible Notes were sold to Qualified Institutional Buyers in reliance upon Rule 144A under the Securities Act. The Convertible Notes are senior unsecured obligations of the Company and bear interest at a rate of 3.875% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on June 1, 2012. The Convertible Notes are convertible at the option of the holder into shares of our Class A common stock at a price of \$30.01 per share.

### **Warehouse facilities**

As of December 31, 2014, the Company had borrowed \$484.5 million under the 2010 Warehouse Facility and pledged 18 aircraft as collateral with a net book value of \$729.5 million. As of December 31, 2013, the Company had borrowed \$656.8 million under the 2010 Warehouse Facility and pledged 24 aircraft as collateral with a net book value of \$985.2 million. During 2014, the Company substituted letters of credit for cash collateral and lessee deposits pledged under the 2010 Warehouse Facility, reducing the total amount of restricted cash from \$87.3 million at December 31, 2013 to \$7.5 million at December 31, 2014.

On March 27, 2014, the Company refinanced a portfolio of secured debt facilities including the 2012 Warehouse Facility. We reduced the aggregate principal amount outstanding under the portfolio of loans from \$178.5 million to \$101.0 million, reduced the interest rate on the floating rate debt facilities from LIBOR plus 2.25% to LIBOR plus 1.55% while the interest rate on the fixed rate debt facilities remained at 4.58% and modified the amortization schedule of the loans, which now have final maturities in March 2019. The outstanding balance on our 2012 Warehouse Facility as of December 31, 2014 and December 31, 2013 was \$88.1 million and \$171.6 million, respectively.

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

### Secured term financing

We fund some aircraft purchases through secured term financings. Our various consolidated entities will borrow through secured bank facilities to purchase an aircraft. The aircraft are then leased by our entities to airlines. We may guarantee the obligations of the entities under the loan agreements. The loans may be secured by a pledge of the shares of the entities, the aircraft, the lease receivables, security deposits, maintenance reserves or a combination thereof.

During the year ended December 31, 2014, we entered into an additional secured term facility of \$110.0 million with a three year term bearing interest at a floating rate of LIBOR plus a margin of 1.15% per annum.

As of December 31, 2014, the outstanding balance on our secured term facilities (including the 2012 Warehouse Facility) was \$636.4 million and we had pledged 18 aircraft as collateral with a net book value of \$1.1 billion. The outstanding balance under our secured term facilities (including the 2012 Warehouse Facility) as of December 31, 2014 was comprised of \$104.7 million fixed rate debt and \$531.7 million floating rate debt, with interest rates ranging from 4.28% to 5.36% and LIBOR plus 1.15% to LIBOR plus 3.0%, respectively.

As of December 31, 2013, the outstanding balance on our secured term facilities was \$654.4 million and we had pledged 18 aircraft as collateral with a net book value of \$1.14 billion. The outstanding balance under our secured term facilities as of December 31, 2013 was comprised of \$153.9 million fixed rate debt and \$505.5 million floating rate debt, with interest rates ranging from 4.25% to 5.36% and LIBOR plus 1.5% to LIBOR plus 3.0%, respectively.

### Export credit financings

As of December 31, 2014, the Company had \$64.9 million in export credit financing outstanding. As of December 31, 2013, the Company had \$71.5 million in export credit financing outstanding.

In March 2013, the Company issued \$76.5 million in secured notes due 2024 guaranteed by the Ex-Im Bank. The notes will mature on August 15, 2024 and will bear interest at a rate of 1.617% per annum. The Company used the proceeds of the offering to refinance a portion of the purchase price of two Boeing 737-800 aircraft and the related premium charged by Ex-Im Bank for its guarantee of the notes.

### Maturities

Maturities of debt outstanding as of December 31, 2014 are as follows:

	(dollars in thousands)
Years ending December 31,	
2015	\$171,558
2016	870,682
2017	1,415,419
2018	1,542,706
2019	1,173,489
Thereafter	1,556,294
Total <sup>(1) (2)</sup>	\$6,730,148

<sup>(1)</sup> As of December 31, 2014, the Company had \$484.5 million of debt outstanding under the 2010 Warehouse Facility. The Company is able to draw on the facility during an availability period that ends in June 2016 with a subsequent term out option, through the maturity date of the facility, which is the maturity in the schedule above.

