

Fly Leasing Ltd
Form 20-F
March 11, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2010

OR

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

OR

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

Commission file number 001-33701

FLY LEASING LIMITED

(Exact name of Registrant as specified in its charter)

Bermuda

(Jurisdiction of incorporation or organization)

West Pier

Dun Laoghaire

County Dublin, Ireland

(Address of principal executive office)

Mina Kim, West Pier, Dun Laoghaire, County Dublin, Ireland

Telephone number: +353 1 231 1900, Facsimile number: +353 1 231 1901

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

American Depositary Shares
Common Shares, par value of \$0.001 per share

New York Stock Exchange
New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

26,707,501 Common Shares, par value of \$0.001 per share.

100 Manager Shares, par value of \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark, if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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PRELIMINARY NOTE

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) and are presented in U.S. Dollars. These statements and discussion below contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts, as well as statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning. Such statements address future events and conditions concerning matters such as, but not limited to, our earnings, cash flow, liquidity and capital resources, compliance with debt and other restrictive covenants, interest rates and dividends. These statements are based on current beliefs or expectations and are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond our control. Actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors. We believe that these factors include, but are not limited to those described under Item 3 Risk Factors and elsewhere in this Annual Report.

Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward looking statements to reflect events, developments or circumstances after the date of this document, a change in our views or expectations, or to reflect the occurrence of future events.

Unless the context requires otherwise, when used in this Annual Report, (1) the terms Fly, Company, we, our and us refer to Fly Leasing Limited and its subsidiaries; (2) the term B&B Air Funding refers to our subsidiary, Babcock & Brown Air Funding I Limited; (3) the term B&B Air Acquisition refers to our subsidiary, Babcock & Brown Air Acquisition I Limited; (4) the term B&B Air Cayman refers to our subsidiary, Babcock & Brown Air Finance (Cayman) Limited; (5) the term B&B Air Cayman II refers to Babcock & Brown Air Finance II (Cayman) Limited, a subsidiary of B&B Air Cayman; (6) the term Fly-BBAM refers to our subsidiary, Fly-BBAM Holdings, Ltd.; (7) the term Fly Holdings refers to our subsidiary, Fly Aircraft Holdings One Limited; (8) the term Fly Holdings Two refers to our subsidiary, Fly Aircraft Holdings Two Limited (9) all references to our shares refer to our common shares held in the form of American Depositary Shares, or ADSs; (10) the terms Predecessor and JET-i refer to JET-i Leasing LLC, the predecessor company of Fly; (11) the terms B&B and Babcock & Brown refer to Babcock & Brown Limited, an Australian company, and its subsidiaries; (12) the term BBAM LP refers to BBAM Limited Partnership and its subsidiaries and affiliates; (13) the terms BBAM and Servicer refer to BBAM Aircraft Management LLC and BBAM Aircraft Management (Europe) Limited, collectively; (14) the term Manager refers to Fly Leasing Management Co. Limited, the Company s manager; and (15) the term Initial Portfolio refers to our initial portfolio of 47 commercial jet aircraft acquired by our subsidiary, B&B Air Funding. At the Annual General Meeting held on June 29, 2010, the Company s shareholders approved changing the name of Babcock & Brown Air Limited to Fly Leasing Limited.

Unless indicated otherwise, all percentages and weighted average characteristics of the aircraft in our portfolio have been calculated using net book values as of December 31, 2010.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Fly Leasing Limited is a global lessor of modern, fuel-efficient commercial jet aircraft. Our aircraft are leased under long-term to medium-term contracts to a diverse group of airlines throughout the world. On October 2, 2007, we (i) completed our initial public offering (IPO) and issued 18,695,650 common shares in the form of ADSs; (ii) completed a private placement of 14,907,800 ADSs (Private Placement), and together with the IPO, Offerings) and (iii) issued \$853.0 million of aircraft lease-backed notes (the Notes) as part of a securitization transaction (the Securitization) through our subsidiary, B&B Air Funding. Using proceeds of the Offerings and the Notes, we acquired our initial portfolio of 47 commercial jet aircraft (Initial Portfolio).

On November 7, 2007, our subsidiary, B&B Air Acquisition, entered into a revolving credit facility (the Aircraft Acquisition Facility) that provided for up to \$1.2 billion of financing for additional aircraft including a \$96.0 million equity tranche from Fly. The availability period for the Aircraft Acquisition Facility expired on November 6, 2009 and substantially all available cash flow from aircraft held by B&B Air Acquisition is applied to the repayment of outstanding principal.

