

TWO-THOUSAND AND TWELVE  
ANNUAL REPORT









# Air Lease Corporation

ALC is an 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 partners 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 OEMs as they develop the next generation of fuel-efficient “green” 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 for aircraft lease portfolios.



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# The Pipeline is our Backbone for Growth.

*We develop fleet solutions with our airline customers and deliver new aircraft suited for their individual requirements.*



**325** *new aircraft direct from the manufacturers*

**\$23 Billion** *in committed capital*

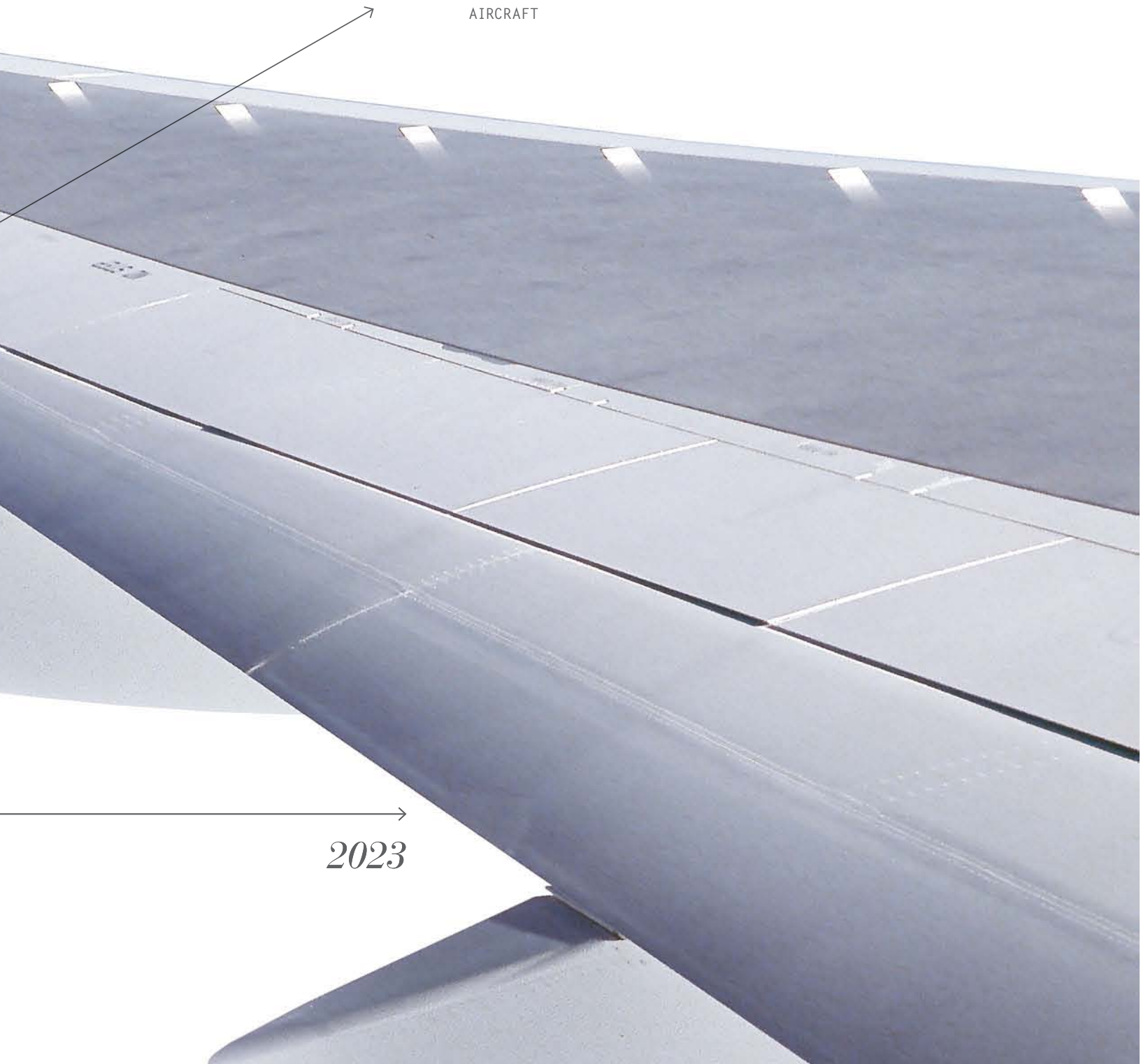
**155**  
AIRCRAFT



<i>AIRCRAFT TYPE</i>	<i>TOTAL</i>	<b>03</b>
AIRBUS A320/321-200	32	
AIRBUS A320/321 NEO	50	
AIRBUS A330-200/300	3	
AIRBUS A350 XWB	30	
BOEING 737-800	75	
BOEING 737-8/9 MAX	100	
BOEING 777-300ER	15	
BOEING 787-9	12	
ATR 72-600	8	
<b>TOTAL</b>	<b>325</b>	

**480✕**  
AIRCRAFT

→  
**2023**



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# Past. Present. Future.

*ALC works with the manufacturers to develop innovative aircraft for current mission requirements as well as the needs of tomorrow.*



## Original 737

ALC's management team is constantly looking towards the future of aviation, but it is important to learn from the past. The original 737 took to the skies in 1967, and by 1987 was one of the most-ordered airplanes in commercial aviation history. The 737 set the single-aisle standard for performance with exceptional economics, versatility, and legendary reliability. The airplane offered more passenger capacity, and new technology eliminated the need for a flight engineer, giving airlines the added cost advantage of a two-person flight deck. Such innovations and dependable performance helped make the 737 one of the best-selling and successful airplanes of its era.

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## 737 MAX

ALC's management team participated on the customer design team for 737 MAX and then became a launch customer of the aircraft at the Farnborough Airshow in the summer of 2012. New developments include ultra-efficient design, new technology engines and the new MAX Advanced Technology Winglet. Boeing reports the new airplane offers lower fuel use per seat than today's competitors, and 8% lower operating costs per seat than tomorrow's competitors. ALC's airline customers will be able to integrate the MAX into their current fleets and build on the reliability record of the Next-Generation 737. The 737 MAX defines the future of single-aisle flight with improved efficiency, reliability and passenger appeal.



## Next-Generation 737

ALC has included the Next-Generation 737 in its current fleet because it is one of the most cost-efficient, reliable and capable single-aisle airplanes in the market today. The airplane is extremely efficient by design, with lower weight, lower maintenance costs and lower overall operating costs. This helps ALC's customers maximize profitability by lowering costs and increasing revenues. ALC's management is in constant dialogue with our airline customers about the performance of the aircraft and provides feedback to Boeing so that they can continue to invest in improvements such as the first use of blended winglets and better engine efficiency, which have lowered fuel use even further. Maintenance cost reductions and the elevated experience of the first of the future generation of passenger cabins, the Boeing Sky Interior, keep strengthening the airplane's appeal. According to Boeing, the Next-Generation 737 has the highest reliability rates of any airplane at 99.7%, and is a leader for single-aisle performance and productivity in today's competitive market.



# 737 MAX

ALC's management team participated on the customer design team for 737 MAX and then became a launch customer of the aircraft at the Farnborough Airshow in the summer of 2012. New developments include ultra-efficient design, new technology engines and the new MAX Advanced Technology Winglet. Boeing reports the new airplane offers lower fuel use per seat than today's competitors, and 8% lower operating costs per seat than tomorrow's competitors. ALC's airline customers will be able to integrate the MAX into their current fleets and build on the reliability record of the Next-Generation 737. The 737 MAX defines the future of single-aisle flight with improved efficiency, reliability and passenger appeal.



# Delivering Efficiency

*ALC evaluates the mission requirements of our airline customers and delivers the aircraft best suited to optimize their flight operations.*



ALC considers the needs of tomorrow's airlines and the routes they will fly. Our customers need additional range capability, but are highly focused on the environmental impact of the airplanes that they operate. The A321neo Family will be an integral component of our portfolio in the future as these aircraft will incorporate the latest generation engines and large Sharklet wing-tip devices. Airbus reports the combination of these improvements will deliver up to 15% in fuel savings which is equivalent to 1.4 million liters of fuel—the consumption of 1,000 mid-size cars—saving 3,600 tons of CO<sub>2</sub> per aircraft per year. Airbus further states that these planes are capable of flying up to 600 nautical miles of additional range or carrying 2 tons of extra payload. With more than 9,000 aircraft ordered and over 5,400 aircraft delivered to over 380 customers and operators worldwide, the A321 Family is one of the best-selling single-aisle aircraft families in the market.





# Expansive Customer Base

*ALC has placed our modern, fuel efficient aircraft in every corner of the globe.*

✈ EUROPE	ASIA PACIFIC	LATIN AMERICA	NORTH AMERICA	AFRICA & MIDDLE EAST
BELARUS Belavia	AUSTRALIA Virgin Australia	BRAZIL Gol Airlines Passaredo Linhas Aereas	CANADA Air Canada Sunwing Airlines WestJet	ETHIOPIA Ethiopian Airlines
BULGARIA Bulgaria Air	CHINA Air China Air Macau China Eastern Airlines	TAM Trip Linhas Aereas	USA Hawaiian Airlines Southwest Airlines Spirit Airlines	KENYA Kenya Airways
CZECH REPUBLIC Travel Service	China Southern Airlines	COLOMBIA Avianca	Sun Country United Airlines	MOZAMBIQUE LAM Mozambique Airlines
FRANCE Air Austral Air France	Hainan Airlines Shanghai Airlines Sichuan Airlines Spring Airlines Xiamen Airlines	MEXICO Aeromexico Interjet Volaris		SOUTH AFRICA South African Airways
GERMANY airberlin	HONG KONG Cathay Pacific Airways	TRINIDAD Caribbean Airlines		UAE Air Arabia Emirates Etihad Airways
ITALY Alitalia	INDIA GoAir SpiceJet			
NETHERLANDS KLM transavia.com	INDONESIA Garuda Indonesia			
NORWAY Norwegian Air Shuttle	JAPAN Skymark Airlines			
POLAND Bingo Airways	KAZAKHSTAN Air Astana			
RUSSIA S7 Airlines Transaero Airlines	MALAYSIA AirAsia			
SPAIN Vueling	MALDIVES Maldivian			
SWEDEN TUIFly Nordic	MONGOLIA MIAT Mongolian Airlines			
TURKEY Corendon Airlines SunExpress	NEW ZEALAND Air New Zealand			
	PAKISTAN airblue			
	SOUTH KOREA Asiana Airlines Jeju Air Korean Air			
	SRI LANKA Mihin Lanka SriLankan Airlines			
	THAILAND Orient Thai Airlines			
	VIETNAM Vietnam Airlines			



7%

8%

13%

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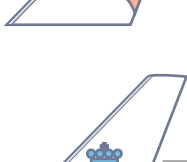
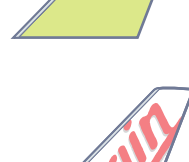
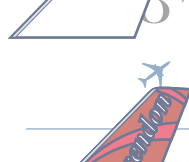
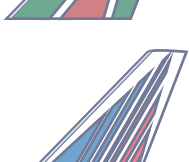
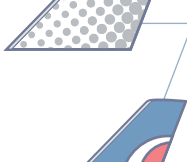
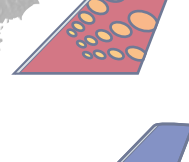
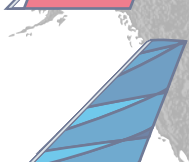
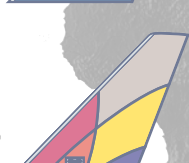
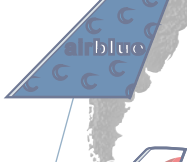
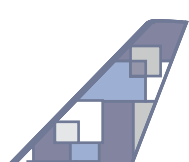
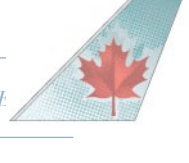
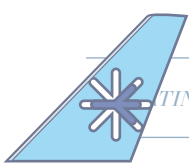
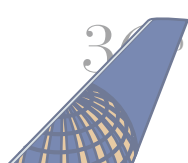
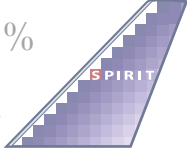
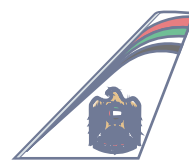
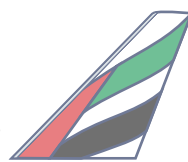
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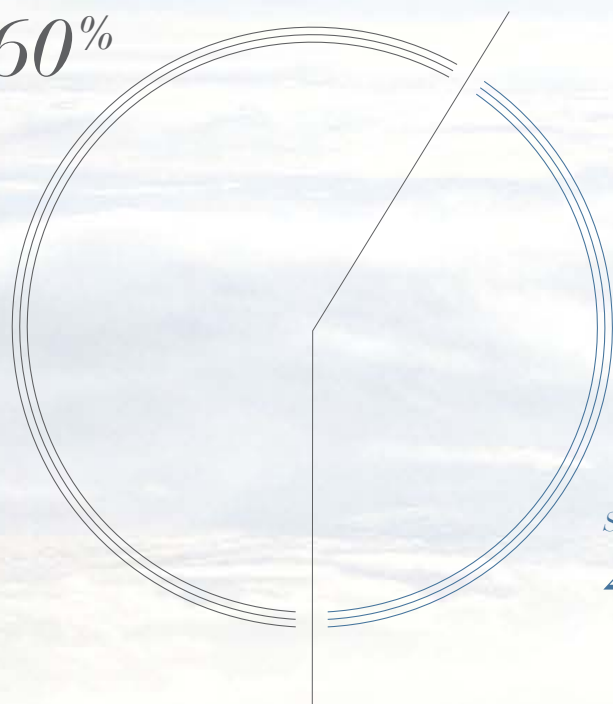
Regional concentrations of 2012 fleet by net book value

# Financial Performance



*Financial performance accelerated with the growth of our asset base. Unsecured funding grew by \$2.7 billion through capital markets transactions and our agented bank revolver.*

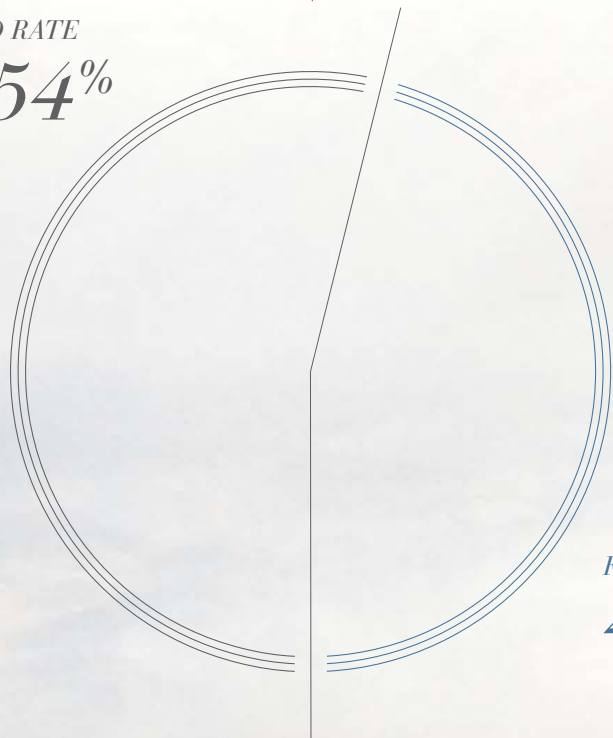
UNSECURED  
**60%**



SECURED  
**40%**

UNSECURED VS. SECURED DEBT  
*END OF 2012*

FIXED RATE  
**54%**



FLOATING RATE  
**46%**

FIXED RATE VS. FLOATING RATE  
*END OF 2012*





Year Ended December 31, <i>(in thousands, except per share amounts)</i>	2012	2011	% Change
Revenues	\$655,746	\$336,741	95%
Pretax income	\$203,973	\$ 82,841	146%
Pretax margin	31.1%	24.6%	26%
Net income	\$131,919	\$ 53,232	148%
Cash provided by operating activities	\$491,029	\$267,166	84%
Adjusted net income <sup>1</sup>	\$163,404	\$ 87,954	86%
Adjusted EBITDA <sup>1</sup>	\$596,451	\$290,168	106%
 Net income per share:			
Basic	\$ 1.31	\$ 0.59	122%
Diluted	\$ 1.28	\$ 0.59	117%

<sup>1</sup>See notes 1 and 2 in the Selected Financial Data for a discussion of the non-GAAP measures adjusted net income and adjusted EBITDA.