<sup>(2)</sup> As of December 31, 2014, the Company had \$569.0 million of debt outstanding under our revolving credit facilities. The outstanding drawn balances may be rolled until the maturity date of each respective facility and have been presented as such in the maturity schedule above.



## Note 3. Interest Expense

The following table shows the components of interest for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
(dollars in thousands)			
Interest on borrowings	\$235,593	\$201,402	\$149,807
Less capitalized interest	(42,775)	(32,659)	(19,388)
Interest	192,818	168,743	130,419
Amortization of discounts and deferred debt issue costs	27,772	23,627	16,994
Interest expense	\$220,590	\$192,370	\$147,413

## Note 4. Shareholders' Equity

In 2010, the Company authorized 500,000,000 shares of Class A common stock, \$0.01 par value per share, of which 102,392,208 and 101,822,676 shares were issued and outstanding as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Company had authorized 10,000,000 shares of Class B Non-Voting common stock, \$0.01 par value per share, of which no shares were outstanding as of December 31, 2014 and 2013.

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.

On October 15, 2013, the Company entered into an exchange agreement with an existing security holder of the Company, pursuant to which the Company agreed to issue 1,829,339 shares of its Class A common stock to such security holder in exchange for an equal number of shares of the Company's Class B Non-Voting common stock in a transaction (the "Exchange") exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended. Following the satisfaction of certain closing conditions, the Exchange closed on October 17, 2013. No commission or other remuneration was paid or given directly or indirectly for solicitation of the Exchange, and no cash consideration was paid for the shares of Class A common stock issued in the Exchange. As a result of the Exchange, the total number of outstanding shares of Class A common stock increased by 1,829,339 shares, and no shares of Class B Non-Voting common stock are issued or outstanding. The Exchange did not increase the total number of outstanding shares of the Company's common stock used to compute basic and diluted net income per share.

On June 4, 2010, the Company issued 482,625 warrants for the purchase of up to 482,625 shares of Class A common stock to two institutional investors (the "Committed Investors"). The warrants have a seven-year term and an exercise price of \$20 per share. The Company used the BSM 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 had 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. On October 21, 2013, one of the Committed Investors performed a cashless exercise of all of its 214,500 warrants, resulting in the issuance of 63,481 shares of Class A Common Stock. As of December 31, 2014, the Company had 268,125 warrants remaining outstanding.

As of December 31, 2014 and 2013 the Company had authorized 50,000,000 shares of preferred stock, \$0.01 par value per share, of which no shares were issued or outstanding.

## Note 5. Rental Income

At December 31, 2014 minimum future rentals on non-cancellable operating leases of flight equipment in our fleet, which have been delivered as of December 31, 2014, are as follows:

(dollars in thousands)	
Years ending December 31,	
2015	\$1,032,375
2016	998,466
2017	938,087
2018	901,378
2019	844,122
Thereafter	2,770,506
Total	\$7,484,934

The Company earned \$25.2 million, \$34.4 million and \$25.0 million in maintenance reserve revenue based on our lessees' usage of the aircraft for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table shows the scheduled lease terminations (for the minimum non-cancellable period which does not include contracted unexercised lease extension options) of our operating lease portfolio as of December 31, 2014, updated through February 26, 2015:

Aircraft Type	2015	2016	2017	2018	2019	Thereafter	Total
Airbus A319-100	1	—	3	1	—	—	5
Airbus A320-200	—	2	2	1	4	30	39
Airbus A321-200	—	1	—	1	1	17	20
Airbus A330-200	—	—	1	—	4	11	16
Airbus A330-300	—	—	—	—	—	5	5
Boeing 737-700	—	3	—	2	3	—	8
Boeing 737-800	4	5	7	2	10	33	61
Boring 767-300ER	—	1	—	—	—	—	1
Boeing 777-200ER	—	—	—	—	—	1	1
Boeing 777-300ER	—	—	1	—	—	8	9
Embraer E175	—	—	—	—	—	7	7
Embraer E190	—	—	1	—	6	16	23
ATR 72-600	—	—	—	—	4	14	18
Total	5	12	15	7	32	142	213