During the period from the IPO through December 31, 2010, we have (i) acquired 18 aircraft; (ii) sold six aircraft and (iii) sold our right to purchase one aircraft to a third party. Since December 31, 2010, we have acquired one additional aircraft and have invested in a newly formed aircraft leasing joint venture that was formed for the purpose of acquiring, financing, leasing and eventually selling four commercial jet aircraft. The joint venture currently owns three Boeing 767-300 aircraft and is expected to acquire an additional Boeing 767-300ER aircraft. Fly holds a 57.4% interest in the joint venture.

On April 29, 2010, the management team of BBAM LP, through Summit Aviation Partners LLC (Summit) purchased substantially all of the aviation assets of Babcock & Brown and its affiliates, including Babcock & Brown 's ownership interests in our Manager and certain other companies that manage and service Fly and its aircraft portfolio. BBAM LP is a newly formed, privately-held aircraft leasing and management business that provides management and administrative services to Fly, including servicing of its aircraft portfolio.

In connection with Summit 's purchase of these assets, we purchased a 15% interest in BBAM LP. Summit owns the remaining 85% interest in BBAM LP.

Our web address is: www.flyleasing.com.

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The following selected financial data should be read in conjunction with Item 5 Operating and Financial Review and Prospects and our audited consolidated financial statements and related notes thereto included at Item 18 Financial Statements in this Annual Report. The selected financial data presented below are: (i) our operating results for the years ended December 31, 2010, 2009 and 2008; (ii) our operating results for the period from May 3, 2007 (our incorporation date) to December 31, 2007; and (iii) our Predecessor's operating results for the years ended December 31, 2007 and December 31, 2006.

(Dollars in thousands, except share data)

	Fly Leasing Limited			For the period from May 3, 2007 (incorporation date) to December 31, 2007	JET-i Leasing LLC (Predecessor Company)	
	For the years ended December 31,			For the years ended	For the years ended	
	2010	2009	2008	2007	2007	2006
Operating lease revenue	\$ 219,655	\$ 213,964	\$ 218,940	\$ 26,042	\$ 107,620	\$ 56,566
Gain on sale of aircraft	13,449		11,437			
Gain on purchases of notes payable and sale of option to purchase notes payable	12,501	82,666				
Total revenues	253,665	307,535	236,138	33,334	121,037	61,349
Total expenses	190,791	194,075	181,146	29,957	135,867	68,804
Net income (loss)	52,667	89,093	48,125	2,345	(15,296)	(7,472)
Earnings per share:						
Basic and diluted	\$ 1.86	\$ 2.89	\$ 1.44	\$ 0.19		
Pro forma				\$ 0.07		
Dividends declared and paid per share	\$ 0.80	\$ 0.80	\$ 2.00			

On April 29, 2010, Fly adopted the 2010 Omnibus Incentive Plan and made an aggregate grant of 599,999 stock appreciation rights (SARs) and restricted stock units (RSUs) to certain employees of BBAM LP who provide services to the Company pursuant to certain management and servicing agreements. The holder of a SAR or RSU is entitled to dividend equivalent rights on each SAR and RSU. For each dividend equivalent right, the holder has the non-forfeitable right to receive a cash amount equal to the per share dividend paid by Fly during the period between the vesting date and the earlier of the (i) awards exercise, (ii) termination date or (iii) expiration date (Dividend Amount). Dividend Amounts accrue from the grant date. Net income available to common shareholders is determined by reducing the Company's net income for the period by the dividend equivalents paid on vested RSUs and SARs during the period. Dividend equivalents paid totaled \$120,000 for 2010.

Basic and diluted earnings per share are calculated: (1) for 2010 by dividing net income, less dividend amounts paid by the weighted average number of basic and diluted shares outstanding for the year; (2) for 2009 and 2008, by dividing net income by the weighted average number of shares outstanding for the year; and (3) for 2007 by dividing net income for the period from May 3, 2007, the date the Company was incorporated, to December 31, 2007 by the weighted average number of shares outstanding from October 2, 2007 to December 31, 2007. Prior to April 29, 2010,

the Company did not have a share-based compensation program. The Company has presented pro forma earnings per share for the period ended December 31, 2007 as if its initial public offering had occurred on May 3, 2007 (incorporation date).