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**STEVEN F. UDVAR-HÁZY**  
Chairman and Chief Executive Officer

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**JOHN L. PLUEGER**  
President and Chief Operating Officer



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# To Our Shareholders

*2012 has been marked by steady growth in our business, from our global airline customer base to our future contracted aircraft delivery stream to the depth and breadth of our financing sources.*

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During the course of 2012, we more than doubled our earnings per share, nearly doubled our revenues, and grew our fleet by more than fifty percent, adding sixteen new airline customers to finish the year with 66 airline customers across 38 countries.

While the global economy was beset by challenges in Europe, Asia, and the United States, the airline industry proved resilient in 2012. In the face of gloomy predictions in early 2012 (particularly with respect to Europe), passenger traffic both globally and in Europe grew a healthy 5.3% for the full year, according to the International Air Transport Association. Fuel prices were relatively stable during 2012, allowing for airlines to more easily manage the single largest component of their expense base. Airlines have worked hard to cut costs, rationalize capacity, and modernize their fleets over the last few years and we see this trend continuing. These decisions have appeared to pay off as we witnessed airlines generally being able to maintain operating performance in a challenging macro-economic environment. We believe the growth in passenger traffic that occurred in 2012 despite these headwinds is an indicator that current generation jets will likely not be retired early as airlines need this lift to support sustained long-term demand in passenger air travel.

To address the needs of our airline customers, we continued to execute on our long-term fleet growth plan. At the Farnborough Airshow in July, we announced our launch order for 75 firm plus 25 reconfirmable Boeing 737 Max aircraft. In February of 2013, we placed an order for 20 Airbus A350-900s, five A350-1000s plus five options, and exercised options for 14 A320NEOs. In addition, we recently added 10 additional new 777-300ERs to our order backlog. All of this order activity has helped to further secure for us a steady aircraft delivery pipeline through 2022 and has helped to ensure that we will have the most modern narrowbody and widebody aircraft in our fleet that our customers demand. After three years of operation, we now enjoy one of the largest order books in the aircraft leasing industry, which allows us to secure volume pricing levels as one of the largest customers for Boeing and Airbus. When combined with favorable funding costs, we are able to translate these aircraft into competitive leases for our airline customers and solid returns for our shareholders.

Consistent with our view of the strong, long-term growth prospects for air travel in the Asia/Pacific region, 2012 brought signs of a growing capital migration towards the region as well. Asian financial institutions have acquired multiple aircraft leasing platforms, which we believe confirms the desirability of, and value in, aircraft leasing and aircraft assets. This new capital is helping to fill the funding gap that exists between the capital base of current lessors and the amount required to finance the leased content in the global fleet. While there have been many reports of European financial institutions leaving the industry, we have seen European banks remain active for solid airline and lessor credits.

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# We now enjoy one of the largest order books in the aircraft leasing industry.

The financing environment proved favorable as we were able to achieve broad-based financing at attractive rates. One of the strategic goals of Air Lease Corporation has been to finance the company primarily through unsecured debt issuances in order for us to have increased operational flexibility when moving aircraft from one airline to another and increased financial flexibility with unrestricted use of our cash when buying aircraft assets. Speed is of the essence when dealing with acquisition opportunities or redeploying assets from challenged operators, and a largely unsecured balance sheet helps provide this advantage for our company. We tapped the U.S. bond market twice in 2012 for a total of \$1.5 billion in senior unsecured notes and again early this year for an additional \$400 million. ALC has continued to cultivate our relationships with financial institutions and have earned the support of 35 commercial banks, including eight in the Asia/Pacific region, and they have helped to fund an unsecured bank revolver of more than \$1 billion. In summary, we increased the unsecured debt as a percentage of our total debt from 32% at the end of 2011 to 60% at the end of 2012 and were able to do this at a composite cost of funds of 3.94%.

During the fourth quarter, we profitably sold the first aircraft out of our fleet, an A320. We also experienced our first two airline customer insolvencies. Each of these airlines was operating one aircraft from our fleet. Yet the desirability and demand for our aircraft types, the relationships and remarketing capability of our team, and the holding of cash security deposits and maintenance reserves, allowed us to quickly re-lease these aircraft at profitable levels.

Our team has produced strong financial and operating results since inception three years ago. Owing to this success, our board has declared the company's first quarterly cash dividend on our outstanding common stock as part of a new cash dividend policy. The dividend will enhance shareholder returns, yet allow for the continued strong growth of the company.



Steven F. Udvar-Házy  
Chairman and Chief Executive Officer



John L. Plueger  
President and Chief Operating Officer

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# 2012 Review

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## BUSINESS

### *Overview*

Air Lease Corporation, a Delaware corporation (the “Company”, “ALC”, “we”, “our” or “us”), is an aircraft leasing company that was launched in February 2010 by aircraft leasing industry pioneer Steven F. Udvar-Házy. We are principally engaged in purchasing commercial aircraft which we, in turn, lease to airlines around the world to generate attractive returns on equity. As of December 31, 2012, we owned 155 aircraft of which 82 were new aircraft and 73 were used aircraft and we managed four aircraft. Our fleet is principally comprised of the highest demand and most widely distributed modern technology, fuel-efficient single-aisle jet aircraft, twin-aisle widebody aircraft and turboprop aircraft. We manage lease revenues and take advantage of changes in market conditions by acquiring a balanced mix of aircraft types. Our used aircraft are generally less than five years old. All of the aircraft we own were leased as of February 28, 2013. Additionally, as of December 31, 2012 and through February 28, 2013, we had entered into binding purchase commitments to acquire an additional 325 new aircraft through 2023.

Through careful management and diversification of our leases and lessees by geography, lease term, and aircraft age and type, we mitigate the risks of owning and leasing aircraft. We believe that diversification of our leases and lessees reduces the risks associated with individual lessee defaults and adverse geopolitical and regional economic events. We manage lease expirations in our fleet portfolio over varying time periods in order to minimize periods of concentrated lease expirations and mitigate the risks associated with cyclical variations in the airline industry. As of December 31, 2012, the weighted-average lease term remaining on our current leases was 6.8 years, and we leased the aircraft in our portfolio to 69 airlines in 40 countries. As of December 31, 2011, the weighted-average lease term remaining on our current leases was 6.6 years, and we leased the 102 aircraft in our portfolio to 55 airlines in 33 countries.

We operate our business on a global basis, providing aircraft to airline customers in every major geographical region, including emerging and high-growth markets such as Asia, the Pacific Rim, Latin America, the Middle East and Eastern Europe. According to AVITAS, Inc. (“AVITAS”), a leading advisor to the aviation industry, many of these emerging 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. In addition, airlines in some of these emerging markets have fewer financing alternatives, enabling us to command relatively higher lease rates compared to those in more mature markets. With our well-established industry contacts and access to capital, we believe we will be able to continue successfully implementing our business strategy worldwide.

While our primary business is to own and lease aircraft, we also plan to continue growing our fleet management services to third parties for a fee. These services are similar to those we perform with respect to our fleet, including leasing, re-leasing, lease management and sales services. In addition to our leasing activities and management services, and depending on market conditions, we sell aircraft from our fleet to other leasing companies, financial services companies and airlines.

Air Lease Corporation is led by a highly experienced management team that includes Mr. Udvar Házy, our Chairman and Chief Executive Officer, John L. Plueger, our President and Chief Operating Officer, Grant A. Levy, our Executive Vice President, Carol H. Forsyte, our Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer, Marc H. Baer, our Executive Vice President, Marketing, Alex A. Khatibi, our Executive Vice President, Jie Chen, our Executive Vice President and Managing Director of Asia, Gregory B. Willis, our Senior Vice President and Chief Financial Officer, and John D. Poerschke, our Senior Vice President of Aircraft Procurement and Specifications. On average, our senior management team has approximately 22 years of experience in the aviation industry.

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## Operations to Date

### Current Fleet

As of December 31, 2012, our fleet consisted of 155 aircraft, comprised of 118 single-aisle narrowbody jet aircraft, 27 twin-aisle widebody jet aircraft and 10 turboprop aircraft, with a weighted-average age of 3.5 years. As of December 31, 2011, our fleet consisted of 102 aircraft, comprised of 81 single-aisle narrowbody jet aircraft, 19 twin-aisle widebody jet aircraft and two turboprop aircraft, with a weighted-average age of 3.6 years. As of December 31, 2010, our fleet consisted of 40 aircraft, comprised of 36 single-aisle narrowbody jet aircraft and four twin-aisle widebody jet aircraft, with a weighted-average age of 3.8 years.

### Geographic Diversification

Over 90% of our aircraft are operated internationally 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, 2012 and 2011:

Region	December 31, 2012		December 31, 2011	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Europe	\$2,398,531	38.4%	\$1,782,949	42.1%
Asia Pacific	2,245,002	35.9%	1,355,432	32.0%
Latin America	788,189	12.6%	515,145	12.2%
North America	457,546	7.3%	386,101	9.1%
Africa and Middle East	362,595	5.8%	197,789	4.6%
Total	\$6,251,863	100.0%	\$4,237,416	100.0%

At December 31, 2012 and 2011, we leased aircraft to customers in the following regions:

Region	December 31, 2012		December 31, 2011	
	Number of Customers <sup>(1)</sup>	% of Total	Number of Customers <sup>(1)</sup>	% of Total
Europe	17	24.6%	13	23.6%
Asia Pacific	28	40.6%	22	40.0%
Latin America	9	13.0%	8	14.6%
North America	8	11.6%	7	12.7%
Africa and Middle East	7	10.2%	5	9.1%
Total	69	100.0%	55	100.0%

(1) 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, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
Europe	\$253,376	39.2%	\$151,566	45.6%	\$31,157	54.6%
Asia Pacific	215,537	33.4%	93,237	28.0%	11,933	20.9%
Latin America	84,341	13.1%	30,714	9.2%	4,953	8.7%
North America	53,201	8.2%	39,350	11.8%	6,309	11.0%
Africa and Middle East	39,398	6.1%	17,852	5.4%	2,723	4.8%
Total	\$645,853	100.0%	\$332,719	100.0%	\$57,075	100.0%

As our aircraft portfolio grows, we anticipate that a growing percentage of our aircraft will be located in the Asia/Pacific, the Central America, South America and Mexico, and the Middle East and Africa regions.

The following table sets forth the revenue attributable to individual countries representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Country	Year Ended December 31, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
China	\$75,451	11.7%	\$39,603	11.9%	\$ 6,091	10.7%
Italy	\$71,007	11.0%	—	—	—	—
France	\$67,411	10.4%	\$62,240	18.7%	\$ 8,598	15.1%
Germany	—	—	—	—	\$15,153	26.5%

The following table sets forth the revenue attributable to individual airlines representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Customer <sup>(1)</sup>	Year Ended December 31, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
Alitalia <sup>(2)</sup>	\$71,007	11.0%	—	—	—	—
Air France	—	—	\$45,444	13.7%	\$ 8,598	15.1%
Air Berlin	—	—	—	—	\$15,153	26.5%

(1) A customer is an airline with its own operating certificate.

(2) As we continue to grow our fleet through 2013, we anticipate that Alitalia will not represent 10% or more of our rental of flight equipment revenue for the year ended December 31, 2013.

### *Aircraft Acquisition Strategy*

Our long term aircraft asset acquisition strategy is focused on acquiring the highest demand and most widely distributed modern technology, fuel efficient single-aisle narrowbody jet aircraft, twin-aisle widebody jet aircraft and turboprop aircraft. Our business model is based on ordering these or similar types of aircraft directly from the manufacturers and directly leasing these new aircraft to our customers. We will opportunistically supplement our fleet with secondary purchases from other owners of aircraft and participate in sale-leaseback transactions with airlines; however, our primary strategy is to acquire new aircraft from the manufacturers.

In determining the needs of our lessees or prospective airline customers, we evaluate each potential new and used aircraft acquisition to determine if it supports our primary objective of generating profits while maintaining desired fleet characteristics. Our due diligence process takes into account:

- \* the needs of our airline customers at the time of acquisition and their anticipated needs at the end of typical leasing cycles;
- \* an aircraft's fit within our focused fleet based on its type, price, age, market value, specifications and configuration, condition and maintenance history, operating efficiency and potential for future redeployment; and
- \* an aircraft model's reliability, long-term utility for airline customers, and appeal to a large segment of the industry.

For used aircraft, we perform detailed technical reviews of both the physical aircraft and its maintenance history to minimize our risk of acquiring an aircraft with defects or other service issues. In the case of new aircraft, we work directly with the manufacturers to outfit and configure the aircraft with our airline customers' needs in mind. Our inspection of new aircraft is focused on ensuring that our customers' required specifications and modifications have been met.

We pursue acquisitions of additional aircraft through our relationships with aircraft operators, manufacturers, financial institutions, private investors and third-party lessors. We may also acquire aircraft for lease directly from manufacturers in the secondary market or pursuant to sale-leaseback transactions with aircraft operators. For new aircraft deliveries, we will often separately source many components, including seats, safety equipment, avionics, galleys, cabin finishes, engines and other equipment, from the same providers used by aircraft manufacturers at a lower cost. Manufacturers such as The Boeing Company ("Boeing") and Airbus S.A.S. ("Airbus") will install this buyer furnished equipment in our aircraft during the final assembly process at their facilities. Through this use of our purchasing strategy, we are better able to modify the aircraft to meet our customer's configuration requirements and enhance lease and residual values.

### *Leasing Process*

Our management team identifies prospective lessees based upon industry knowledge and long-standing industry relationships. We seek to meet the specific needs of our airline customers by working closely with potential lessees and, where appropriate, developing innovative lease structures specifically tailored to address those needs. While we structure aircraft leases with our airline customers' needs in mind, we nevertheless anticipate that most of our leases will share some common characteristics, including the following:

- \* most of our leases will be for fixed terms, although, where mutually beneficial, we may provide for purchase options or termination or extension rights;
- \* most of our leases will require advance monthly payments;
- \* most of our leases will generally provide that the lessee's payment obligations are absolute and unconditional;
- \* our lessees will typically be required to make lease payments without deducting any amounts that we may owe to the lessee or any claims that the lessee may have against us;
- \* most of our leases will also require lessees to gross up lease payments to cover tax withholdings or other tax obligations, other than withholdings that arise out of transfers of the aircraft to or by us or due to our corporate structure; and
- \* our leases will also generally require that our lessees indemnify us for certain other tax liabilities relating to the leases and the aircraft, including, in most cases, value added tax and stamp duties.

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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 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 (e.g., winglets and new interiors) and recover any such costs over the life of the lease.

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. Generally, we receive a cash deposit 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 obtains 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; although, where appropriate, we may agree to leases with payments denominated in other currencies. All guarantees obtained to support various lease agreements are denominated for payment in the same currency as the lease. To meet the needs of certain of our airline customers, a relatively small number of our leases may designate the payment currency to be Euros. As the Euro to U.S. dollar exchange rate fluctuates, airlines' interest in entering into Euro-denominated lease agreements will change. After we agree to the rental payment currency with an airline, the negotiated currency typically remains for the term of the lease. We occasionally 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 immaterial to us.