## Note 6. Concentration of Risk

### Geographical and credit risks

As of December 31, 2014, all of the Company's rental of flight equipment revenues were generated by leasing flight equipment to foreign and domestic airlines, and the Company leased aircraft to 77 lessees whose principal places of business are located in 46 countries as of December 31, 2014 compared to 79 lessees in 47 countries as of December 31, 2013.

Over 95% of our aircraft are operated internationally. The following table sets forth the regional concentration of our aircraft portfolio based on net book value as of December 31, 2014 and 2013:

Region	December 31, 2014		December 31, 2013	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Asia	\$3,838,523	42.9%	\$3,165,367	41.6%
Europe	2,953,232	33.0%	2,656,816	34.9%
Central America, South America and Mexico	778,991	8.7%	829,930	10.9%
The Middle East and Africa	498,896	5.6%	372,618	4.9%
Pacific, Australia, New Zealand	471,630	5.2%	151,751	2.0%
U.S. and Canada	412,532	4.6%	436,653	5.7%
Total	\$8,953,804	100.0%	\$7,613,135	100.0%

At December 31, 2014 and 2013, we owned and managed leased aircraft to customers in the following regions:

Region	December 31, 2014		December 31, 2013	
	Number of Customers <sup>(1)</sup>	% of Total	Number of Customers <sup>(1)</sup>	% of Total
Asia	29	36.3%	29	36.7%
Europe	24	30.0%	21	26.6%
Central America, South America and Mexico	10	12.5%	12	15.2%
The Middle East and Africa	7	8.8%	7	8.9%
Pacific, Australia, New Zealand	2	2.4%	2	2.5%
U.S. and Canada	8	10.0%	8	10.1%
Total	80	100.0%	79	100.0%

<sup>(1)</sup> A customer is an airline with its own operating certificate.

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

Region	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
Asia	\$409,014	41.3%	\$299,472	35.8%	\$204,675	31.7%
Europe	337,349	34.0%	300,761	36.0%	253,376	39.2%
Central America, South America and Mexico	111,583	11.3%	107,857	12.9%	84,341	13.1%
The Middle East and Africa	47,958	4.9%	55,624	6.6%	39,398	6.1%
Pacific, Australia, New Zealand	30,330	3.1%	15,436	1.8%	10,862	1.7%
U.S. and Canada	55,007	5.4%	57,366	6.9%	53,201	8.2%
Total	\$991,241	100.0%	\$836,516	100.0%	\$645,853	100.0%

Based on our lease placements of future new aircraft deliveries, we anticipate that a growing percentage of our aircraft will be located in the Asia, the Central America, South America and Mexico, and the Middle East and Africa regions.

In 2014, rental of flight equipment revenue attributable to China was \$218.6 million or 22.1%, and represented our only country concentration in excess of 10%. In 2013, rental of flight equipment revenue attributable to China was \$129.8 million or 15.5%, and represented our only country concentration in excess of 10%. In 2012, three countries represented at least 10% of our rental revenue. Rental of flight equipment revenue attributable to China, Italy and France was \$75.5 million or 11.7%, \$71.0 million or 11.0% and \$67.4 million or 10.4%, respectively.

In 2014 and 2013, no individual airline represented at least 10% of our rental of flight equipment revenue. In 2012, one airline represented at least 10% of our rental of flight equipment revenue. For the year ended December 31, 2012, Alitalia attributed for \$71.0 million or 11.0% of our rental flight equipment revenue.