(Dollars in thousands, except shares)

		Fly Leasing Limited As of December 31,			JET-i Leasing LLC (Predecessor Company) As of December 31,	
	2010	2009	2008	2007	2007	2006
Balance sheet data:						
Total assets	\$ 1,978,224	\$ 2,024,132	\$ 2,086,174	\$ 1,589,226	\$ 5,249	\$ 1,010,875
Total liabilities	1,503,320	1,539,608	1,696,761	1,098,724	2,766	983,175
Total shareholders equity/ member s capital	474,904	484,524	389,413	490,502	2,483	27,700
Number of shares	26,707,501	30,279,948	32,488,911	33,603,450		

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Risk Factors

The risks discussed below could materially and adversely affect our business, prospects, financial condition, results of operations, cash flows, the trading price of our shares and our ability to pay dividends. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, prospects, financial condition, results of operations, cash flows and ability to pay dividends.

Risks Related to Our Relationship with BBAM LP

Our company is managed, and our aircraft portfolio is serviced, by BBAM LP, a new aircraft leasing and management company with limited independent operating history, which was formed by the management team of our Servicer.

On April 29, 2010, Summit, a newly formed entity that is owned by the management team of BBAM, purchased substantially all of the aviation assets of Babcock & Brown. In connection with this transaction, we purchased a 15% interest in BBAM LP, whose affiliates manage our company and service our aircraft portfolio. The remaining 85% of BBAM LP is owned by Summit. BBAM LP was formed on March 4, 2010 and has very limited independent operating history upon which to assess their prospects or ability to manage our Company or service our portfolio of aircraft. Our success or failure wholly depends on the skill and care with which BBAM LP manages our business and performs its services under our management and servicing agreements. Under these agreements, our Servicer is responsible for arranging the leasing of our fleet, acquiring and disposing our aircraft, marketing our aircraft for re-lease, collecting rents and other payments from lessees, monitoring maintenance, insurance and other obligations under our leases and enforcing our rights against lessees. Therefore, our continued success depends on the diligence, skill and network of business contacts of BBAM LP's management team and the continued service of key employees of BBAM LP. The departure of any senior management personnel of BBAM LP or of a significant number of key employees of our Servicer could have a material adverse effect on our performance.

Although the initial term of our management agreement with BBAM LP has been reduced to a five year term, the agreement is subject to five year renewals, and there are only limited circumstances under which we are able to terminate our management agreement without payment of breakage fees. If our board of directors were to become dissatisfied with the performance of BBAM LP under these agreements and we decline to renew such agreements, we would be obligated to pay the Manager a fee as follows: (i) after the initial five-year term, the fee is equal to three times the management expense amount payable under the management agreement; (ii) after the second five-year term, the fee would be equal to two times the management expense amount; (iii) after the third five-year term, the fee would be equal to the management expense amount; and (iv) after the fourth five-year term, there is no fee payable to the Manager.

In addition, the investment in BBAM LP is a new form of investment for us and may subject us to new and unforeseen risks, including adverse tax consequences and additional financial reporting obligations related to our investment.

BBAM has conflicts of interest with us and their limited contractual or other duties will not restrict them from favoring their own business interests to our detriment.

Conflicts of interest will arise between us and BBAM LP with respect to our operations and business opportunities. BBAM LP acquires, manages and remarkets for lease or sale aircraft for us and for other entities, including entities in which Summit has an economic interest. We may compete directly with such other managed entities for investment opportunities. For example, BBAM performs aircraft acquisition, disposition and management services pursuant to a joint marketing agreement with Nomura Babcock & Brown Co., Ltd, which we refer to as NBB. BBAM has arranged a significant number of aircraft acquisitions and dispositions pursuant to the NBB arrangement. We expect that BBAM will continue to arrange acquisition and disposition opportunities with NBB and that we may compete with NBB for such opportunities. A conflict of interest will arise if BBAM identifies an aircraft acquisition opportunity that would meet our investment objectives as well as those of NBB or any other entity managed by BBAM. We do not have any exclusive right to participate in aircraft acquisition opportunities originated or identified by BBAM. Under our agreements with BBAM LP, our Manager has agreed to act in the best interests of our shareholders. However, neither BBAM nor any other BBAM LP affiliate will be restricted from pursuing, or offering to a third party, including NBB or any other party managed by, or otherwise affiliated or associated with BBAM LP, any investment or disposal opportunity or will be required to establish any investment protocol in relation to prioritization of any

investment or disposal opportunity. We may purchase in the future aircraft from entities in which Summit has an ownership interest. Although such purchases will require approval by our independent directors, the pricing and other terms of these transactions may be less advantageous to us than if they had been the result of transactions among unaffiliated third parties.