Management obtains and reviews relevant business materials from all prospective lessees and purchasers before entering into a lease or extending credit. Under certain circumstances, the lessee may be required to obtain guarantees or other financial support from an acceptable financial institution or other third parties. 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 we expect would 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.

### *Monitoring*

During the term of a lease, we monitor the operating performance and the financial health of the lessee. Our net operating leases generally require the lessee to pay for maintenance, insurance, taxes and all other aircraft operating expenses during the lease term.

We also closely follow the operating and financial performance of our lessees so that we can identify early on those lessees that may be experiencing operating and financial difficulties. This assists us in assessing the lessee's ability to fulfill its obligations under the lease for the remainder of the term and, where appropriate, restructure the lease prior to the lessee's insolvency or the initiation of bankruptcy or similar proceedings, at which time we would 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. To accomplish this objective, 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, new government regulations, regional catastrophes and other unforeseen shocks to the relevant market.

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### *Re-leasing or Disposition of Aircraft*

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 re-lease 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.

### *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 include 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 Avions de Transport Régional ("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.

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We cannot assure stockholders 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.

We maintain key man life insurance policies on our Chairman and CEO and our President and Chief Operating Officer. Each policy is in the amount of \$2.0 million, with the proceeds payable to us and permitted to be used for general corporate purposes.

### *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. Competition for leasing transactions is based on a number of factors, including delivery dates, lease rates, terms of lease, other lease provisions, aircraft condition and the availability in the marketplace of the types of aircraft required to meet the needs of airline customers. We believe we are a strong competitor in all of these areas.

### *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, and have registered, the aircraft which we acquire and lease to U.S. carriers and to a number of foreign carriers where, by agreement, the aircraft are to be registered in the United States, with the FAA, or in other countries, with such countries’ aviation authorities as applicable. 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, or a ferry flight permit, which is an authorization to operate an aircraft on a specific route. Our lessees are obligated to maintain the Certificates of Airworthiness for the aircraft they lease and, to our knowledge, all of our lessees have complied with this requirement. When an aircraft is not on lease, we maintain the certificate or obtain a certificate in a new jurisdiction.

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. In some cases, we are required to obtain export licenses for parts installed in aircraft exported to foreign countries.

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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. We comply with the provisions of the Patriot Act and closely monitor our activities with foreign entities.

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. We monitor our imports for compliance with U.S. Customs and Border Protection regulations.

The U.S. Bureau of Export Enforcement enforces regulations related to the export of aircraft to other jurisdictions and the export of parts for installation in other jurisdictions. We monitor our exports for compliance with the U.S. Bureau of Export Enforcement regulations.

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.

We believe we are in compliance in all material respects with all applicable governmental regulations.

### *Employees*

As of December 31, 2012, we had 52 full-time employees. None of our employees are represented by a union or collective bargaining agreements. We believe our relationship with our employees to be positive, which is a key component of our operating strategy. We strive to maintain excellent employee relations. We provide certain employee benefits, including retirement, health, life, disability and accident insurance plans.

### *Access to Our Information*

We file annual, quarterly and 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. 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.

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### *Directors of the Company*

Set forth below is the principal occupation or employment of each of our directors as of March 2013.

Name	Principal Occupation or Employment
Steven F. Udvar-Házy	Air Lease Corporation Chairman and Chief Executive Officer
John L. Plueger	Air Lease Corporation President and Chief Operating Officer
Robert Milton	ACE Aviation Holdings, Inc., a holding company for Air Canada and other aviation interests Former Chairman and Chief Executive Officer
Matthew J. Hart	Hilton Hotels Corporation, a global hospitality company Former President and Chief Operating Officer
Ronald D. Sugar	Northrop Grumman Corporation, a global aerospace and defense company Former Chairman and Chief Executive Officer
Wilbur Ross	WL Ross & Co. LLC, a private equity firm Chairman and Chief Executive Officer
Antony P. Ressler	Ares Management LLC, a global alternative asset manager A Founding Member and Chairman of the Executive Committee
John Danhakl	Leonard Green & Partners, L.P., a private equity firm Managing Partner
Ian M. Saines	Commonwealth Bank of Australia, a provider of integrated financial services Group Executive, Institutional Banking and Markets

## 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, 2012, there were 99,417,998 shares of Class A Common Stock outstanding held by approximately 166 holders of record, and 1,829,339 shares of Class B Non-Voting Common Stock outstanding held by one stockholder of record.

On February 27, 2013 the closing price of our Class A Common Stock was \$26.92 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. Our Class B Non-Voting Common Stock is not currently listed on any national exchange or market system.

Fiscal Year 2012 Quarters Ended:	High	Low
March 31, 2012	\$26.47	\$23.10
June 30, 2012	\$25.00	\$18.66
September 30, 2012	\$22.79	\$18.45
December 31, 2012	\$23.17	\$20.13
Fiscal Year 2011 Quarters Ended:		
June 30, 2011	\$29.94	\$23.02
September 30, 2011	\$25.36	\$18.32
December 31, 2011	\$23.95	\$17.24

### Dividends

In February 2013, our board of directors adopted a cash dividend policy pursuant to which we intend to pay quarterly cash dividends of \$0.025 per share on our outstanding common stock. The first quarterly cash dividend will be paid on March 26, 2013 to holders of record of our common stock as of March 21, 2013. There were no dividends declared or paid during 2012 or 2011.

While the board of directors currently expects to continue paying a quarterly cash dividend of \$0.025 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.

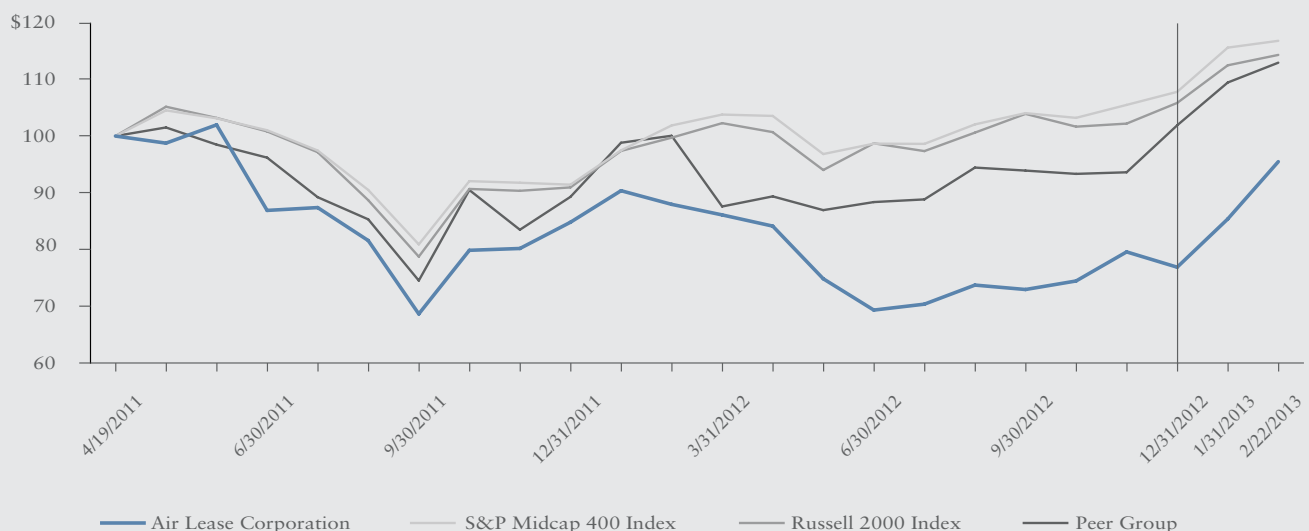
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,841,033	\$20.34	1,687,952
Equity compensation plans not approved by security holders	—	—	—
Total	3,841,033	\$20.34	1,687,952

### 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 Index and a customized peer group. The peer group consists of three companies: Aircastle 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 Index on April 19, 2011, and the relative performance of each is tracked through December 31, 2012 and February 22, 2013. The stock price performance shown in the graph is not necessarily indicative of future stock price performance.

#### COMPARISON OF 22 MONTH CUMULATIVE TOTAL RETURN

Assumes Initial Investment of \$100  
February 22, 2013





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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Overview*

During 2012, the Company continued to execute our primary business plan to acquire new, fuel-efficient commercial aircraft from aircraft manufacturers and to lease those aircraft to airlines around the world. We grew our fleet primarily through the acquisition of 46 aircraft from our new order pipeline supplemented by eight deliveries of new and used aircraft acquired in the secondary market. We continued to supplement our leasing revenues by providing management services to investors and/or owners of aircraft portfolios, for which we receive fee-based revenue. These services include leasing, re-leasing, and lease management and sales services, with the goal of helping our clients maximize lease and sale revenues. During 2012, we entered into long-term management servicing agreements for two additional aircraft ending the year with four managed aircraft compared to two as of December 31, 2011. In addition to our leasing activities and management services, and depending on market conditions, we sell aircraft from our fleet. During 2012, the Company sold an aircraft from our fleet and agreed to provide management services for this aircraft.

We ended 2012 with 155 aircraft comprised of 118 single-aisle narrowbody jet aircraft, 27 twin-aisle widebody jet aircraft and 10 turboprop aircraft, with a weighted-average age of 3.5 years. We ended 2011 with 102 aircraft, comprised of 81 single-aisle jet aircraft, 19 twin-aisle widebody jet aircraft and two turboprop aircraft, with a weighted-average age of 3.6 years. Our fleet grew by 48% based on net book value to \$6.3 billion as of December 31, 2012 compared to \$4.2 billion as of December 31, 2011.

The acquisition and lease of additional aircraft led to a 94% increase in our rental revenue to \$645.9 million for the year ended December 31, 2012 compared to \$332.7 million for the year ended December 31, 2011. Due to the timing of aircraft deliveries the full impact on rental revenue for aircraft acquired during a given period will be reflected in subsequent periods.

We recorded earnings before income taxes of \$204.0 million for the year ended December 31, 2012 compared to \$82.8 million for the year ended December 31, 2011, an increase of \$121.2 million or 146%. Our profitability increased year over year as our pretax profit margin increased to 31% for the year ended December 31, 2012 compared to 25% for the year ended December 31, 2011. Our earnings per share more than doubled as we recorded diluted earnings per share of \$1.28 for the year ended December 31, 2012 compared to \$0.59 for the year ended December 31, 2011, an increase of 117%.

During the year ended December 31, 2012 and through February 28, 2013, we entered into binding commitments to acquire up to 154 additional aircraft from Airbus, Boeing and ATR. From Airbus, we agreed to purchase up to 30 A350 XWB family aircraft, five of which are subject to reconfirmation. From Boeing, we agreed to purchase an additional 10 Boeing 777-300ER aircraft, an additional eight Boeing 787-9 aircraft and up to 100 Boeing 737-8/9 MAX aircraft of which 20 are subject to reconfirmation. Deliveries of the additional aircraft we are purchasing from Airbus and Boeing are scheduled to commence in 2017 and to continue through 2023. From ATR, we agreed to purchase six additional ATR 72-600 aircraft which are scheduled to deliver in 2013 and 2014.

As of December 31, 2012 and through February 28, 2013, we had entered into binding purchase commitments to acquire an aggregate 325 additional aircraft. We continued successful lease placements of new aircraft from our order book and as of February 28, 2013 we had entered into contracts for the lease of 91 new aircraft which in conjunction with our current fleet of 155 aircraft represent minimum lease rentals of \$11.4 billion.

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## Our Fleet

We have continued to build one of the world's youngest, most fuel-efficient aircraft operating lease portfolios. During the year ended December 31, 2012, we increased our fleet by 53 aircraft ending the year with a total of 155 aircraft (of which 82 were new aircraft and 73 were used aircraft). We also managed four aircraft as of December 31, 2012. Our weighted-average fleet age as of December 31, 2012 was 3.5 years.

Portfolio metrics of our fleet as of December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
(dollars in thousands)		
Fleet size	155	102
Weighted-average fleet age <sup>(1)</sup>	3.5 years	3.6 years
Weighted-average remaining lease term <sup>(1)</sup>	6.8 years	6.6 years
Aggregate fleet cost	\$6,598,898	\$4,368,985

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

The following table sets forth the net book value and percentage of the net book value of our aircraft portfolio operating in the indicated regions as of December 31, 2012 and 2011:

Region	December 31, 2012		December 31, 2011	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Europe	\$2,398,531	38.4%	\$1,782,949	42.1%
Asia/Pacific	2,245,002	35.9%	1,355,432	32.0%
Central America, South America and Mexico	788,189	12.6%	515,145	12.2%
U.S. and Canada	457,546	7.3%	386,101	9.1%
The Middle East and Africa	362,595	5.8%	197,789	4.6%
Total	<u>\$6,251,863</u>	<u>100.0%</u>	<u>\$4,237,416</u>	<u>100.0%</u>

The following table sets forth the number of aircraft we leased by aircraft type as of December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Number of Aircraft	% of Total	Number of Aircraft	% of Total
Airbus A319-100	7	4.5%	7	6.9%
Airbus A320-200	29	18.7%	21	20.6%
Airbus A321-200	5	3.2%	3	2.9%
Airbus A330-200	14	9.0%	11	10.8%
Airbus A330-300	3	1.9%	—	—
Boeing 737-700	8	5.2%	8	7.8%
Boeing 737-800	38	24.5%	30	29.4%
Boeing 767-300ER	3	1.9%	3	2.9%
Boeing 777-200ER	1	0.7%	1	1.0%
Boeing 777-300ER	6	3.9%	4	3.9%
Embraer E175	8	5.2%	2	2.0%
Embraer E190	23	14.8%	10	9.8%
ATR 72-600	10	6.5%	2	2.0%
Total	<u>155</u>	<u>100.0%</u>	<u>102</u>	<u>100.0%</u>

As of December 31, 2012 and through February 28, 2013, we had contracted to buy 325 new aircraft for delivery through 2023, with an estimated aggregate purchase price (including adjustments for inflation) of \$23.4 billion, for delivery as follows:

Aircraft Type	2013	2014	2015	2016	2017	Thereafter	Total
Airbus A320/321-200	13	13	6	—	—	—	32
Airbus A320/321 NEO	—	—	—	3	12	35	50
Airbus A330-200/300	3	—	—	—	—	—	3
Airbus A350 XWB <sup>(1)</sup>	—	—	—	—	—	30	30
Boeing 737-800	12	13	17	18	11	4	75
Boeing 737-8/9 MAX <sup>(2)</sup>	—	—	—	—	—	100	100
Boeing 777-300ER	—	6	8	1	—	—	15
Boeing 787-9	—	—	—	—	1	11	12
ATR 72-600	6	2	—	—	—	—	8
Total	34	34	31	22	24	180	325

(1) As of February 28, 2013, five of the Airbus A350 XWB aircraft were subject to reconfirmation.

(2) As of February 28, 2013, 20 of the Boeing 737-8/9 MAX aircraft were subject to reconfirmation.

Our lease placements are progressing in line with expectations. As of December 31, 2012 and through February 28, 2013 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
2013	34	34	100.0%
2014	34	31	91.2%
2015	31	15	48.4%
2016	22	3	13.6%
2017	24	1	4.2%
Thereafter	180	7	3.9%
Total	325	91	28.0%

### *Aircraft Industry and Sources of Revenues*

Our revenues are principally derived from operating leases with scheduled and charter airlines. As of December 31, 2012, 2011 and 2010, we derived more than 90% 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 lessees. The airline industry is cyclical, economically sensitive, and highly competitive. Airlines and related companies are affected by fuel price volatility and fuel shortages, political and economic instability, natural disasters, terrorist activities, changes in national policy, competitive pressures, labor actions, pilot shortages, insurance costs, recessions, health concerns and other political or economic events adversely affecting world or regional trading markets. Our airline customers' ability to react to, and cope with, the volatile competitive environment in which they operate, as well as our own competitive environment, will affect our revenues and income.