### 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.

## Note 7. Income Taxes

The provision for income taxes consists of the following:

(dollars in thousands)	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Current:			
Federal	\$ 8,092	\$ —	\$ —
State	39	—	—
Foreign	551	71	4
Deferred:			
Federal	129,943	102,887	71,932
State	153	147	118
Foreign	—	—	—
Income tax expense	<b>\$138,778</b>	\$103,105	\$72,054

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

(dollars in thousands)	Year Ended December 31, 2014		Year Ended December 31, 2013		Year Ended December 31, 2012	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes at statutory federal rate	\$138,172	35.0%	\$102,705	35.0%	\$71,390	35.0%
State income taxes, net of federal income tax effect and other	606	0.2%	400	0.2%	664	0.3%
	<b>\$138,778</b>	<b>35.2%</b>	\$103,105	35.2%	\$72,054	35.3%



The Company's net deferred tax assets (liabilities) are as follows:

	December 31, 2014	December 31, 2013
(dollars in thousands)		
<b>ASSETS (LIABILITIES)</b>		
Equity compensation	\$ 19,020	\$20,808
Net operating losses	10,197	36,786
Rents received in advance	26,605	21,575
Accrued bonus	4,577	3,578
Straight line rents	10,423	7,024
Other	6,571	4,662
Aircraft depreciation	(400,752)	(287,696)
Total (liabilities) assets	\$(323,359)	\$(193,263)

While we have a current obligation for alternative minimum tax, the Company has net operating loss carry forwards (NOLs) for federal income tax purposes of \$29.1 million and \$108.7 million as of December 31, 2014 and 2013, respectively, which are available to offset future taxable income in future periods and begin to expire in 2032. The Company does not have NOLs for state income tax purposes as of December 31, 2014 and has \$52.6 million of state NOLs as of December 31, 2013. The Company utilized \$79.6 million and \$19.5 million of NOLs for federal income tax purposes for the year ended December 31, 2014 and December 31, 2013, respectively. The Company recognizes tax benefits associated with stock-based compensation directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carry forwards resulting from windfall tax benefits. A windfall tax benefit occurs when the actual tax benefit realized upon an employee's disposition of a share-based award exceeds the tax effect of the cumulative book compensation charge associated with the award. The Company does not have any suspended windfall tax benefits as of December 31, 2014. As of December 31, 2013, the Company has windfall tax benefits of \$3.7 million, included in its U.S. net operating loss carry forward, but not reflected in deferred tax assets. The Company uses a tax law ordering approach to determine if the excess tax deductions associated compensation costs have reduced income taxes payable.

The Company has not recorded a deferred tax valuation allowance as of December 31, 2014 and 2013 as realization of the deferred tax asset is considered more likely than not. 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 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. As of December 31, 2014 and 2013 the Company has not recorded any liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The Company is subject to examinations by the major tax jurisdictions for the 2011 tax year and forward.

## Note 8. Commitments and Contingencies

### Aircraft acquisition

As of December 31, 2014, we had commitments to acquire a total of 364 new aircraft for delivery through 2023 as follows:

Aircraft Type	2015	2016	2017	2018	2019	Thereafter	Total
Airbus A320/321-200(1)	9	—	—	—	—	—	9
Airbus A320/321neo	—	3	12	17	21	57	110
Airbus A350-900/1000	—	—	—	1	2	22	25
Boeing 737-800	21	15	11	—	—	—	47
Boeing 737-8/9 MAX	—	—	—	8	18	78	104
Boeing 777-300ER	8	6	2	—	—	—	16
Boeing 787-9/10	—	3	1	7	8	26	45
ATR 72-600	2	5	1	—	—	—	8
<b>Total</b>	<b>40</b>	<b>32</b>	<b>27</b>	<b>33</b>	<b>49</b>	<b>183</b>	<b>364</b>

Commitments for the acquisition of these aircraft and other equipment at an estimated aggregate purchase price (including adjustments for inflation) of approximately \$28.8 billion as of December 31, 2014 are as follows:

	(dollars in thousands)
Years ending December 31,	
2015	\$ 2,381,857
2016	2,315,276
2017	1,907,137
2018	2,919,369
2019	3,998,600
Thereafter	15,297,344
<b>Total</b>	<b>\$28,819,583</b>

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of \$1.1 billion as of December 31, 2014 and 2013, respectively, which are subject to manufacturer performance commitments. If we are unable to satisfy our purchase commitments, we may be forced to forfeit our deposits. Further, we would be exposed to breach of contract claims by our lessees and manufacturers.