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Under our servicing agreements with BBAM, if a conflict of interest arises as to our aircraft and other aircraft managed by BBAM, BBAM must perform the services in good faith, and, to the extent that our aircraft or other aircraft managed by BBAM have substantially similar characteristics that are relevant for purposes of the particular services to be performed, BBAM has agreed not to discriminate among our aircraft or between any of our aircraft and any other managed aircraft on an unreasonable basis. Nevertheless, despite these contractual undertakings, BBAM as Servicer may favor its own interests and the interests of other managed entities over our interests. Conflicts may arise when our aircraft are leased to entities that also lease other aircraft managed by BBAM and decisions affecting some aircraft may have an adverse impact on others. For example, when a lessee in financial distress seeks to return some of its aircraft, BBAM may be required to decide which aircraft to accept for return and may favor its or another managed entity's interest over ours. Conflicts also may arise, for example, when our aircraft are being marketed for re-lease or sale at a time when other aircraft managed by BBAM are being similarly marketed.

Under the terms of our servicing agreements, we are not entitled to be informed of all conflicts of interest involving BBAM and are limited in our right to replace BBAM because of conflicts of interest. Any replacement Servicer may not provide the same quality of service or may not afford us terms as favorable as the terms currently offered by BBAM. If BBAM, as the servicer, makes a decision that is adverse to our interests, our business, financial condition, results of operations and cash flows could suffer. See *Even if we were to become dissatisfied with BBAM LP's performance, there are only limited circumstances under which we are able to terminate our management and servicing agreements and we may not terminate the servicing agreement for our Initial Portfolio without the prior written consent of the policy provider.*

Even if we were to become dissatisfied with BBAM LP's performance, there are only limited circumstances under which we are able to terminate our management and servicing agreements and we may not terminate the servicing agreement for our Initial Portfolio without the prior written consent of the policy provider.

We may terminate the management agreement if:

- at least 75% of our independent directors and holders of 75% or more of all of our outstanding common shares (measured by vote) determine by resolution that there has been unsatisfactory performance by our Manager that is materially detrimental to us;
- our Manager materially breaches the management agreement and fails to remedy such breach within 90 days of receiving written notice from us requiring it to do so, or such breach results in liability to us and is attributable to our Manager's gross negligence, fraud or dishonesty, or willful misconduct in respect of the obligation to apply the standard of care;
- any license, permit or authorization held by the Manager which is necessary for it to perform the services and duties under the management agreement is materially breached, suspended or revoked, or otherwise made subject to conditions which, in the reasonable opinion of our board of directors, would prevent the Manager from performing the services and the situation is not remedied within 90 days;
- BBAM Aviation Services Limited or one of its affiliates ceases to hold (directly or indirectly) more than 50% of the voting equity of, and economic interest in, the Manager;
- our Manager becomes subject to bankruptcy or insolvency proceedings that are not discharged within 75 days, unless our Manager is withdrawn and replaced within 90 days of the initiation of such bankruptcy or insolvency proceedings with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement;
- our Manager voluntarily commences any proceeding or files any petition seeking bankruptcy, insolvency, receivership or similar law, or makes a general assignment for the benefit of its creditors, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement;
- an order is made for the winding up of our Manager, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement; and
- Steven Zissis ceases to be the President or Chief Executive Officer of BBAM LP at any time prior to April 29, 2015 for any reason other than death or disability.

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If the management agreement is not renewed at the end of a five-year term, we are required to pay the Manager a non-renewal fee equal to the following: (i) at the termination of the initial five-year term, an amount equal to three times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (ii) at the termination of the second five-year term, an amount equal to two times the aggregate management expense; and (iii) at the termination of the third five-year term, an amount equal to the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date. No fee is payable after the fourth five-year term.

If the Manager terminates the agreement for cause (including as a result of the appointment to the board of a majority of independent directors who are not supported by the current directors), we are required to pay the Manager a termination fee in an amount equal to: i) during the initial five-year term, an amount equal to three times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (ii) during the second five-year term, an amount equal to two times the aggregate management expense in respect of the last complete fiscal year prior to the termination date; and (iii) during the third five-year term, an amount equal to the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date. No fee is payable after the completion of the third five-year term.

In addition, if the management agreement is not renewed at the end of a five-year term or is terminated by the Manager for cause, our investment in BBAM may be repurchased by the other owners of BBAM for a purchase price equal to: (i) during and at the end of the first five year term, the lesser of fair market value or the purchase price paid by Fly less distributions received; (ii) during and at the end of the second five year term, 50% of fair market value but in no case less than Fly's unrecouped capital; (iii) during and at the end of the third five year term, 75% of fair market value but in no case less than Fly's unrecouped capital; (iv) thereafter, 100% of fair market value but in no case less than Fly's unrecouped capital.