Demand for air travel has consistently grown in terms of both the number of aircraft and passenger traffic over the last 40 years. The industry has remained resilient over time, while enduring the effects of both business cycle downturns and external events. Today, air travel has penetrated most world regions, with the highest growth now coming from emerging markets and economies. While growth rates are lower in more mature markets, there is a substantial need in those markets to replace aircraft reaching the end of their economic useful lives. The long-term outlook for aircraft demand remains robust due to increased passenger traffic and the need to replace aging planes.



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The airline industry is cyclical and generally grows along with the economy. Historically, there has been a strong positive correlation between changes in world Gross Domestic Product (“GDP”), measured in U.S. dollars, and changes in passenger traffic (as indicated by revenue passenger kilometers (“RPK”), an industry standard measure of passengers flown where each RPK represents one kilometer traveled by a paying customer).

The business cycle effects are such that RPK declines or softens within recessionary periods. However, aircraft inventory has trended upward consistently, regardless of the economic cycle, as many aircraft are delivered during downturns despite reduced passenger travel.

Long-term passenger traffic growth is expected to be underpinned by projected growth in demand from emerging markets. Travel growth remains concentrated in the emerging markets of the Asia/Pacific region, Latin America and the Middle East while the more mature markets in the United States and Europe have slower growth rates overall. The percentage of world traffic attributable to emerging markets has been continuously increasing since the early 1990s. For example, in 1990, the Asia/Pacific region represented about 17% of the world’s passenger traffic, and its share was approximately 29% in 2011, the most recent year for which complete data is available. Since 1990, China’s passenger traffic has grown approximately 15% annually on average to 445 billion RPKs in 2011. Currently, China’s passenger traffic is the second highest in the world.

AVITAS forecasts considerably higher growth in 2013 through 2016 in the Asia/Pacific region, the Middle East and Latin America, as compared to North America and Europe. In fact, AVITAS forecasts that by 2015 passenger traffic in the Asia/Pacific region will surpass passenger traffic in North America.

For 2012, International Air Transport Association (“IATA”) has increased its profitability forecast from \$4.1 billion to \$6.7 billion, citing strong airline performance in the second and third quarters of 2012 as well as strong passenger traffic growth. AVITAS expects these factors to continue in 2013, and IATA projects 2013 industry profitability to rise to \$8.4 billion. However, IATA cautions that macroeconomic, geopolitical and policy risks such as the Euro-zone sovereign debt crisis, U.S. fiscal disorder and instability in the Middle East could negatively impact airline profitability.

Despite industry cyclicity and current economic stresses, we remain optimistic about the long term growth prospects for air transportation as well as the growing role that aircraft leasing, generally, and ALC, specifically, will play in facilitating the fleet transactions necessary to support the growth of the airline industry.

## *Liquidity and Capital Resources*

### *Overview*

We finance the acquisition of our aircraft through available cash balances, internally generated funds, including cash flow from operations and proceeds from aircraft sales, and debt financings. We borrow funds to purchase new and used aircraft, make progress payments on new aircraft purchase commitments and to pay down and refinance maturing debt obligations. One of our strategic goals since our inception has been and continues to be to finance the company primarily on an unsecured basis. This provides us with increased operational flexibility when transitioning aircraft from one airline to another and increased financial flexibility.

During the year ended December 31, 2012 and through February 28, 2013, we entered into debt facilities aggregating \$3.6 billion, which included \$2.1 billion in senior unsecured notes, our \$1.1 billion Syndicated Unsecured Credit Facility, our \$192.8 million 2012 Warehouse Facility and additional debt facilities aggregating \$265.0 million. We ended 2012 with total debt outstanding of \$4.4 billion compared to \$2.6 billion in 2011. We continued to focus on diversifying our banking group to broaden our access to capital and as of December 31, 2012 and through February 28, 2013 had developed a 36 member, globally diversified banking group, which has provided us in excess of \$3.8 billion in financing. We ended 2012 with total unsecured debt outstanding of \$2.6 billion compared to \$826.2 million in 2011, increasing the Company’s unsecured debt as a percentage of total debt to 60.2% as of December 31, 2012 compared to 31.7% as of December 31, 2011, while maintaining a composite cost of funds of 3.94%.

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We increased our cash flows from operations by 84% or \$223.8 million to \$491.0 million in 2012 as compared to \$267.2 million in 2011. Our cash flows from operations contributed significantly to our liquidity position. We ended 2012 with available liquidity of \$1.3 billion which is comprised of unrestricted cash of \$230.1 million and undrawn balances under our Warehouse Facilities and unsecured revolving credit facilities of \$1.1 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 2013 is focused on continuing to raise unsecured debt in the global bank market and through international and domestic capital markets transactions, reinvesting cash flow from operations and to a limited extent through government guaranteed loan programs from the ECAs in support of our new Airbus aircraft deliveries and the Ex-Im Bank in support of our new Boeing 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, some of which are outside of our control.

## Debt

Our debt financing was comprised of the following at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
(dollars in thousands)		
UNSECURED		
Senior notes	\$1,775,000	\$ 120,000
Revolving credit facilities	420,000	358,000
Term financings	248,916	148,209
Convertible senior notes	200,000	200,000
	2,643,916	826,209
SECURED		
Warehouse facilities	1,061,838	1,048,222
Term financings	688,601	735,285
	1,750,439	1,783,507
Total secured and unsecured debt financing	4,394,355	2,609,716
Less: Debt discount	(9,623)	(6,917)
Total debt	\$4,384,732	\$2,602,799
SELECTED INTEREST RATES AND RATIOS:		
Composite interest rate <sup>(1)</sup>	3.94%	3.14%
Composite interest rate on fixed debt <sup>(1)</sup>	5.06%	4.28%
Percentage of total debt at fixed rate	53.88%	24.26%

(1) 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, 2012 and through February 28, 2013, the Company issued \$2.1 billion in aggregate principal of senior unsecured notes.

In January 2012, the Company issued \$155.0 million in aggregate principal amount of senior unsecured notes due 2019 in an offering exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). The notes are senior unsecured obligations of the Company and bear interest at a rate of 7.375% per annum.

In March 2012, the Company issued \$1.0 billion in aggregate principal amount of senior unsecured notes due 2017 in an offering exempt from registration under the Securities Act. The notes are senior unsecured obligations of the Company and bear interest at a rate of 5.625% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after March 16, 2013 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture dated as of March 16, 2012.

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In September and October 2012, the Company issued \$450.0 million and \$50.0 million, respectively, in aggregate principal amount of senior unsecured notes due 2016 in an offering exempt from registration under the Securities Act. The notes are senior unsecured obligations of the Company and bear interest at a rate of 4.50% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after September 26, 2013 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture dated as of September 26, 2012.

In February 2013, the Company issued \$400.0 million in aggregate principal amount of senior unsecured notes due 2020 pursuant to an effective shelf registration statement that the Company previously filed with the SEC. The notes are senior unsecured obligations of the Company and bear interest at a rate of 4.75% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after February 5, 2014 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture, dated as of October 11, 2013, as amended and supplemented by the First Supplemental Indenture, dated as of February 5, 2013.

#### *Unsecured revolving credit facilities*

In May 2012, the Company entered into an \$853.0 million three-year senior unsecured revolving credit facility (the “Syndicated Unsecured Revolving Credit Facility”). The Syndicated Unsecured Revolving Credit Facility will mature on May 4, 2015. Borrowings under the Syndicated Unsecured Revolving Credit Facility bear interest at LIBOR plus a margin of 1.75% with no LIBOR floor. The Company is required to pay a commitment fee in respect of unutilized commitments under the Syndicated Unsecured Revolving Credit Facility at a rate of 0.375%. As of February 28, 2013, the Company had added four additional lenders to the Syndicated Unsecured Revolving Credit Facility and increased the aggregate principal amount by \$240.0 million to \$1.1 billion.

The total amount outstanding under our unsecured revolving credit facilities was \$420.0 million and \$358.0 million as of December 31, 2012 and December 31, 2011, respectively.

#### *Warehouse facilities*

We have a non-recourse, revolving credit facility (the “2010 Warehouse Facility”), dated April 21, 2011, as amended, which provides us with financing of up to \$1.25 billion. The 2010 Warehouse Facility accrues interest at a rate of LIBOR plus 2.50% on drawn balances and at a fixed rate of 0.75% on undrawn balances. We are able to draw on the 2010 Warehouse Facility, as amended, during an availability period that ends in June 2013. The outstanding drawn balance at the end of the availability period may be converted at our option to an amortizing, four-year term loan with an interest rate of LIBOR plus 3.25% for the initial three years of the term and margin step-ups during the remaining year that increase the interest to LIBOR plus 4.75%.

As of December 31, 2012, the Company had borrowed \$877.7 million under the 2010 Warehouse Facility and pledged 30 aircraft as collateral with a net book value of \$1.3 billion. As of December 31, 2011, the Company had borrowed \$1.0 billion under the 2010 Warehouse Facility and pledged 38 aircraft as collateral with a net book value of \$1.6 billion. The Company had pledged cash collateral and lessee deposits of \$98.6 million and \$86.9 million under the 2010 Warehouse Facility as of December 31, 2012 and December 31, 2011, respectively. We intend to continue to utilize the 2010 Warehouse Facility to finance aircraft acquisitions through 2013, as this facility provides us with ample liquidity to make opportunistic acquisitions of aircraft on short notice.

In March 2012, a wholly-owned subsidiary of the Company entered into a \$192.8 million senior secured warehouse facility (the “2012 Warehouse Facility”) to refinance a pool of eight aircraft previously financed under the Company’s 2010 Warehouse Facility (the “2010 Warehouse Facility” and together with the 2012 Warehouse Facility the “Warehouse Facilities”).

As of December 31, 2012, the Company had borrowed \$184.1 million under the 2012 Warehouse Facility and pledged eight aircraft as collateral with a net book value of \$256.6 million. The Company had pledged cash collateral and lessee deposits of \$5.8 million under the 2012 Warehouse Facility as of December 31, 2012.

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## Results of Operations

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands)			
<b>REVENUES</b>			
Rental of flight equipment	\$645,853	\$332,719	\$ 57,075
Interest and other	9,893	4,022	1,291
Total revenues	655,746	336,741	58,366
<b>EXPENSES</b>			
Interest	130,419	44,862	11,062
Amortization of discounts and deferred debt issue costs	16,994	9,481	4,883
Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Interest expense	147,413	57,692	51,743
Depreciation of flight equipment	216,219	112,307	19,262
Selling, general and administrative	56,453	44,559	24,232
Stock-based compensation	31,688	39,342	24,044
Total expenses	451,773	253,900	119,281
Income (loss) before taxes	203,973	82,841	(60,915)
Income tax (expense) benefit	(72,054)	(29,609)	8,875
Net income (loss)	\$131,919	\$ 53,232	\$ (52,040)
<b>OTHER FINANCIAL DATA:</b>			
Adjusted net income <sup>(1)</sup>	\$163,404	\$ 87,954	\$ 2,520
Adjusted EBITDA <sup>(2)</sup>	\$596,451	\$290,168	\$ 32,973

(1) Adjusted net income is a measure of financial and operational performance that is not defined by GAAP. See note 1 in "Item 6. Selected Financial Data" of this Annual Report on Form 10-K for a discussion of adjusted net income as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

(2) Adjusted EBITDA is a measure of financial and operational performance that is not defined by GAAP. See note 2 in "Item 6. Selected Financial Data" of this Annual Report on Form 10-K for a discussion of adjusted EBITDA as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

## 2012 Compared to 2011

### Rental revenue

As of December 31, 2012, we had acquired 155 aircraft at a total cost of \$6.6 billion and recorded \$645.9 million in rental revenue for the year then ended, which included overhaul revenue of \$25.0 million. In the prior year, as of December 31, 2011, we had acquired 102 aircraft at a total cost of \$4.4 billion and recorded \$332.7 million in rental revenue for the year ended December 31, 2011, which included overhaul revenue of \$11.0 million. The increase in rental revenue was attributable to the acquisition and lease of additional aircraft. The full impact on rental revenue for aircraft acquired during the period will be reflected in subsequent periods.

All of the aircraft in our fleet were leased as of December 31, 2012, except for one aircraft with respect to which we had entered into a lease commitment for which delivery occurred in February 2013. All of the aircraft in our fleet were leased as of December 31, 2011.



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### *Interest expense*

Interest expense totaled \$147.4 million for the year ended December 31, 2012 compared to \$57.7 million for the year ended December 31, 2011. The change was primarily due to an increase in our average outstanding debt balances resulting in a \$85.6 million increase in interest, an increase of \$7.5 million in amortization of our deferred debt issue costs, offset by a \$3.3 million charge for the extinguishment of debt recorded during the second quarter of 2011. We expect that our interest expense will increase as our average debt balance outstanding continues to increase.

### *Depreciation expense*

We recorded \$216.2 million in depreciation expense of flight equipment for the year ended December 31, 2012 compared to \$112.3 million for the year ended December 31, 2011. The increase in depreciation expense for 2012, compared to 2011, was attributable to the acquisition of additional aircraft. 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 \$56.5 million for the year ended December 31, 2012 compared to \$44.6 million for the year ended December 31, 2011. Selling, general and administrative expense as a percentage of revenue decreased to 8.6% for the year ended December 31, 2012 compared to 13.2% for the year ended December 31, 2011. As we continue to add new aircraft to our portfolio, we expect selling, general and administrative expense to decrease as a percentage of our revenue.

### *Stock-based compensation expense*

Stock-based compensation expense totaled \$31.7 million for the year ended December 31, 2012 compared to \$39.3 million for the year ended December 31, 2011. 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 an accelerated vesting schedule. The decrease was partially offset by grants made in 2012, as the full impact on stock-based compensation expense for the 2012 grants will be reflected in the subsequent periods. See note 11 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information on stock-based compensation.

### *Taxes*

The effective tax rate for the year ended December 31, 2012 was 35.3% compared to 35.7% for the year ended December 31, 2011. The change in effective tax rate for the respective periods is due to the effect of changes in permanent differences as well as the effect of discrete tax items related to stock-based compensation.

### *Net income*

For the year ended December 31, 2012, the Company reported consolidated net income of \$131.9 million, or \$1.28 per diluted share, compared to a consolidated net income of \$53.2 million, or \$0.59 per diluted share, for the year ended December 31, 2011. The increase in net income for 2012, compared to 2011, was primarily attributable to the acquisition and lease of additional aircraft.

### *Adjusted net income*

We recorded adjusted net income of \$163.4 million for the year ended December 31, 2012 compared to \$88.0 million for the year ended December 31, 2011. The change in adjusted net income for 2012, compared to 2011, was primarily attributable to the acquisition and lease of additional aircraft.

Adjusted net income is a measure of financial and operational performance that is not defined by GAAP. See note 1 in "Item 6. Selected Financial Data" of this Annual Report on Form 10-K for a discussion of adjusted net income as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

### *Adjusted EBITDA*

We recorded adjusted EBITDA of \$596.5 million for the year ended December 31, 2012 compared to \$290.2 million for the year ended December 31, 2011. The change in adjusted EBITDA for 2012, compared to 2011, was primarily attributable to the acquisition and lease of additional aircraft.