### 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. The Company recorded office lease expense (net of sublease income) of \$1.8 million, \$2.1 million and \$2.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Commitments for minimum rentals under the non-cancellable lease term at December 31, 2014, are as follows:

	(dollars in thousands)
Years ending December 31,	
2015	\$ 2,467
2016	2,541
2017	2,617
2018	2,696
2019	2,777
Thereafter	12,610
<b>Total</b>	<b>\$25,708</b>

## Note 9. Net Earnings Per Share

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

Diluted net earnings per share takes into account the potential conversion of stock options, restricted stock units, and warrants using the treasury stock method and convertible notes using the if-converted method. For the year ended December 31, 2014, the Company did not exclude shares related to stock options which are potentially dilutive securities from the computation of diluted earnings per share because including these shares would be dilutive. For the year ended December 31, 2013, the Company excluded 150,000 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 year ended December 31, 2012, the Company excluded 3,358,408 shares related to stock options which are potentially dilutive securities from the computation of diluted earnings per share because they were anti-dilutive. In addition, the Company excluded 969,225, 1,569,005 and 2,117,510 shares related to restricted stock units for which the performance metric had yet to be achieved as of December 31, 2014, 2013 and 2012, respectively.

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

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(in thousands, except share data)			
<b>BASIC NET INCOME PER SHARE</b>			
Numerator			
Net income	\$255,998	\$190,411	\$131,919
Denominator			
Weighted-average common shares outstanding	102,142,828	101,529,137	100,991,871
Basic net income per share	\$2.51	\$1.88	\$1.31
<b>DILUTED NET INCOME PER SHARE</b>			
Numerator			
Net income	\$255,998	\$190,411	\$131,919
Assumed conversion of convertible senior notes	5,811	5,783	5,627
Net income plus assumed conversions	\$261,809	\$196,194	\$137,546
Denominator			
Number of shares used in basic computation	102,142,828	101,529,137	100,991,871
Weighted-average effect of dilutive securities	8,049,943	7,434,413	6,664,592
Number of shares used in per share computation	110,192,771	108,963,550	107,656,463
Diluted net income per share	\$2.38	\$1.80	\$1.28

## Note 10. Fair Value Measurements

### **Assets and liabilities measured at fair value on a recurring and non-recurring basis**

The Company had no assets or liabilities which were measured at fair value on a recurring or non-recurring basis as of December 31, 2014 or 2013.

### **Financial instruments not measured at fair values**

The fair value of debt financing is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities, which would be categorized as a Level 2 measurement in the fair value hierarchy. The estimated fair value of debt financing as of December 31, 2014 was \$7.0 billion compared to a book value of \$6.7 billion. The estimated fair value of debt financing as of December 31, 2013 was \$6.1 billion compared to a book value of \$5.9 billion.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at December 31, 2014, but require disclosure of their fair values: cash and cash equivalents and restricted cash. The estimated fair value of such instruments at December 31, 2014 and 2013 approximates their carrying value as reported on the consolidated balance sheet. The fair value of all these instruments would be categorized as Level 1 of the fair value hierarchy.

## Note 11. Stock-based Compensation

On May 7, 2014, the stockholders of the Company approved the Air Lease Corporation 2014 Equity Incentive Plan (the "2014 Plan"). Upon approval of the 2014 Plan, no new awards may be granted under the Amended and Restated 2010 Equity Incentive Plan (the "2010 Plan"). As of December 31, 2014, the number of stock options ("Stock Options") and restricted stock units ("RSUs") authorized under the 2014 Plan is approximately 6,648,524, which includes 1,648,524 shares which were previously reserved for issuance under the 2010 Plan. Options are generally granted for a term of 10 years and generally vest over a three year period. The Company has issued RSUs with two different vesting criteria: those RSUs that vest based on the attainment of book value goals and those RSUs that vest based on the attainment of Total Shareholder Return ("TSR") goals. The book value RSUs generally vest ratably over three to four years, if the performance condition has been met. Book value RSUs for which the performance metric has not been met are forfeited. The TSR RSUs vest at the end of a three year period. The number of TSR RSUs that will ultimately vest is based upon the percentile ranking of the Company's TSR among a peer group. The number of shares that will ultimately vest will range from 0% to 200% of the RSUs initially granted depending on the extent to which the TSR metric is achieved. For disclosure purposes, we have assumed the TSR RSUs will ultimately vest at 100%. As of December 31, 2014, the Company had 969,225 unvested RSUs outstanding of which 389,203 are TSR RSUs.