We have the right to terminate the servicing agreement for our Initial Portfolio (with the prior written consent of the policy provider) and the policy provider has the independent right to terminate the agreement (without our consent) in the following limited circumstances:

Bankruptcy or insolvency of BBAM LP;

BBAM LP ceases to own, directly or indirectly, at least 50% of the Servicer;

Summit ceases to own, directly or indirectly, at least 33.33% of the partnership interests in BBAM LP; provided that a sale that results in such ownership being at a level below 33.33% shall not constitute a servicer termination event if the sale is to a publicly listed entity or other person with a net worth of at least \$100 million;

Steven Zissis ceases to be the President or Chief Executive Officer of BBAM LP at any time prior to April 29, 2015 for any reason other than death or disability; and

50% or more of the Servicer's key finance and legal team or technical and marketing team cease to be employed by BBAM LP and are not replaced with employees with reasonably comparable experience within 90 days.

If the servicing agreement for our Initial Portfolio is terminated by us or the policy provider and another servicer is engaged to service our Initial Portfolio, we will no longer be entitled to a credit against fees due under the management agreement for servicing fees paid with respect to our Initial Portfolio and our expenses would increase substantially. Although this will be a disincentive for us to terminate the servicing agreement for our Initial Portfolio, it is not likely to be a factor in a decision by the policy provider to exercise its independent ability to terminate the agreement.

Our management and servicing agreements limit our remedies against BBAM LP for unsatisfactory performance and provide certain termination rights to the policy provider.

Under our management and servicing agreements with BBAM LP, in many cases we may not have the right to recover damages from BBAM LP for unsatisfactory performance. Moreover, we have agreed to indemnify our Manager, BBAM LP and their affiliates for broad categories of losses arising out of the performance of services, unless they are finally adjudicated to have been caused directly by our Manager's or BBAM LP's gross negligence, fraud, deceit or willful misconduct in respect of its obligation to apply its standard of care or, in the case of the servicing agreement for our Initial Portfolio, conflicts of interest standard in the performance of its services. In addition, because of our substantial dependence on BBAM LP, our board of directors may be reluctant to initiate litigation against BBAM LP to enforce contractual rights under our management and servicing agreements.

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Under certain circumstances the provider of the financial guaranty insurance policy with respect to the Notes has the right to terminate BBAM as the servicer for our Initial Portfolio without our consent and may terminate the Servicer at a time which may be disadvantageous to us.

BBAM may resign as Servicer under our servicing agreements under certain circumstances, which would significantly impair our ability to re-lease or sell aircraft and service our leases.

BBAM may resign under one or more of our servicing agreements under certain circumstances if it reasonably determines that directions given, or services required, would, if carried out, be unlawful under applicable law, be likely to lead to an investigation by any governmental authority of BBAM or its affiliates, expose BBAM to liabilities for which, in BBAM's good faith opinion, adequate bond or indemnity has not been provided or place BBAM in a conflict of interest with respect to which, in BBAM's good faith opinion, BBAM could not continue to perform its obligations under the servicing agreement with respect to all serviced aircraft or any affected aircraft, as the case may be (but with respect to the foregoing circumstance, BBAM may resign only with respect to the affected aircraft). Whether or not it resigns, BBAM is not required to take any action of the foregoing kind. BBAM may also resign if it becomes subject to taxes for which we do not indemnify it. BBAM's decision to resign would significantly impair our ability to re-lease or sell aircraft and service our leases.

Risks Related to Our Business

Our business is affected by general economic and financial conditions which could adversely affect our results of operations.

Our business and results of operations are significantly affected by general business, financial market and economic conditions. The worsening of economic conditions, particularly if combined with high fuel prices, may have a material adverse effect on our lessees' ability to meet their financial and other obligations under our operating leases, which, if our lessees default on their obligations to us, could have a material adverse effect on our cash flow and results of operations. General business and economic conditions that could affect us include interest rate fluctuations, inflation, unemployment levels, bankruptcies, demand for passenger and cargo air travel, volatility in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of credit, investor and consumer confidence, global economic growth and the strength of local economies in which we operate.

Changes in demand and supply of aircraft can depress lease rates and impact the value of our aircraft portfolio.