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Adjusted EBITDA is a measure of financial and operational performance that is not defined by GAAP. See note 2 in “Item 6. Selected Financial Data” of this Annual Report on Form 10-K for a discussion of adjusted EBITDA as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

## *2011 Compared to 2010*

### *Rental revenue*

As of December 31, 2011, we had acquired 102 aircraft at a total cost of \$4.4 billion and recorded \$332.7 million in rental revenue for the year then ended, which included overhaul revenue of \$11.0 million. In the prior year, as of December 31, 2010, we had acquired 40 aircraft at a total cost of \$1.6 billion and recorded \$57.1 million in rental revenue for the period from inception to December 31, 2010, which included overhaul revenue of \$3.6 million. The increase in rental revenue was attributable to the acquisition and lease of additional aircraft. The full impact on rental revenue for aircraft acquired during the period will be reflected in subsequent periods.

All of the aircraft in our fleet were leased as of December 31, 2011. All of the aircraft in our fleet were leased as of December 31, 2010, except for one aircraft with respect to which we had entered into a binding lease commitment but for which delivery occurred during February 2011.

### *Interest expense*

Interest expense totaled \$57.7 million for the year ended December 31, 2011 compared to \$51.7 million for the period from inception to December 31, 2010. The change was primarily due to an increase in our outstanding debt balances resulting in a \$33.8 million increase in interest, an increase of \$4.6 million in amortization of our deferred debt issue costs and a \$3.3 million charge for the extinguishment of debt associated with the modification of the Warehouse Facility, offset by a one-time \$35.8 million charge for the amortization of convertible debt discounts recorded during 2010.

The \$35.8 million charge in 2010 was a one-time, equity-neutral charge. This charge was a result of our issuance of \$60.0 million of convertible notes at 6.0%, on May 7, 2010, to funds managed by Ares Management LLC and Leonard Green & Partners, L.P. and members of our management and board of directors (and their family members or affiliates) and simultaneously entering into a forward purchase arrangement with such funds managed by Ares Management LLC and Leonard Green & Partners, L.P. to purchase shares at a discounted price.

We expect that our interest expense will increase as our average debt balance outstanding continues to increase.

Our overall composite interest rate decreased from the prior year as a result of our credit spreads on new debt issuances continuing to tighten, combined with a low, short-term interest rate environment.

### *Depreciation expense*

We recorded \$112.3 million in depreciation expense of flight equipment for the year ended December 31, 2011 compared to \$19.3 million for the period from inception to December 31, 2010. The increase in depreciation expense for 2011, compared to 2010, was attributable to the acquisition of additional aircraft.

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 \$44.6 million for the year ended December 31, 2011 compared to \$24.2 million for the period from inception to December 31, 2010. Selling, general and administrative expense represents a disproportionately higher percentage of revenues during our initial years of operation. As we continue to add new aircraft to our portfolio, we expect selling, general and administrative expense to continue decreasing as a percentage of our revenue.

### *Stock-based compensation expense*

Stock-based compensation expense totaled \$39.3 million for the year ended December 31, 2011 compared to \$24.0 million for the period from inception to December 31, 2010. This increase is primarily a result of timing as the full impact on

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stock-based compensation expense for grants made during the second quarter of 2010, partially offset by the effects of the expense recognition pattern related to our restricted stock unit grants, which are front-end loaded. We determine the fair value of our grants on the grant date and will recognize the value of the grants as expense over the vesting period, with an offsetting increase to equity.

#### *Taxes*

The effective tax rate for the year ended December 31, 2011 was 35.7% compared to 14.6% for the period from inception to December 31, 2010. The change in effective tax rate for the respective periods is primarily a result of a one-time \$35.8 million charge for the amortization of convertible debt discounts recorded in 2010 which is not deductible for tax purposes.

#### *Net income (loss)*

For the year ended December 31, 2011, the Company reported consolidated net income of \$53.2 million, or \$0.59 per diluted share, compared to a consolidated net loss of \$52.0 million, or \$1.32 per diluted share, for the period from inception to December 31, 2010. The increase in net income for 2011, compared to 2010, was primarily attributable to the acquisition and lease of additional aircraft.

#### *Adjusted net income*

We recorded adjusted net income of \$88.0 million for the year ended December 31, 2011 compared to \$2.5 million for the period from inception to December 31, 2010. The change in adjusted net income for 2011, compared to 2010, was primarily attributable to the acquisition and lease of additional aircraft.

Adjusted net income is a measure of financial and operational performance that is not defined by GAAP. See note 1 in "Item 6. Selected Financial Data" of this Annual Report on Form 10-K for a discussion of adjusted net income as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

#### *Adjusted EBITDA*

We recorded adjusted EBITDA of \$290.2 million for the year ended December 31, 2011 compared to \$33.0 million for the period from inception to December 31, 2010. The change in adjusted EBITDA for 2011, compared to 2010, was primarily attributable to the acquisition and lease of additional aircraft.

Adjusted EBITDA is a measure of financial and operational performance that is not defined by GAAP. See note 2 in "Item 6. Selected Financial Data" of this Annual Report on Form 10-K for a discussion of adjusted EBITDA as a non-GAAP measure and a reconciliation of this measure to net income (loss) and cash flows from operations.

### *Contractual Obligations*

Our contractual obligations as of December 31, 2012 and through February 28, 2013 for purchase commitments are as follows:

	2013	2014	2015	2016	2017	Thereafter	Total
(dollars in thousands)							
Long-term debt obligations <sup>(1)(2)</sup>	\$ 388,369	\$ 377,742	\$ 772,292	\$1,138,076	\$1,132,852	\$ 585,024	\$ 4,394,355
Interest payments on debt outstanding <sup>(3)</sup>	175,630	166,610	146,974	115,303	56,126	36,955	697,598
Purchase commitments	1,896,952	2,094,380	2,133,061	1,312,235	1,559,400	14,449,731	23,445,759
Operating leases	2,325	2,395	2,467	2,541	2,617	18,083	30,428
Total	\$2,463,276	\$2,641,127	\$3,054,794	\$2,568,155	\$2,750,995	\$15,089,793	\$28,568,140

(1) As of December 31, 2012, the Company had \$877.7 million of debt outstanding under the 2010 Warehouse Facility which will come due beginning in June 2013. The outstanding drawn balance at the end of the availability period may be converted at the Company's option to an amortizing, four-year term loan and has been presented as if such option were exercised in the contractual obligation schedule above.

(2) As of December 31, 2012, the Company had \$420.0 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.

(3) Future interest payments on floating rate debt are estimated using floating rates in effect at December 31, 2012.

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### *Off-balance Sheet Arrangements*

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

### *Critical Accounting Policies*

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 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 ("Contingent Rentals"). 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 Contingent Rentals are generally collected monthly based on reports of usage by the lessee or collected as fixed monthly rates.

In accordance with our lease agreements, Contingent Rentals are subject to reimbursement to the lessee upon the occurrence of a Qualifying Event. The reimbursable amount is capped by the amount of Contingent Rentals 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 Contingent Rentals unclaimed by the lessee at the end of the lease term are retained by the Company.

We record as rental revenue the portion of Contingent Rentals 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 Operations. Contingent Rentals 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 Contingent Rental 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 Contingent Rental

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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 Contingent Rentals 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 Contingent Rental 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 overhaul expense in our Consolidated Statement of Operations 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 Statement of Operations.

#### *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, 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.

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### *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.

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.

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## 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, 2012, we had \$2.03 billion in floating-rate debt. As of December 31, 2011, we had \$2.0 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, 2012 and December 31, 2011, of approximately \$20.3 million and \$20.0 million, each on an annualized basis, which would put downward pressure on our operating margins.

### *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, 2012 and December 31, 2011, 2.5% and 3.5%, respectively, of our lease revenues were denominated in Euros. As our principal currency is the U.S. dollar, a continuing weakness in the U.S. dollar as compared to other major currencies should not have a significant impact on our future operating results.

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# 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, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010. 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, 2012 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, 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, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 28, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

San Francisco, California  
February 28, 2013

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# Consolidated Balance Sheets

	December 31, 2012	December 31, 2011
<i>(in thousands, except share data)</i>		
<i>ASSETS</i>		
Cash and cash equivalents	\$ 230,089	\$ 281,805
Restricted cash	106,307	96,157
Flight equipment subject to operating leases	6,598,898	4,368,985
Less accumulated depreciation	(347,035)	(131,569)
	<u>6,251,863</u>	<u>4,237,416</u>
Deposits on flight equipment purchases	564,718	405,549
Deferred debt issue costs—less accumulated amortization of \$32,288 and \$17,500 as of December 31, 2012 and December 31, 2011, respectively	74,219	47,609
Other assets	126,428	96,057
Total assets	<u>\$7,353,624</u>	<u>\$5,164,593</u>
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		
Accrued interest and other payables	\$ 90,169	\$ 54,648
Debt financing	4,384,732	2,602,799
Security deposits and maintenance reserves on flight equipment leases	412,223	284,154
Rentals received in advance	41,137	26,017
Deferred tax liability	92,742	20,692
Total liabilities	<u>\$5,021,003</u>	<u>\$2,988,310</u>
Shareholders' Equity		
Preferred Stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued or outstanding	—	—
Class A Common Stock, \$0.01 par value; authorized 500,000,000 shares; issued and outstanding 99,417,998 and 98,885,131 shares at December 31, 2012 and December 31, 2011, respectively	991	984
Class B Non-Voting Common Stock, \$0.01 par value; authorized 10,000,000 shares; issued and outstanding 1,829,339 shares	18	18
Paid-in capital	2,198,501	2,174,089
Retained earnings	133,111	1,192
Total shareholders' equity	<u>2,332,621</u>	<u>2,176,283</u>
Total liabilities and shareholders' equity	<u>\$7,353,624</u>	<u>\$5,164,593</u>

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Operations

	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>REVENUES</b>			
Rental of flight equipment	\$645,853	\$332,719	\$ 57,075
Interest and other	9,893	4,022	1,291
Total revenues	655,746	336,741	58,366
<b>EXPENSES</b>			
Interest	130,419	44,862	11,062
Amortization of discounts and deferred debt issue costs	16,994	9,481	4,883
Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Interest expense	147,413	57,692	51,743
Depreciation of flight equipment	216,219	112,307	19,262
Selling, general and administrative	56,453	44,559	24,232
Stock-based compensation	31,688	39,342	24,044
Total expenses	451,773	253,900	119,281
Income (loss) before taxes	203,973	82,841	(60,915)
Income tax (expense) benefit	(72,054)	(29,609)	8,875
Net income (loss)	\$131,919	\$ 53,232	\$ (52,040)
Net income (loss) per share of Class A and Class B Common Stock:			
Basic	\$ 1.31	\$ 0.59	\$ (1.32)
Diluted	\$ 1.28	\$ 0.59	\$ (1.32)
Weighted-average shares outstanding:			
Basic	100,991,871	89,592,945	39,511,045
Diluted	107,656,463	90,416,346	39,511,045

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(dollars in thousands)			
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 131,919	\$ 53,232	\$ (52,040)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of flight equipment	216,219	112,307	19,262
Stock-based compensation	31,688	39,342	24,044
Deferred taxes	72,050	29,567	(8,875)
Amortization of discounts and deferred debt issue costs	16,994	9,481	4,883
Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Changes in operating assets and liabilities:			
Other assets	(18,758)	(17,438)	(8,040)
Accrued interest and other payables	25,797	19,347	18,864
Rentals received in advance	15,120	17,979	8,038
Net cash provided by operating activities	491,029	267,166	41,934
<b>INVESTING ACTIVITIES</b>			
Acquisition of flight equipment under operating lease	(1,899,231)	(2,529,901)	(1,649,071)
Payments for deposits on flight equipment purchases	(418,278)	(360,587)	(183,367)
Proceeds from disposal of flight equipment	47,490	—	—
Acquisition of furnishings, equipment and other assets	(74,905)	(86,668)	(19,082)
Net cash used in investing activities	(2,344,924)	(2,977,156)	(1,851,520)
<b>FINANCING ACTIVITIES</b>			
Issuance of common stock and warrants	43	867,230	1,157,133
Tax withholdings on stock-based compensation	(7,312)	(8,456)	—
Issuance of convertible notes	—	193,000	60,000
Net change in unsecured revolving facilities	62,000	238,000	120,000
Proceeds from debt financings	2,115,607	1,344,530	796,921
Payments in reduction of debt financings	(432,129)	(84,796)	(4,940)
Restricted cash	(10,150)	(47,481)	(48,676)
Debt issue costs	(42,149)	(13,933)	(51,305)
Security deposits and maintenance reserve receipts	142,541	180,862	109,274
Security deposits and maintenance reserve disbursements	(26,272)	(5,982)	—
Net cash provided by financing activities	1,802,179	2,662,974	2,138,407
Net increase (decrease) in cash	(51,716)	(47,016)	328,821
Cash and cash equivalents at beginning of period	281,805	328,821	—
Cash and cash equivalents at end of period	\$ 230,089	\$ 281,805	\$ 328,821
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the period for interest, including capitalized interest of \$19,388, \$10,390 and \$1,769 for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, respectively	\$ 124,731	\$ 51,986	\$ 12,723
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>			
Buyer furnished equipment, capitalized interest and deposits on flight equipment purchases applied to acquisition of flight equipment under operating leases	\$ 377,892	\$ 190,013	—
Conversion of convertible notes to Class A Common Stock	—	—	\$ 60,000

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			
<i>(in thousands, except share data)</i>									
<i>Balance at Inception</i>	—	—	—	—	—	—	—	—	—
Class A Common Stock issuance	—	—	55,750,972	\$558	—	—	\$1,026,082	—	\$1,026,640
Class B Non-Voting Common Stock issuance	—	—	—	—	6,308,844	\$ 63	124,852	—	124,915
Class B conversion to Class A	—	—	4,479,505	45	(4,479,505)	(45)	—	—	—
Issuance of warrants	—	—	—	—	—	—	5,578	—	5,578
Conversion of convertible notes	—	—	3,333,333	33	—	—	59,967	—	60,000
Convertible debt discounts	—	—	—	—	—	—	35,798	—	35,798
Stock-based compensation	—	—	—	—	—	—	24,044	—	24,044
Net (loss)	—	—	—	—	—	—	—	\$ (52,040)	(52,040)
<i>Balance at December 31, 2010</i>	—	—	63,563,810	\$636	1,829,339	\$ 18	\$1,276,321	\$ (52,040)	\$1,224,935
Class A Common Stock issuance	—	—	34,825,470	348	—	—	866,882	—	867,230
Issuance of restricted stock units	—	—	843,975	—	—	—	—	—	—
Tax withholdings on stock-based compensation	—	—	(348,124)	—	—	—	(8,456)	—	(8,456)
Stock-based compensation	—	—	—	—	—	—	39,342	—	39,342
Net income	—	—	—	—	—	—	—	53,232	53,232
<i>Balance at December 31, 2011</i>	—	—	98,885,131	\$984	1,829,339	\$ 18	\$2,174,089	\$ 1,192	\$2,176,283
Class A Common Stock issuance	—	—	—	—	—	—	(97)	—	(97)
Exercise of incentive stock options	—	—	7,000	7	—	—	133	—	140
Issuance of restricted stock units	—	—	890,110	—	—	—	—	—	—
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
<i>Balance at December 31, 2012</i>	—	—	99,417,998	\$991	1,829,339	\$ 18	\$2,198,501	\$133,111	\$2,332,621

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Organization*

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

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

### *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 discusses relevant operational and financial issues facing those lessees with its marketing executives in order to determine an appropriate allowance for doubtful accounts. In addition, if collection is not reasonably assured, the Company will not recognize rental income for amounts due under the Company’s lease contracts and will recognize revenue for such lessees on a cash basis. As of December 31, 2012 and 2011, the Company had no such allowance, and no leases were on a cash basis.