The Company recorded \$16.0 million, \$21.6 million and \$31.7 million of stock-based compensation expense for the years ended December 31, 2014, 2013 and 2012, respectively.

### **Stock options**

The Company uses the BSM 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, 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 at the time of grant, there was no historical exercise data to provide a reasonable basis which the Company could use to estimate expected terms. Accordingly, the Company used the "simplified method" as permitted under Staff Accounting Bulletin No. 110. The risk free interest rate used in the option valuation model was derived from U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. In accordance with ASC Topic 718, Compensation—Stock Compensation, the Company estimated forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. During the year ended December 31, 2014, 2013 and 2012, the Company did not grant any Stock Options.

A summary of stock option activity in accordance with the Company's stock option plan for the year ended December 31, 2014 follows:

	Shares	Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) <sup>(1)</sup>
Balance at December 31, 2011	3,375,908	\$20.39	8.50	11,968
Granted	—	—	—	—
Exercised	(7,000)	\$20.00	7.50	18
Forfeited/canceled	(10,500)	\$20.00	—	—
Balance at December 31, 2012	3,358,408	\$20.39	7.49	4,813
Granted	—	—	—	—
Exercised	(500)	\$20.00	6.54	5
Forfeited/canceled	(250)	\$20.00	—	3
Balance at December 31, 2013	3,357,658	\$20.39	6.49	35,883
Granted	—	—	—	—
Exercised	(45,500)	\$20.00	—	814
Forfeited/canceled	—	—	—	—
Balance at December 31, 2014	3,312,158	\$20.40	5.49	46,077
Vested and exercisable as of December 31, 2014	3,312,158	\$20.40	5.49	46,077

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

As of December 31, 2014, all of the Company's outstanding employee stock options had fully vested and there were no unrecognized compensation costs related to outstanding employee stock options. As a result, there was no stock-based compensation expense related to Stock Options for the year ended December 31, 2014. Stock-based compensation expense related to employee stock options for the years ended December 31, 2013 and 2012, totaled \$5.4 million and \$11.8 million, respectively.

The following table summarizes additional information regarding outstanding, exercisable and vested stock options at December 31, 2014:

Range of exercise prices	Options Outstanding		Options Exercisable and Vested	
	Number of Shares	Weighted-Average Remaining Life (in years)	Number of Shares	Weighted-Average Remaining Life (in years)
\$20.00	3,162,158	5.46	3,162,158	5.46
\$28.80	150,000	6.32	150,000	6.32
\$20.00 – \$28.80	3,312,158	5.49	3,312,158	5.49

## Restricted stock units

Compensation cost for stock awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of book value RSUs is determined based on the closing market price of the Company's Class A common stock on the date of grant, while the fair value of TSR RSUs is determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model were certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk free interest rate and expected dividends. To appropriately value the award, the risk free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities were estimated based on a historical timeframe equal to the time from the valuation date until the end date of the performance period. Due to our limited stock history since the completion of our initial public offering on April 25, 2011, historical volatility was estimated based on all available stock history information.

During the year ended December 31, 2014, the Company granted 384,225 RSUs of which 182,476 are TSR RSUs. The following table summarizes the activities for our unvested RSUs for the year ended December 31, 2014:

	Unvested Restricted Stock Units	
	Weighted-Average	
	Number of Shares	Grant-Date Fair Value
Unvested at December 31, 2013	1,569,005	\$24.50
Granted	384,225	\$39.70
Vested	(981,835)	\$21.53
Forfeited/canceled	(2,170)	\$35.07
Unvested at December 31, 2014	969,225	\$33.51
Expected to vest after December 31, 2014 <sup>(1)</sup>	958,238	33.51

<sup>(1)</sup> RSUs expected to vest reflect an estimated forfeiture rate.