The economic downturn and the slowdown in air travel between 2008 and early 2010 contributed to a decrease in the demand for aircraft and resulted in capacity cuts by airlines. The financial challenges facing the airlines may result in an increase in the supply of aircraft. The shift in supply/demand dynamics during the economic downturn led to a decrease in aircraft lease rates and values. Further decreases in lease rates could adversely affect our lease revenues in future periods as our current leases terminate or to the extent that airlines default on their leases. Decreases in aircraft values would adversely affect the value of the aircraft in our portfolio.

We will need additional capital to finance our growth, and we may not be able to obtain it on acceptable terms, or at all, which may limit our ability to grow and compete in the aviation market.

Our ability to acquire additional assets depends to a significant degree on our ability to access debt and equity capital markets. Our access to capital markets will depend on a number of factors including our historical and expected performance, compliance with the terms of our debt agreements, general market conditions, interest rate fluctuations and the relative attractiveness of alternative investments. In addition, volatility or disruption in the capital markets could adversely affect banks and financial institutions causing lenders to be reluctant or unable to provide us with financing on terms acceptable to us or to increase the costs of such financing. We compete with other lessors and airlines when acquiring aircraft and our ability to grow our portfolio is dependent on our ability to access attractive financing. The terms of our Aircraft Acquisition Facility and the Securitization restrict our ability to incur additional debt secured by the aircraft in each of those portfolios. Our availability period under the Aircraft Acquisition Facility expired on November 6, 2009 and we are no longer able to acquire aircraft through this facility. If we are unable to raise additional funds or obtain capital on acceptable terms, our growth opportunities are limited.

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Our future growth and profitability will depend on our ability to acquire aircraft and other aviation assets.

Growth through future acquisitions of additional commercial aircraft and other aviation assets requires the availability of capital. Even if capital were available, the market for commercial aircraft is cyclical, sensitive to economic instability and extremely competitive, and we may encounter difficulties in acquiring aircraft on favorable terms or at all which could reduce our acquisition opportunities or cause us to pay higher prices. A significant increase in market interest rates would make it more difficult for us to make accretive acquisitions that would increase our distributable cash flows. Any acquisition of aircraft or other aviation assets may not be profitable to us after the acquisition of such asset and may not generate sufficient cash flow to justify our investment. In addition, acquisition of additional aircraft, other aviation assets and other investments that we may make expose us to risks that may harm our business, financial condition, results of operations and cash flows, including risks that we may:

impair our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions and investments;

significantly increase our interest expense and financial leverage to the extent we incur additional debt to finance acquisitions and investments;

incur or assume unanticipated liabilities, losses or costs associated with the aircraft or other aviation assets that we acquire or investments we may make;

incur other significant charges, including asset impairment or restructuring charges; or

be unable to maintain our ability to pay regular dividends to our shareholders.

If we experience abnormally high maintenance or obsolescence issues with any aircraft or aviation assets that we acquire, our financial results and growth could be materially and adversely affected.

Unlike new aircraft, used aircraft typically do not carry warranties as to their condition. As a result, we may not be able to claim any warranty related expenses on used aircraft. Although we may inspect an existing aircraft and its documented maintenance, usage, lease and other records prior to acquisition, we may not discover all defects during an inspection. Repairs and maintenance costs for existing aircraft are difficult to predict and generally increase as aircraft age and can be adversely affected by prior use. These costs could decrease our cash flow and reduce our liquidity and our ability to pay regular dividends to our shareholders.

In addition, aircraft are long-lived assets, requiring long lead times to develop and manufacture, with particular types and models becoming obsolete and less in demand over time when newer, more advanced aircraft are manufactured. By acquiring existing aircraft, we have greater exposure to more rapid obsolescence of our fleet, particularly if there are unanticipated events shortening the life cycle of such aircraft, such as government regulation or changes in our airline customers' preferences. This may result in a shorter life cycle for our fleet and, accordingly, declining lease rates, impairment charges, increased depreciation expense or losses related to aircraft asset value guarantees, if we were to provide such guarantees.

Further, variable expenses like fuel, crew size or aging aircraft corrosion control or modification programs and related airworthiness directives could make the operation of older aircraft more costly to our lessees and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. Any of these expenses or costs will have a negative impact on our financial results.

We may enter into strategic ventures which pose risks including a lack of complete control over the enterprise, and our financial results and growth prospects may be adversely affected if we encounter disputes, deadlocks or other conflicts of interest with our strategic partners.