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

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

### *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.

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### *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 on our Consolidated Statement of Operations.

Management evaluates on a quarterly basis the need to perform an impairment test whenever facts or circumstances indicate a potential impairment has occurred. An assessment is performed whenever events or changes in circumstances indicate that the carrying amount of an aircraft may not be recoverable. Recoverability of an aircraft's carrying amount is measured by comparing the carrying amount of the aircraft to future undiscounted net cash flows expected to be generated by the aircraft. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates and estimated residual or scrap values for each aircraft. We develop assumptions used in the recoverability analysis based on our knowledge of active lease contracts, current and future expectations of the global demand for a particular aircraft type, and historical experience in the aircraft leasing market and aviation industry, as well as information received from third-party industry sources. The factors considered in estimating the undiscounted cash flows are affected by changes in future periods due to changes in contracted lease rates, economic conditions, technology and airline demand for a particular aircraft type. In the event that an aircraft does not meet the recoverability test, the aircraft will be recorded at fair value in accordance with the Company's Fair Value Policy, resulting in an impairment charge. Our Fair Value Policy is described below under "Fair Value Measurements". As of December 31, 2012 and 2011, 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.

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### *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. The Company recognizes compensation costs for shares that are expected to vest, on a straight-line basis, over the requisite service period of the award.

### *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.

## **NOTE 2. DEBT FINANCING**

The Company’s consolidated debt as of December 31, 2012 and 2011 are summarized below:

	December 31, 2012	December 31, 2011
(dollars in thousands)		
<b>UNSECURED</b>		
Senior notes	\$1,775,000	\$ 120,000
Revolving credit facilities	420,000	358,000
Term financings	248,916	148,209
Convertible senior notes	200,000	200,000
	<u>2,643,916</u>	<u>826,209</u>
<b>SECURED</b>		
Warehouse facilities	1,061,838	1,048,222
Term financings	688,601	735,285
	<u>1,750,439</u>	<u>1,783,507</u>
Total secured and unsecured debt financing	4,394,355	2,609,716
Less: Debt discount	(9,623)	(6,917)
Total debt	<u>\$4,384,732</u>	<u>\$2,602,799</u>

At December 31, 2012, 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, 2012 and 2011 are summarized below:

	December 31, 2012	December 31, 2011
(dollars in thousands)		
Nonrecourse	\$1,085,941	\$1,076,965
Recourse	664,498	706,542
Total	\$1,750,439	\$1,783,507
Number of aircraft pledged as collateral	55	54
Net book value of aircraft pledged as collateral	\$2,728,636	\$2,692,652

#### *Shelf registration statement*

We have an effective shelf registration statement filed with the SEC. As a result of our well-known issuer, or WKSI, status, we are able to register an unlimited amount of debt securities for sale under the shelf registration statement.

Under our shelf registration statement, we have issued \$400.0 million of 4.75% senior unsecured notes due 2020 in February 2013.

#### *Senior unsecured notes*

During the year ended December 31, 2012 and through February 28, 2013, the Company issued \$2.1 billion in aggregate principal of senior unsecured notes.

In January 2012, the Company issued \$155.0 million in aggregate principal amount of senior unsecured notes due 2019 to Qualified Institutional Buyers in reliance upon Rule 144A under the Securities Act. The notes are senior unsecured obligations of the Company and bear interest at a rate of 7.375% per annum.

In March 2012, the Company issued \$1.0 billion in aggregate principal amount of senior unsecured notes due 2017 to Qualified Institutional Buyers in reliance upon Rule 144A under the Securities Act. The notes are senior unsecured obligations of the Company and bear interest at a rate of 5.625% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after March 16, 2013 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture, dated as of March 16, 2012, between the Company and Deutsche Bank Trust Company Americas, as trustee.

In September and October 2012, the Company issued \$450.0 and \$50.0 million, respectively, in aggregate principal amount of senior unsecured notes due 2016 to Qualified Institutional Buyers in reliance upon Rule 144A under the Securities Act. The notes are senior unsecured obligations of the Company and bear interest at a rate of 4.5% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after September 26, 2013 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture, dated as of September 26, 2012, between the Company and Deutsche Bank Trust Company Americas, as trustee.

In February 2013, the Company issued \$400.0 million in aggregate principal amount of senior unsecured notes due 2020 pursuant to an effective shelf registration statement that the Company previously filed with the SEC. The notes are senior unsecured obligations of the Company and bear interest at a rate of 4.75% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after February 5, 2014 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture, dated as of October 11, 2013, as amended and supplemented by the First Supplemental Indenture, dated as of February 5, 2013, between the Company and Deutsche Bank Trust Company Americas, as trustee.

As of December 31, 2012, assuming the senior unsecured notes due 2020 had been issued the Company would have had \$2.2 billion in senior unsecured notes outstanding. As of December 31, 2011, the Company had \$120.0 million in senior unsecured notes outstanding.



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#### *Unsecured revolving credit facilities*

In May 2012, the Company entered into an \$853.0 million three-year senior unsecured revolving credit facility (the “Syndicated Unsecured Revolving Credit Facility”). The Syndicated Unsecured Revolving Credit Facility will mature on May 4, 2015 and contains an uncommitted accordion feature under which its aggregate principal amount can be increased by up to \$500.0 million.

Borrowings under the Syndicated Unsecured Revolving Credit Facility bear interest at LIBOR plus a margin of 1.75% with no LIBOR floor. The Company is required to pay a commitment fee in respect of unutilized commitments under the Syndicated Unsecured Revolving Credit Facility at a rate of 0.375%.

As of February 28, 2013, the Company had added four additional lenders to the Syndicated Unsecured Revolving Credit Facility and increased the aggregate principal amount by \$240.0 million to \$1.1 billion.

The total amount outstanding under our unsecured revolving credit facilities was \$420.0 million and \$358.0 million as of December 31, 2012 and December 31, 2011, respectively.

#### *Unsecured term financings*

During the year ended December 31, 2012, the Company entered into 10 additional unsecured term facilities aggregating \$153.1 million with terms ranging from 1 to 6 years and bearing interest at fixed rates ranging from 1.00% to 4.25%. The total amount outstanding under our unsecured term facilities was \$248.9 million and \$148.2 million as of December 31, 2012 and December 31, 2011, respectively.

The outstanding balance under our unsecured term facilities as of December 31, 2012 was comprised of \$233.6 million fixed rate debt with interest rates ranging from 1.00% to 4.25% and \$15.3 million floating rate debt at a rate of LIBOR plus 3.95%. The outstanding balance under our unsecured term facilities as of December 31, 2011 was comprised of \$128.9 million fixed rate debt with interest rates ranging from 3.00% to 4.00% and \$19.3 million floating rate debt at a rate of LIBOR plus 3.95%.

#### *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 \$30.23 per share.

#### *Warehouse facilities*

We have a non-recourse, revolving credit facility (the “2010 Warehouse Facility”), dated April 21, 2011, as amended, which provides us with financing of up to \$1.25 billion. The 2010 Warehouse Facility accrues interest at a rate of LIBOR plus 2.50% on drawn balances and at a fixed rate of 0.75% on undrawn balances. We are able to draw on the 2010 Warehouse Facility, as amended, during an availability period that ends in June 2013. The outstanding drawn balance at the end of the availability period may be converted at our option to an amortizing, four-year term loan with an interest rate of LIBOR plus 3.25% for the initial three years of the term and margin step-ups during the remaining year that increase the interest to LIBOR plus 4.75%.

As of December 31, 2012, the Company had borrowed \$877.7 million under the 2010 Warehouse Facility and pledged 30 aircraft as collateral with a net book value of \$1.3 billion. As of December 31, 2011, the Company had borrowed \$1.0 billion under the 2010 Warehouse Facility and pledged 38 aircraft as collateral with a net book value of \$1.6 billion. The Company had pledged cash collateral and lessee deposits of \$98.6 million and \$86.9 million under the 2010 Warehouse Facility as of December 31, 2012 and December 31, 2011, respectively. We intend to continue to utilize the 2010 Warehouse Facility to finance aircraft acquisitions through 2013, as this facility provides us with ample liquidity to make opportunistic acquisitions of aircraft on short notice.

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In March 2012, a wholly-owned subsidiary of the Company entered into a \$192.8 million senior secured warehouse facility (the “2012 Warehouse Facility”) to refinance a pool of eight aircraft previously financed under the Company’s 2010 Warehouse Facility (the “2010 Warehouse Facility” and together with the 2012 Warehouse Facility the “Warehouse Facilities”).

As of December 31, 2012, the Company had borrowed \$184.1 million under the 2012 Warehouse Facility and pledged eight aircraft as collateral with a net book value of \$256.6 million. The Company had pledged cash collateral and lessee deposits of \$5.8 million under the 2012 Warehouse Facility as of December 31, 2012.

#### *Secured term financing*

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

During the year ended December 31, 2012, one of our wholly-owned subsidiaries entered into a \$35.0 million secured term facility, with recourse to the Company. The outstanding balance on our secured term facilities was \$688.6 million and \$735.3 million at December 31, 2012 and December 31, 2011, respectively.

The outstanding balance under our secured term facilities as of December 31, 2012 was comprised of \$159.1 million fixed rate debt and \$529.5 million floating rate debt, with interest rates ranging from 4.28% to 5.36% and LIBOR plus 1.50% to LIBOR plus 3.59%, respectively. The outstanding balance under our secured term facilities as of December 31, 2011 was comprised of \$184.3 million fixed rate debt and \$551.0 million floating rate debt, with interest rates ranging from 4.28% to 5.36% and LIBOR plus 1.50% to LIBOR plus 3.59%, respectively. In connection with these facilities, the Company pledged \$1.1 billion in aircraft collateral as of December 31, 2012 and December 31, 2011.

#### *Maturities*

Maturities of debt outstanding as of December 31, 2012 are as follows:

	(dollars in thousands)
Years Ending December 31,	
2013	\$ 388,369
2014	377,742
2015	772,292
2016	1,138,076
2017	1,132,852
Thereafter	585,024
Total <sup>(1)(2)</sup>	<u>\$4,394,355</u>

(1) As of December 31, 2012, the Company had \$877.7 million of debt outstanding under the 2010 Warehouse Facility which matures in June 2013. The outstanding drawn balance at the end of the availability period may be converted at the Company’s option to an amortizing, four-year term loan and has been presented as such in the maturity schedule, above.

(2) As of December 31, 2012, the Company had \$420.0 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 maturity schedule, above.

## NOTE 3. INTEREST EXPENSE

The following table shows the components of interest for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010:

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(dollars in thousands)			
Interest on borrowings	\$149,807	\$ 55,252	\$12,831
Less capitalized interest	(19,388)	(10,390)	(1,769)
Interest	130,419	44,862	11,062
Amortization of discounts and deferred debt issue costs	16,994	9,481	4,883
Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Interest expense	\$147,413	\$ 57,692	\$51,743

The Company recorded a one-time \$35.8 million charge for the amortization of convertible debt discounts recorded during 2010. The \$35.8 million charge in 2010 was a one-time, equity-neutral charge. This charge was a result of our issuance of \$60.0 million of convertible notes at 6.0%, on May 7, 2010, to funds managed by Ares Management LLC and Leonard Green & Partners, L.P. and members of our management and board of directors (and their family members or affiliates) and simultaneously entering into a forward purchase arrangement with such funds managed by Ares Management LLC and Leonard Green & Partners, L.P. to purchase shares at a discounted price.

## 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 99,417,998 and 98,885,131 shares were issued and outstanding as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Company had authorized 10,000,000 shares of Class B Non-Voting Common Stock, \$0.01 par value per share, of which 1,829,339 shares were issued and outstanding. The rights and obligations of the holders of Class A and Class B Non-Voting Common Stock are identical, except with respect to voting rights and conversion rights. The holders of Class A Common Stock possess all voting power, and are not convertible into Class B Non-Voting Common Stock.

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

As of December 31, 2012 and 2011 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.

On June 4, 2010, the Company issued 482,625 warrants to two institutional investors (the "Committed Investors"). The warrants have a seven-year term and an exercise price of \$20 per share. The Company uses the 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 have a fair value at the grant date of \$5.6 million. The warrants are classified as an equity instrument and the proceeds from the issuance of common stock to the Committed Investors was split between the warrants and the stock-based on fair value of the warrants and recorded as an increase to Paid-in capital on the Consolidated Balance Sheet.

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

## NOTE 5. RENTAL INCOME

At December 31, 2012 minimum future rentals on non-cancelable operating leases of flight equipment in our fleet, which have been delivered as of December 31, 2012, are as follows:

	(dollars in thousands)
Years Ending December 31,	
2013	\$ 727,908
2014	701,439
2015	656,261
2016	600,153
2017	530,148
Thereafter	1,788,074
Total	<u>\$5,003,983</u>

The Company earned \$25.0 million, \$11.0 million and \$3.6 million in contingent rental revenue based on our lessees' usage of the aircraft for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, respectively.

The following table shows the scheduled lease terminations (for the minimum non-cancelable period which does not include contracted unexercised lease extension options) by aircraft type for our operating lease portfolio as of February 28, 2013:

Aircraft Type	2013	2014	2015	2016	2017	Thereafter	Total
Airbus A319-100	1	—	2	1	2	1	7
Airbus A320-200	2	1	2	2	4	18	29
Airbus A321-200	—	—	—	2	1	2	5
Airbus A330-200	—	—	—	1	1	12	14
Airbus A330-300	—	—	—	—	—	3	3
Boeing 737-700	1	2	—	2	—	3	8
Boeing 737-800	—	6	11	5	8	8	38
Boeing 767-300ER	2	1	—	—	—	—	3
Boeing 777-200ER	—	—	—	—	—	1	1
Boeing 777-300ER	—	—	—	—	1	5	6
Embraer E175-200	—	—	—	—	—	8	8
Embraer E190-100	—	—	—	—	—	23	23
ATR 72-600	—	—	—	—	—	10	10
Total	<u>6</u>	<u>10</u>	<u>15</u>	<u>13</u>	<u>17</u>	<u>94</u>	<u>155</u>

As of February 28, 2013, we have entered into new leases or sale agreements for three of the six aircraft with scheduled lease terminations in 2013.

## NOTE 6. CONCENTRATION OF RISK

### *Geographical and credit risks*

As of December 31, 2012, all of the Company's rental revenues were generated by leasing flight equipment to foreign and domestic airlines, and currently the Company leases aircraft to 69 lessees in 40 countries compared to 55 lessees in 33 countries as of December 31, 2011.

Over 90% of our aircraft are operated internationally 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, 2012 and 2011:

Region	December 31, 2012		December 31, 2011	
	Net Book Value	% of Total	Net Book Value	% of Total
(dollars in thousands)				
Europe	\$2,398,531	38.4%	\$1,782,949	42.1%
Asia Pacific	2,245,002	35.9%	1,355,432	32.0%
Latin America	788,189	12.6%	515,145	12.2%
North America	457,546	7.3%	386,101	9.1%
Africa and Middle East	362,595	5.8%	197,789	4.6%
Total	\$6,251,863	100.0%	\$4,237,416	100.0%

At December 31, 2012 and 2011, we leased aircraft to customers in the following regions:

Region	December 31, 2012		December 31, 2011	
	Number of Customers <sup>(1)</sup>	% of Total	Number of Customers <sup>(1)</sup>	% of Total
Europe	17	24.6%	13	23.6%
Asia Pacific	28	40.6%	22	40.0%
Latin America	9	13.0%	8	14.6%
North America	8	11.6%	7	12.7%
Africa and Middle East	7	10.2%	5	9.1%
Total	69	100.0%	55	100.0%

(1) 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, 2012		Year Ended December 31, 2011	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)				
Europe	\$253,376	39.2%	\$151,566	45.6%
Asia Pacific	215,537	33.4%	93,237	28.0%
Latin America	84,341	13.1%	30,714	9.2%
North America	53,201	8.2%	39,350	11.8%
Africa and Middle East	39,398	6.1%	17,852	5.4%
Total	\$645,853	100.0%	\$332,719	100.0%

As our aircraft portfolio grows, we anticipate that a growing percentage of our aircraft will be located in the Asia/Pacific, the Central America, South America and Mexico, and the Middle East and Africa regions.