At December 31, 2014, the outstanding RSUs are expected to vest as follows: 2015—396,888; 2016—321,014; and 2017—240,336. The Company recorded \$16.0 million, \$16.2 million and \$19.9 million of stock-based compensation expense related to RSUs for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014 there was \$12.4 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 1.7 years.

## Note 12. Investments

On November 4, 2014, a wholly owned subsidiary of the Company entered into an agreement with a co-investment vehicle arranged by Napier Park to participate in a joint venture formed as a Delaware LLC—Blackbird Capital I, LLC (“Blackbird”) for the purpose of investing in commercial aircraft and leasing them to airlines around the globe. We will also provide management services to the joint venture for a fee based upon aircraft assets under management. The Company's non-controlling interest in Blackbird is 9.5% and it is accounted for as an investment under the equity method of accounting.

In November and December 2014, Blackbird completed the purchase of five aircraft with an aggregate purchase price of \$280.0 million from the Company. As of December 31, 2014, the Company's investment in Blackbird was \$10.1 million which is included in other assets.

## Note 13. Litigation

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

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

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

## Note 14. Related Party Transactions

The Company has a Master Servicing Agreement dated October 25, 2013 ("Master Servicing Agreement") with Commonwealth Bank of Australia and/or its subsidiaries (collectively "Commonwealth Bank"). Under the Master Servicing Agreement we consolidated all of our prior aircraft servicing agreements for the aircraft we manage for Commonwealth Bank. Commonwealth Bank beneficially owns more than 5% of our Class A common stock.

Under the Master Servicing Agreement, we manage on behalf of Commonwealth Bank or its subsidiaries the leasing and remarketing of aircraft for subsequent leases or for sale. For these services Commonwealth Bank pays us a percentage of the rent for the aircraft and will pay us a percentage of the proceeds if the aircraft is sold. Prior to entering into the Master Servicing Agreement, we had several aircraft servicing agreements for the aircraft we managed for Commonwealth Bank. As of March 17, 2014, all of the aircraft we manage for Commonwealth Bank are pursuant to the Master Servicing Agreement.

For the years ended December 31, 2014, 2013 and 2012 Commonwealth Bank paid us fees of \$0.9 million, \$0.5 million and \$1.8 million, respectively, for our services which is recorded in aircraft sales, trading and other revenue.

Additionally, Commonwealth Bank is a lender under our unsecured revolving credit facility and our 2010 Warehouse Facility. See Note 3 of Notes to Consolidated Financial Statements.

In September 2013, the Company, through a limited liability company of which it is the sole member, entered into a purchase agreement to acquire a corporate aircraft. The right to purchase the corporate aircraft was formerly held by an entity controlled by Mr. Udvar-Házy, our Chairman and CEO, and not affiliated with the Company. The parties conducted this transaction on an arm's length basis. The Company believes, based on independent expert advice, that at the time the Company entered into the purchase agreement, the purchase price of the aircraft was significantly below the then-current fair market value for such aircraft. The Company reimbursed Mr. Udvar-Házy \$6.8 million for deposits he paid to the manufacturer plus interest at a rate of 3.90% per annum.

In November 2013, the Company completed a marketed secondary public offering of up to 10,138,888 shares of its Class A common stock held by affiliates of Ares Management LLC, Leonard Green & Partners, L.P. and WL Ross & Co. LLC. The shares of Class A common stock were offered to the public at \$31.50 per share. The Company did not issue any additional shares of Class A common stock and did not receive any proceeds in this transaction. The total number of shares of the Company's Class A common stock outstanding did not change as a result of this offering.

## Note 15. Quarterly Financial Data (unaudited)

The following table presents our unaudited quarterly results of operations for the two-year period ended December 31, 2014.