We may occasionally enter into strategic ventures or investments with third parties. For example, we have made a 15% investment in BBAM LP and a 57% investment in an entity which currently owns three Boeing 767-300 aircraft. We may have limited management rights in these strategic ventures and may not control decisions regarding the remarketing or sale of aircraft assets owned by these strategic ventures. In addition, if we are unable to resolve a dispute with a strategic partner that retains material managerial veto rights, we might reach an impasse that could require us to liquidate our investment at a time and in a manner that could result in our losing some or all of our original investment in the venture, which could have an adverse effect on our financial results and growth prospects. These strategic ventures and investments are also new forms of investments for us and may subject us to new and

unforeseen risks, including adverse tax consequences and additional reporting and compliance requirements.

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We may not be able to pay or maintain dividends on our shares.

Although we have paid a dividend each quarter since our IPO, we reduced our quarterly dividend to \$0.20 per share beginning with the fourth quarter of 2008, compared to \$0.50 per share in prior quarters. There are a number of factors that could affect our ability to pay future dividends including, but not limited to, the following:

- lack of availability of cash to pay dividends due to changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;
- restrictions imposed by our financing arrangements, including under the Notes, our Aircraft Acquisition Facility and any indebtedness incurred in the future to refinance our existing debt or to expand our aircraft portfolio;
- our inability to make acquisitions of additional aircraft, other aviation assets or investments that are accretive to cash flow;
- use of funds to make and finance acquisitions of aircraft, other aviation assets and investments we may make;
- reduced levels of demand for, or value of, our aircraft;
- increased supply of aircraft;
- obsolescence of aircraft in our portfolio;
- lower lease rates on new aircraft and re-leased aircraft;
- delays in re-leasing our aircraft after the expiration or early termination of existing leases;
- impaired financial condition and liquidity of our lessees;
- deterioration of economic conditions in the commercial aviation industry generally;
- poor performance by our Manager and BBAM LP and other service providers and our limited rights to terminate them;
- unexpected or increased maintenance, operating or other expenses or changes in the timing thereof;
- a decision by our board of directors to cease distributing a portion of our cash flow available for distribution;
- changes in Irish tax law, the tax treaty between the United States and Ireland (the Irish Treaty) or our ability to claim the benefits of such treaty;
- cash reserves which may be established by our board of directors; and
- restrictions under Bermuda law on the amount of dividends that we may pay.

Risks Related to Our Indebtedness

We have substantial indebtedness that imposes constraints on our operations and could adversely affect our ability to pay dividends on our common shares.

On November 6, 2009, the availability period under the Aircraft Acquisition Facility expired, and B&B Air Acquisition began to apply substantially all of its available cash flow to repay the principal under its Aircraft Acquisition Facility. As a result, the cash flow from the aircraft held by B&B Air Acquisition is not available to us to pay expenses of Fly or to pay dividends on our common shares. In addition, failure by B&B Air Acquisition to maintain a monthly interest coverage ratio of at least 1.1 to 1 and a rolling three month interest coverage ratio of at least 1.25 to 1 would be an event of default under the Aircraft Acquisition Facility. We will seek to refinance some or all of the amounts outstanding under the Aircraft Acquisition Facility prior to its maturity in November 2012. All amounts outstanding on November 6, 2012 must be repaid in four quarterly installments. Depending on market conditions, however, it may not be possible to refinance the Aircraft Acquisition Facility prior to November 2012 on terms we find acceptable.

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If B&B Air Funding's debt service coverage ratio (as defined in the indenture for the Securitization) is less than 1.80 on any two consecutive monthly payment dates occurring between July 2010 and July 2012, B&B Air Funding will be required to apply all of its available cash flow to repay the principal of the Notes. Commencing August 2012, B&B Air Funding will be required to apply all of its available cash flow after payment of certain expenses to repay the principal of the Notes. If B&B Air Funding is required to apply all available cash flow to repay the principal amount of the Notes, the cash flow from the aircraft in its portfolio will not be available to us to pay expenses of Fly or to pay dividends on our common shares. We may also refinance the amounts outstanding under our Notes prior to August 2012 when substantially all cash flow from aircraft held by B&B Air Funding will be applied to repay the principal on the Notes. Although we are not required to refinance the Notes, we may seek to do so prior to their maturity. Depending on market conditions, however, it may not be possible to refinance the Notes on terms we find acceptable or more advantageous to the current terms of the Notes.

If we are unable to refinance our indebtedness before being required to apply all available cash flow from our portfolio to repay principal thereon, then our ability to continue paying dividends to our shareholders will be adversely affected if we have not developed sufficient cash reserves or additional sources of cash flow to replace the cash flows that will be applied to such principal amortization.

We are subject to risks related to our indebtedness that may limit our operational flexibility and our ability to pay dividends on our shares.