The following table sets forth the revenue attributable to individual countries representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Country	Year Ended December 31, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
China	\$ 75,451	11.7%	\$ 39,603	11.9%	\$ 6,091	10.7%
Italy	\$ 71,007	11.0%	—	—	—	—
France	\$ 67,411	10.4%	\$ 62,240	18.7%	\$ 8,598	15.1%
Germany	—	—	—	—	\$ 15,153	26.5%

The following table sets forth the revenue attributable to individual airlines representing at least 10% of our rental of flight equipment revenue for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, based on each airline's principal place of business.

Customer <sup>(1)</sup>	Year Ended December 31, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total	Amount of Rental Revenue	% of Total
(dollars in thousands)						
Alitalia	\$ 71,007	11.0%	—	—	—	—
Air France	—	—	\$ 45,444	13.7%	\$ 8,598	15.1%
Air Berlin	—	—	—	—	\$ 15,153	26.5%

(1) A customer is an airline with its own operating certificate.

### 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:

	Year ended December 31, 2012	Year ended December 31, 2011	For the Period from Inception to December 31, 2010
(dollars in thousands)			
Current:			
Federal	—	—	—
State	—	—	—
Foreign	\$ 4	\$ 49	—
Deferred:			
Federal	71,932	29,102	\$(8,547)
State	118	458	(328)
Foreign	—	—	—
Income tax expense (benefit)	\$ 72,054	\$ 29,609	\$(8,875)

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

	Year Ended December 31, 2012		Year Ended December 31, 2011		For the Period from Inception to December 31, 2010	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Income taxes at statutory federal rate	\$71,390	35.0%	\$28,997	35.0%	\$(21,320)	(35.0)%
State income taxes, net of federal income tax effect	75	0.1%	298	0.3%	(213)	(0.4)%
Nondeductible interest—convertible note	—	—	—	—	12,529	20.6%
Other	589	0.2%	314	0.4%	129	0.2%
	<u>\$72,054</u>	<u>35.3%</u>	<u>\$29,609</u>	<u>35.7%</u>	<u>\$ (8,875)</u>	<u>(14.6)%</u>

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

	December 31, 2012	December 31, 2011
(dollars in thousands)		
Assets (Liabilities)		
Equity compensation	\$ 20,521	\$ 16,057
Net operating losses	43,676	12,000
Rents received in advance	14,436	9,163
Accrued bonus	2,457	3,043
Other	6,546	3,730
Aircraft depreciation	(180,378)	(64,685)
Total (liabilities) assets	<u>\$ (92,742)</u>	<u>\$ (20,692)</u>

The Company has net operating loss carryforwards (NOLs) for federal income tax purposes of \$128.4 million and \$37.8 million as of December 31, 2012 and 2011, respectively, which are available to offset future taxable income in future periods and begin to expire in 2030. The Company has NOLs for state income tax purposes of \$49.9 million and \$37.4 million as of December 31, 2012 and 2011, respectively, which are available to offset future taxable income in future periods and begin to expire in 2030. 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 carryforwards 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. As of December 31, 2012 and 2011, the Company has windfall tax benefits of \$3.7 million included in its U.S. net operating loss carryforward, but not reflected in deferred tax assets. The Company uses a with-and-without 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, 2012 and 2011 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 or before NOLs expire. Management considers the scheduled reversal of deferred tax liabilities, projected taxable income and tax planning strategies in making this assessment. Management anticipates the timing differences on aircraft depreciation will reverse and be available for offsetting the reversal of deferred tax assets. As of December 31, 2012 and 2011 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 2010 tax year and forward.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

### Aircraft Acquisition

As of December 31, 2012 and through February 28, 2013, we had contracted to buy 325 new aircraft for delivery through 2023 as follows:

Aircraft Type	2013	2014	2015	2016	2017	Thereafter	Total
Airbus A320/321-200	13	13	6	—	—	—	32
Airbus A320/321 NEO	—	—	—	3	12	35	50
Airbus A330-200/300	3	—	—	—	—	—	3
Airbus A350 XWB <sup>(1)</sup>	—	—	—	—	—	30	30
Boeing 737-800	12	13	17	18	11	4	75
Boeing 737-8/9 MAX <sup>(2)</sup>	—	—	—	—	—	100	100
Boeing 777-300ER	—	6	8	1	—	—	15
Boeing 787-9	—	—	—	—	1	11	12
ATR 72-600	6	2	—	—	—	—	8
Total	34	34	31	22	24	180	325

(1) As of February 28, 2013, five of the Airbus A350 XWB aircraft were subject to reconfirmation.

(2) As of February 28, 2013, 20 of the Boeing 737-8/9 MAX aircraft were subject to reconfirmation.

Commitments for the acquisition of these aircraft and other equipment at an estimated aggregate purchase price (including adjustments for inflation) of approximately \$23.4 billion as of December 31, 2012 and through February 28, 2013 are as follows:

	(dollars in thousands)
Years Ending December 31,	
2013	\$ 1,896,952
2014	2,094,380
2015	2,133,061
2016	1,312,235
2017	1,559,400
Thereafter	14,449,731
Total	<u>\$23,445,759</u>

We have made non-refundable deposits on the aircraft for which we have commitments to purchase of \$564.7 million and \$405.5 million as of December 31, 2012 and December 31, 2011, 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 of \$2.5 million, \$2.1 million and \$0.5 million for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, respectively.

Commitments for minimum rentals under the non-cancelable lease term at December 31, 2012 are as follows:

	(dollars in thousands)
Years Ending December 31,	
2013	\$ 2,325
2014	2,395
2015	2,467
2016	2,541
2017	2,617
Thereafter	<u>18,083</u>
Total	<u>\$30,428</u>

## NOTE 9. NET EARNINGS PER SHARE

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

Diluted net earnings per share takes into account the potential conversion of stock options, restricted stock units, and warrants using the treasury stock method and convertible notes using the if-converted method. 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 including these shares would be anti-dilutive. For the year ended December 31, 2011, the Company excluded 3,375,908 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 period from inception to December 31, 2010, the Company excluded 206,749 shares related to these potentially dilutive securities from the computation of diluted earnings per share because they were anti-dilutive. In addition, the Company excluded 2,117,510, 2,613,539 and 3,225,907 shares related to restricted stock units for which the performance metric had yet to be achieved as of December 31, 2012, 2011 and 2010, respectively.

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

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands, except share data)			
Basic net income per share:			
Numerator			
Net income (loss)	\$ 131,919	\$ 53,232	\$(52,040)
Denominator			
Weighted-average common shares outstanding	100,991,871	89,592,945	39,511,045
Basic net income per share	\$ 1.31	\$ 0.59	\$ (1.32)
Diluted net income per share:			
Numerator			
Net income (loss)	\$ 131,919	\$ 53,232	\$(52,040)
Interest on convertible senior notes	5,627	560	—
Net income (loss) plus assumed conversions	\$ 137,546	\$ 53,792	\$(52,040)
Denominator			
Number of shares used in basic computation	100,991,871	89,592,945	39,511,045
Weighted-average effect of dilutive securities	6,664,592	823,401	—
Number of shares used in per share computation	107,656,463	90,416,346	39,511,045
Diluted net income per share	\$ 1.28	\$ 0.59	\$ (1.32)

## 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 are measured at fair value on a recurring or non-recurring basis as of December 31, 2012 or 2011.

### *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, 2012 was \$4,517.6 million compared to a book value of \$4,384.7 million. The estimated fair value of debt financing as of December 31, 2011 was \$2,591.0 million compared to a book value of \$2,602.8 million.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at December 31, 2012, but require disclosure of their fair values: cash and cash equivalents and restricted cash. The estimated fair value of such instruments at December 31, 2012 and 2011 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

In accordance with the Amended and Restated Air Lease Corporation 2010 Equity Incentive Plan ("Plan"), the number of stock options ("Stock Options") and restricted stock units ("RSUs") authorized under the Plan is approximately 8,193,088 as of December 31, 2012. Options are generally granted for a term of 10 years and generally vest over a three-year period. There are two kinds of RSUs: those that vest based on the attainment of book-value goals and those that vest based on the attainment of 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. As of December 31, 2012, the Company granted 3,375,908 Stock Options and 3,866,061 RSUs of which 193,914 are TSR RSUs.

The Company recorded \$31.7 million, \$39.3 million and \$24.0 million of stock-based compensation expense for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, 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, there is no historical exercise data to provide a reasonable basis which the Company can use to estimate expected terms. Accordingly, the Company uses the "simplified method" as permitted under Staff Accounting Bulletin No. 110. The risk-free interest rate used in the option valuation model is derived from U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. In accordance with ASC Topic 718, Compensation—Stock Compensation, the Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. During the year ended December 31, 2012, the Company did not grant any Stock Options. The average assumptions used to value stock-based payments during the year ended December 31, 2011 and the period from inception to December 31, 2010 are as follows:

	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
Dividend yield	None	None
Expected term	5.9 years	6.0 years
Risk-free interest rate	2.4%	2.3%
Volatility	50.2%	52.7%

A summary of stock option activity in accordance with the Company's stock option plan for the year ended December 31, 2012 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
Vested and exercisable as of December 31, 2012	2,238,265	\$20.20	7.48	\$ 3,282
Vested and exercisable as of December 31, 2012 and expected to vest thereafter <sup>(2)</sup>	3,353,423	\$20.39	7.49	\$ 4,805

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$21.50 of our Class A Common Stock on December 31, 2012.

(2) Options expected to vest reflect an estimated forfeiture rate.

Stock-based compensation expense related to employee stock options for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, totaled \$ 11.8 million, \$12.0 million and \$6.1 million, respectively.

The following table summarizes additional information regarding outstanding and exercisable and vested at December 31, 2012:

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	3,208,408	7.46	2,188,265	7.46
\$28.80	150,000	8.31	50,000	8.31
\$20.00–\$28.80	3,358,408	7.49	2,238,265	7.48

As of December 31, 2012, there was \$5.3 million of unrecognized compensation cost related to outstanding employee stock options. This amount is expected to be recognized over a weighted-average period of 0.44 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation related to these awards will be different from our expectations.

#### *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. The dividend distributions were estimated to be zero based on dividend distributions before the valuation date.

The following table summarizes the activities for our unvested RSUs for the year ended December 31, 2012:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2011	2,613,539	\$20.78
Granted	408,097	24.27
Vested	(890,110)	20.50
Forfeited/canceled	(14,016)	19.51
Unvested at December 31, 2012	2,117,510	\$21.38
Expected to vest after December 31, 2012 <sup>(1)</sup>	2,105,734	\$21.61

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

At December 31, 2012, the outstanding RSUs are expected to vest as follows: 2013—955,182; 2014—904,372; and 2015—257,956. The Company recorded \$19.9 million, \$27.4 million and \$17.9 million of stock-based compensation expense related to RSUs for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010, respectively.

As of December 31, 2012, there was \$15.5 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 1.59 years.

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## NOTE 12. 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 complaint also names as defendants certain executive officers and employees of the Company. The complaint was amended on November 30, 2012 and on January 18, 2013. Among other things, the suit 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.

## NOTE 13. RELATED PARTY TRANSACTIONS

In March 2011, we entered into a Servicing Agreement with Commonwealth Bank of Australia and one of its subsidiaries. Commonwealth Bank beneficially owns more than 5% of our Class A Common Stock, and one of our directors, Ian M. Saines, is Group Executive of the Institutional Banking and Markets division of Commonwealth Bank. Pursuant to the Servicing Agreement, we agreed to arrange the acquisition of an Airbus A320 aircraft on behalf of the subsidiary, to manage the lease of the aircraft to a third party and subsequent lessees, and if requested by the subsidiary, to remarket the aircraft for subsequent leases or for sale. In connection with this transaction, Commonwealth Bank paid us fees for acquiring the aircraft and for collecting the first rent payment under the lease, and will pay us a percentage of the contracted rent and the rent actually paid by the lessee each month. We may earn up to an aggregate of approximately \$650,000 in fees under the Servicing Agreement in connection with the acquisition of the aircraft and management of the current lease.

In March 2011, Commonwealth Bank of Australia provided the Company with a three-year unsecured revolving loan of \$25.0 million at a rate of LIBOR plus 2.0%.

In March 2011, Commonwealth Bank of Australia provided the Company with a five-year unsecured term loan of \$12.0 million at a rate of 4.1%.

In October 2011, Commonwealth Bank of Australia provided the Company with a five-year unsecured term loan of \$13.0 million at a rate of 3.5%.

In December 2011, 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 unrelated entity controlled by Mr. Udvar-Házy, our Chairman and CEO. 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. No financial payment was made, and no financial benefit was received, by Mr. Udvar-Házy.

In March 2012, we entered into a Syndicated Unsecured Revolving Credit Facility under which Commonwealth Bank is a lender. See note 3 of Notes to Consolidated Financial Statements.

In April 2012, we entered into a Servicing Agreement with Commonwealth Bank of Australia and one of its subsidiaries at terms no more favorable than would be to an unrelated third party. Pursuant to the Servicing Agreement, we agreed to arrange the acquisition of a Boeing 777 aircraft on behalf of a subsidiary, to manage the lease of the aircraft to a third party, and if requested by the subsidiary, to remarket the aircraft for subsequent leases or for sale. In connection with this transaction, Commonwealth Bank of Australia paid us fees for acquiring the aircraft and for collecting the first rent payment under the lease, and will pay us a percentage of the contracted rent and the rent actually paid by the lessee each month. We may earn up to an aggregate of approximately \$2.7 million in fees under the Servicing Agreement in connection with the acquisition of the aircraft and management of the current lease.

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In December 2012, we entered into an agreement with Commonwealth Bank of Australia and one of its subsidiaries for the sale of an Airbus A320-200 at terms no more favorable than would be to an unrelated third party. In addition, the Company entered into a Servicing Agreement with Commonwealth Bank of Australia to manage the lease of the aircraft to a third party and subsequent lessees, and if requested by the subsidiary, to remarket the aircraft for subsequent leases or for sale. In connection with this transaction, Commonwealth Bank of Australia paid us for the aircraft and for collecting the first rent payment under the lease subsequent to the sale, and will pay us a percentage of the contracted rent and the rent actually paid by the lessee each month. We recorded a gain of \$1.9 million on the sale of the aircraft and may earn up to an aggregate of approximately \$980,000 in fees under the Servicing Agreement in connection with the management of the current lease.

## NOTE 14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents our unaudited quarterly results of operations for the two-year period ended December 31, 2012.