	Quarter Ended							
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
(in thousands, except share data)								
Revenues	\$191,997	\$207,872	\$215,905	\$242,901	\$246,285	\$256,325	\$261,939	\$285,944
Income before taxes	61,672	66,311	74,888	90,571	94,709	95,680	96,277	108,110
Net income	39,996	42,990	48,578	58,847	61,397	62,037	62,433	70,131
Net income per share:								
Basic	\$ 0.39	\$ 0.42	\$ 0.48	\$ 0.58	\$ 0.60	\$ 0.61	\$ 0.61	\$ 0.68
Diluted	\$ 0.38	\$ 0.41	\$ 0.46	\$ 0.55	\$ 0.57	\$ 0.58	\$ 0.58	\$ 0.65

The sum of quarterly earnings per share amounts may not equal the annual amount reported since per share amounts are computed independently for each period presented.

## Note 16. Subsequent Events

On January 14, 2015, the Company issued \$600.0 million in aggregate principal amount of senior unsecured notes due 2022 that bear interest at a rate of 3.75%.

On February 26, 2015, our board of directors approved a quarterly cash dividend of \$0.04 per share on our outstanding common stock. The dividend will be paid on April 7, 2015 to holders of record of our common stock as of March 20, 2015.



# Leadership Team

## EXECUTIVE LEADERSHIP

Steven F. Udvar-Házy  
*Chairman and Chief Executive Officer*

John L. Plueger  
*President and Chief Operating Officer*

## MARKETING AND COMMERCIAL AFFAIRS

Grant Levy  
*Executive Vice President*

Alex A. Khatibi  
*Executive Vice President*

Marc Baer  
*Executive Vice President*

Jie Chen  
*Executive Vice President*

Kishore Korde  
*Senior Vice President*

Michael Bai  
*Vice President*

Chi Yan  
*Vice President*

## LEGAL

Carol Forsyte  
*Executive Vice President, General Counsel,  
Corporate Secretary, and Chief Compliance Officer*

Robert C. McNitt, Jr.  
*Senior Vice President and Corporate Counsel*

Toby MacCary  
*Senior Vice President and Corporate Counsel*

Jenny Van Le  
*Vice President and Corporate Counsel*

Czar Vigil  
*Vice President and Corporate Counsel*

## FINANCE AND ACCOUNTING

Gregory B. Willis  
*Senior Vice President and Chief Financial Officer*

Ardy Ghanbar  
*Vice President and Controller*

Sabrina Lemmens  
*Assistant Vice President and Assistant Controller*

## TECHNICAL ASSET MANAGEMENT

Pierce Chang  
*Vice President*

Eric Hoogenkamp  
*Assistant Vice President*

## AIRCRAFT PROCUREMENT AND SPECIFICATION

John Poerschke  
*Senior Vice President*

Ozzie Chraibi  
*Vice President*

Lance Pekala  
*Assistant Vice President*

## COMMERCIAL CONTRACTS

Sara Evans  
*Vice President*

Stephanie Brimmer  
*Assistant Vice President*

## STRATEGIC PLANNING

Ryan McKenna  
*Vice President*

## HUMAN RESOURCES AND OFFICE MANAGEMENT

Courtney McKeown  
*Assistant Vice President*

## BOARD OF DIRECTORS

Steven F. Udvar-Házy  
*Chairman and Chief Executive Officer*

John L. Plueger  
*President and Chief Operating Officer*

Robert A. Milton  
*Lead Independent Director; Chairman, Governance  
Committee; Audit Committee; Compensation Committee*

Matthew J. Hart  
*Chairman, Audit Committee; Governance Committee*

Ronald D. Sugar  
*Chairman, Compensation Committee;  
Governance Committee*

Cheryl Gordon Krongard  
*Compensation Committee*

Ian M. Saines  
*Audit Committee*

Marshall O. Larsen  
*Governance Committee*





2000 Avenue of the Stars, Suite 1000N  
Los Angeles, CA 90067 USA  
[www.airleasecorp.com](http://www.airleasecorp.com)

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