	Quarter Ended							
	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012
(in thousands, except share data)								
Revenues	\$55,215	\$74,344	\$92,125	\$115,057	\$132,553	\$158,173	\$174,925	\$190,095
Income before taxes	4,924	10,888	28,341	38,688	41,610	43,884	57,193	61,286
Net income	3,176	7,023	18,271	24,762	26,927	28,172	37,011	39,809
Net income per share:								
Basic	\$ 0.05	\$ 0.08	\$ 0.18	\$ 0.25	\$ 0.27	\$ 0.28	\$ 0.37	\$ 0.39
Diluted	\$ 0.05	\$ 0.08	\$ 0.18	\$ 0.24	\$ 0.26	\$ 0.28	\$ 0.36	\$ 0.38

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 15. SUBSEQUENT EVENTS

In February 2013, the Company issued \$400.0 million in aggregate principal amount of senior unsecured notes due 2020 pursuant to an effective shelf registration statement that the Company previously filed with the SEC. The notes are senior unsecured obligations of the Company and bear interest at a rate of 4.75% per annum. The notes will bear additional interest of 0.50% per annum during any period from and after February 5, 2014 during which a publicly available rating on the notes is not maintained by at least one rating agency as described in the Indenture, dated as of October 11, 2013, as amended and supplemented by the First Supplemental Indenture, dated as of February 5, 2013, between the Company and Deutsche Bank Trust Company Americas, as trustee.

In February 2013, the Company entered into a definitive purchase agreement and related letter agreements with Airbus. Pursuant to the purchase agreement, the Company agreed to purchase up to 25 A350 XWB family aircraft from Airbus, comprised of 20 A350-900 aircraft and five A350-1000 aircraft, with an option to purchase up to five additional A350-1000 aircraft. Deliveries of the A350 XWB aircraft are scheduled to commence in 2018 and continue through 2023.

In February 2013, the Company amended a definitive purchase agreement and related letter agreements with Boeing. Pursuant to the amended purchase agreement, the Company agreed to purchase 10 additional Boeing 777-300ER aircraft from Boeing. Deliveries of the 10 Boeing 777-300ER aircraft are scheduled to commence in 2014 and continue through 2016.

In February 2013, our board of directors adopted a cash dividend policy pursuant to which we intend to pay quarterly cash dividends of \$0.025 per share on our outstanding common stock. The first quarterly cash dividend will be paid on March 26, 2013 to holders of record of our common stock as of March 21, 2013.

# Selected Financial Data

You should read the following selected consolidated financial data in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

The consolidated statements of operations data for the years ended December 31, 2012 and 2011 and the period from inception to December 31, 2010 and the consolidated balance sheet data at December 31, 2012 and 2011 are derived from our audited consolidated financial statements appearing in “Item 8. Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

	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	\$ 645,853	\$ 332,719	\$ 57,075
Interest and other	9,893	4,022	1,291
Total revenues	655,746	336,741	58,366
Expenses	451,773	253,900	119,281
Income (loss) before taxes	203,973	82,841	(60,915)
Income tax (expense) benefit	(72,054)	(29,609)	8,875
Net income (loss)	\$ 131,919	\$ 53,232	\$ (52,040)
<b>Net income (loss) per share:</b>			
Basic	\$ 1.31	\$ 0.59	\$ (1.32)
Diluted	\$ 1.28	\$ 0.59	\$ (1.32)
<b>Weighted-average shares outstanding:</b>			
Basic	100,991,871	89,592,945	39,511,045
Diluted	107,656,463	90,416,346	39,511,045
<b>Other financial data:</b>			
Adjusted net income <sup>(1)</sup>	\$ 163,404	\$ 87,954	\$ 2,520
Adjusted EBITDA <sup>(2)</sup>	\$ 596,451	\$ 290,168	\$ 32,973
<b>Cash flow data:</b>			
<b>Net cash flows from:</b>			
Operating activities	\$ 491,029	\$ 267,166	\$ 41,934
Investing activities	(2,344,924)	(2,977,156)	(1,851,520)
Financing activities	1,802,179	2,662,974	2,138,407



	As of December 31,		
	2012	2011	2010
(in thousands except share and aircraft data)			
Balance sheet data:			
Flight equipment subject to operating leases (net of accumulated depreciation)	\$6,251,863	\$4,237,416	\$1,629,809
Total assets	7,353,624	5,164,593	2,276,282
Total debt	4,384,732	2,602,799	911,981
Total liabilities	5,021,003	2,988,310	1,051,347
Shareholders' equity	2,332,621	2,176,283	1,224,935
Other operating data:			
Aircraft lease portfolio at period end:			
Owned <sup>(3)</sup>	155	102	40
Managed <sup>(4)</sup>	4	2	—

(1) Adjusted net income (defined as net income (loss) before stock-based compensation expense and non-cash interest expense, which includes the amortization of debt issuance costs, extinguishment of debt and convertible debt discounts) is a measure of both operating performance and liquidity that is not defined by United States generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP. Adjusted net income is presented as a supplemental disclosure because management believes that it may be a useful performance measure that is used within our industry. We believe adjusted net income provides useful information on our earnings from ongoing operations, our ability to service our long-term debt and other fixed obligations, and our ability to fund our expected growth with internally generated funds. Set forth below is additional detail as to how we use adjusted net income as a measure of both operating performance and liquidity, as well as a discussion of the limitations of adjusted net income as an analytical tool and a reconciliation of adjusted net income to our GAAP net income (loss) and cash flow from operating activities.

**Operating Performance:** Management and our board of directors use adjusted net income in a number of ways to assess our consolidated financial and operating performance, and we believe this measure is helpful in identifying trends in our performance. We use adjusted net income as a measure of our consolidated operating performance exclusive of income and expenses that relate to the financing, income taxes, and capitalization of the business. Also, adjusted net income assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily one-time amortization of convertible debt discounts) and stock-based compensation expense from our operating results. In addition, adjusted net income helps management identify controllable expenses and make decisions designed to help us meet our current financial goals and optimize our financial performance. Accordingly, we believe this metric measures our financial performance based on operational factors that we can influence in the short term, namely the cost structure and expenses of the organization.

**Liquidity:** In addition to the uses described above, management and our board of directors use adjusted net income as an indicator of the amount of cash flow we have available to service our debt obligations, and we believe this measure can serve the same purpose for our investors.

**Limitations:** Adjusted net income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Some of these limitations are as follows:

- \* adjusted net income does not reflect (i) our cash expenditures or future requirements for capital expenditures or contractual commitments, or (ii) changes in or cash requirements for our working capital needs; and
- \* our calculation of adjusted net income may differ from the adjusted net income or analogous calculations of other companies in our industry, limiting its usefulness as a comparative measure.

The following tables show the reconciliation of net income (loss) and cash flows from operating activities, the most directly comparable GAAP measures of performance and liquidity, to adjusted net income.

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands)			
Reconciliation of cash flows from operating activities to adjusted net income:			
Net cash provided by operating activities	\$ 491,029	\$ 267,166	\$ 41,934
Depreciation of flight equipment	(216,219)	(112,307)	(19,262)
Stock-based compensation	(31,688)	(39,342)	(24,044)
Deferred taxes	(72,050)	(29,567)	8,875
Amortization of discounts and deferred debt issue costs	(16,994)	(9,481)	(4,883)
Extinguishment of debt	—	(3,349)	—
Amortization of convertible debt discounts	—	—	(35,798)
Changes in operating assets and liabilities:			
Other assets	18,758	17,438	8,040
Accrued interest and other payables	(25,797)	(19,347)	(18,864)
Rentals received in advance	(15,120)	(17,979)	(8,038)
Net income (loss)	131,919	53,232	(52,040)
Amortization of discounts and deferred debt issue costs	16,994	9,481	4,883
Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Stock-based compensation	31,688	39,342	24,044
Tax effect	(17,197)	(17,450)	(10,165)
Adjusted net income	\$ 163,404	\$ 87,954	\$ 2,520

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands)			
Reconciliation of net income (loss) to adjusted net income:			
Net income (loss)	\$ 131,919	\$ 53,232	\$ (52,040)
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Extinguishment of debt	—	3,349	—
Amortization of convertible debt discounts	—	—	35,798
Stock-based compensation	31,688	39,342	24,044
Tax effect	(17,197)	(17,450)	(10,165)
Adjusted net income	\$ 163,404	\$ 87,954	\$ 2,520

- (2) Adjusted EBITDA (defined as net income (loss) before net interest expense, stock-based compensation expense, income tax expense (benefit), and depreciation and amortization expense) is a measure of both operating performance and liquidity that is not defined by GAAP and should not be considered as an alternative to net income, income from operations or any other performance measures derived in accordance with GAAP. Adjusted EBITDA is presented as a supplemental disclosure because management believes that it may be a useful performance measure that is used within our industry. We believe adjusted EBITDA provides useful information on our earnings from ongoing operations, our ability to service our long-term debt and other fixed obligations, and our ability to fund our expected growth with internally generated funds. Set forth below is additional detail as to how we use adjusted EBITDA as a measure of both operating performance and liquidity, as well as a discussion of the limitations of adjusted EBITDA as an analytical tool and a reconciliation of adjusted EBITDA to our GAAP net income (loss) and cash flow from operating activities.

**Operating Performance:** Management and our board of directors use adjusted EBITDA in a number of ways to assess our consolidated financial and operating performance, and we believe this measure is helpful in identifying trends in our performance. We use adjusted EBITDA as a measure of our consolidated operating performance exclusive of income and expenses that relate to the financing, income taxes, and capitalization of the business. Also, adjusted EBITDA assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily one-time amortization of convertible debt discounts) and stock-based compensation expense from our operating results. In addition, adjusted EBITDA helps management identify controllable expenses and make decisions designed to help us meet our current financial goals and optimize our financial performance. Accordingly, we believe this metric measures our financial performance based on operational factors that we can influence in the short term, namely the cost structure and expenses of the organization.

**Liquidity:** In addition to the uses described above, management and our board of directors use adjusted EBITDA as an indicator of the amount of cash flow we have available to service our debt obligations, and we believe this measure can serve the same purpose for our investors.

**Limitations:** Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Some of these limitations are as follows:

- \* adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- \* adjusted EBITDA does not reflect changes in or cash requirements for our working capital needs;
- \* adjusted EBITDA does not reflect interest expense or cash requirements necessary to service interest or principal payments on our debt; and
- \* other companies in our industry may calculate these measures differently from how we calculate these measures, limiting their usefulness as comparative measures.

The following tables show the reconciliation of net income (loss) and cash flows from operating activities, the most directly comparable GAAP measures of performance and liquidity, to adjusted EBITDA.

	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
(in thousands)			
Reconciliation of cash flows from operating activities to adjusted EBITDA:			
Net cash provided by operating activities	\$ 491,029	\$ 267,166	\$ 41,934
Depreciation of flight equipment	(216,219)	(112,307)	(19,262)
Stock-based compensation	(31,688)	(39,342)	(24,044)
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Amortization of convertible debt discounts	—	—	(35,798)
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Other assets	18,758	17,438	8,040
Accrued interest and other payables	(25,797)	(19,347)	(18,864)
Rentals received in advance	(15,120)	(17,979)	(8,038)
Net income (loss)	131,919	53,232	(52,040)
Net interest expense	144,571	55,678	50,582
Income taxes	72,054	29,609	(8,875)
Depreciation	216,219	112,307	19,262
Stock-based compensation	31,688	39,342	24,044
Adjusted EBITDA	<u>\$ 596,451</u>	<u>\$ 290,168</u>	<u>\$ 32,973</u>

(in thousands)	Year Ended December 31, 2012	Year Ended December 31, 2011	For the Period from Inception to December 31, 2010
Reconciliation of net income (loss) to adjusted EBITDA:			
Net income (loss)	\$ 131,919	\$ 53,232	\$ (52,040)
Net interest expense	144,571	55,678	50,582
Income taxes	72,054	29,609	(8,875)
Depreciation	216,219	112,307	19,262
Stock-based compensation	31,688	39,342	24,044
Adjusted EBITDA	<u>\$ 596,451</u>	<u>\$ 290,168</u>	<u>\$ 32,973</u>

(3) As of December 31, 2012, we owned 155 aircraft (of which 82 were new aircraft and 73 were used aircraft). As of December 31, 2011, we owned 102 aircraft (of which 36 were new aircraft and 66 were used aircraft). As of December 31, 2010, we owned 40 aircraft (of which four were new aircraft and 36 were used aircraft).

(4) As of December 31, 2012, we managed four aircraft. As of December 31, 2011, we managed two aircraft. As of December 31, 2010, we did not manage any aircraft.

# Leadership Team

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## BOARD OF DIRECTORS

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

John L. Plueger  
*President and  
Chief Operating Officer*

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

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

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

Wilbur Ross  
*Audit Committee*

Antony P. Ressler  
*Compensation Committee*

John Danhaki  
*Compensation Committee*

Ian M. Saines

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## EXECUTIVE LEADERSHIP

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

John L. Plueger  
*President and  
Chief Operating Officer*

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## 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*

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## 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*

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## FINANCE AND ACCOUNTING

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

Jennifer S. Munro  
*Vice President and Controller*

Ardy Ghanbar  
*Assistant Vice President  
and Assistant Controller*

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## TECHNICAL ASSET MANAGEMENT

Pierce Chang  
*Vice President,  
Technical Asset Management*

Eric Hoogenkamp  
*Assistant Vice President,  
Technical Asset Management*

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## AIRCRAFT PROCUREMENT AND SPECIFICATION

John Poerschke  
*Senior Vice President*

Ozzie Chraibi  
*Vice President of Aircraft  
Specifications and Aircraft,  
Engine, Materiel Procurement*

Lance Pekala  
*Assistant Vice President of Aircraft  
Specifications and Aircraft,  
Engine, Materiel Procurement*

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## COMMERCIAL CONTRACTS

Sara Evans  
*Vice President,  
Commercial Contracts*

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## STRATEGIC PLANNING & INVESTOR RELATIONS

Ryan McKenna  
*Assistant Vice President, Strategic  
Planning and Investor Relations*

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# Corporate Information



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## TRANSFER AGENT

American Stock Transfer  
& Trust Company, LLC  
1218 Third Avenue, Suite 1700  
Seattle, Washington 98101  
206.682.0811  
[www.amstock.com](http://www.amstock.com)

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## ANNUAL MEETING

May 8, 2013  
7:30 AM–8:30 AM Pacific Time  
Century Plaza Towers  
2029 Century Park East  
Los Angeles, California 90067  
Concourse Level, Conference Room A

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## STOCK EXCHANGE LISTING

New York Stock Exchange  
(Symbol: AL)

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## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
55 Second Street, Suite 1400  
San Francisco, California 94105  
415.963.5100  
[www.kpmg.com](http://www.kpmg.com)

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## CORPORATE HEADQUARTERS

Air Lease Corporation  
2000 Avenue of the Stars  
Suite 1000N  
Los Angeles, California 90067  
310.553.0555

Please visit [www.airleasecorp.com](http://www.airleasecorp.com)  
to view or download a PDF of this  
annual report.

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## FORM 10-K AND OTHER REPORTS

Shareholders may receive a copy  
of the 2012 Form 10-K, including the  
financial statements and the financial  
statement schedules and other reports  
we file with the Securities and  
Exchange Commission, without  
charge by writing to:

Air Lease Corporation  
Ryan McKenna  
Assistant Vice President, Strategic  
Planning and Investor Relations  
2000 Avenue of the Stars  
Suite 1000N  
Los Angeles, California 90067

Or by E-mail to:  
[investors@airleasecorp.com](mailto:investors@airleasecorp.com)

This is a Greener Annual Report. Air Lease Corporation, Inc. is committed to reducing its impact on the environment. The production of this annual report saved the following resources: (estimates were made using <http://calculator.environmentalpaper.org>)



13 TREES  
preserved for  
the future



6,000,000 BTUs  
energy not  
consumed



1,141 LBS  
net greenhouse  
gases prevented



6,191 GAL  
wastewater  
flow saved



414 LBS  
solid waste  
not generated

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2000 Avenue of the Stars, Suite 100N  
Los Angeles, CA 90067 USA

[www.airleasecorp.com](http://www.airleasecorp.com)  
[info@airleasecorp.com](mailto:info@airleasecorp.com)