The terms of the Notes and the terms of the Aircraft Acquisition Facility subject us to certain risks and operational restrictions, including:

- all the aircraft and related leases in our portfolio secure debt obligations, the terms of which restrict our ability to sell aircraft and require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under those notes;

- we are required to dedicate a significant portion of our cash flow from operations to debt service payments, thereby reducing the amount of our cash flow available to pay dividends, fund working capital, make capital expenditures and satisfy other needs;

- restrictions on our subsidiaries' ability to distribute excess cash flow to us under certain circumstances;

- lessee, geographical and other concentration requirements limit our flexibility in leasing our aircraft;

- requirements to obtain the consent of third parties including lenders, the financial guaranty policy provider for the Securitization, whom we refer to as the policy provider, and rating agency confirmations for certain actions; and

- restrictions on our subsidiaries' ability to incur additional debt, create liens on assets, sell assets, make freighter conversions and make certain investments or capital expenditures.

The restrictions described above may impair our ability to operate and to compete effectively with our competitors. Similar restrictions may be contained in the terms of future financings that we may enter into to finance our growth.

We are a holding company and currently rely on our subsidiaries to provide us with funds necessary to meet our financial obligations and pay dividends.

We are a holding company and our principal asset is the equity interest we hold in our subsidiaries, which own either directly or indirectly through their subsidiaries, the aircraft in our portfolio. As a result, we depend on dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our shares. Our existing subsidiaries are legally distinct from us and are significantly restricted from paying dividends or otherwise making funds available to us pursuant to the agreements governing their financing arrangements. Any other subsidiaries through which we may conduct operations in the future will also be legally distinct from us and may be similarly restricted from paying dividends or otherwise making funds available to us under certain conditions. Our subsidiaries will generally be required to service their debt obligations before making distributions to us, thereby reducing the amount of our cash flow available to pay dividends, fund working capital, make capital expenditures and satisfy other needs.

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Our subsidiaries are subject to interest rate risk, which could impair their ability to make distributions to us and our ability to pay dividends to you.

The Notes and the Aircraft Acquisition Facility have floating interest rates, creating the risk of an increase in interest rates and the risk that cash flow may be insufficient to make scheduled interest payments if interest rates were to increase. To limit this risk, our subsidiaries have entered into interest rate swaps with one or more counterparties. If any counterparty were to default on its obligations, then a mismatch in the floating rate interest obligations and fixed rate lease payments may arise, which could impair our subsidiaries' ability to make distributions to us, which would, in turn, adversely affect our ability to meet our financial obligations and pay dividends to our shareholders. If any of our hedging arrangements were terminated early, we could be obligated to make a material payment to our counterparty.

Risks Relating to Our Aircraft Portfolio

The variability of supply and demand for aircraft and other aviation assets could depress lease rates and the value of our leased assets, which would have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and pay dividends.

The aviation leasing and sales industry has experienced periods of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft or other aviation asset in the market is likely to depress lease rates for, and the value of, that type of asset. The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

- passenger air travel and air cargo demand;
- increased supply due to the sale of aircraft portfolios;
- geopolitical and other events, including war, acts of terrorism, civil unrest, outbreaks of epidemic diseases and natural disasters;
- operating costs, availability of jet fuel and general economic conditions affecting our lessees' operations;
- governmental regulation, which includes new airworthiness directives, statutory limits on age of aircraft and restrictions in certain jurisdictions on the age of aircraft for import;
- interest rates;
- airline restructurings and bankruptcies;
- cancellations of orders for aircraft;
- delays in delivery by manufacturers;
- availability and cost of credit;
- manufacturer production levels and technological innovation;
- retirement and obsolescence of aircraft models;
- manufacturers merging or exiting the industry or ceasing to produce aircraft or engine types;
- accuracy of estimates relating to future supply and demand made by manufacturers and lessees;
- reintroduction into service of aircraft or engines previously in storage; and
- airport and air traffic control infrastructure constraints.

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These factors may produce sharp and prolonged decreases in asset values and achievable lease rates, which would have an impact on the value of our fleet and our cost of acquiring aircraft or other aviation assets, may result in lease defaults and could delay or prevent the aircraft or other aviation assets from being leased or re-leased on favorable terms, or, if desired, sold on favorable terms.

Factors that increase the risk of decline in aircraft value and achievable lease rates could have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations and to pay dividends.

In addition to factors linked to the aviation industry generally, other factors that may affect the value and achievable lease rates of our aircraft and other aviation assets include:

- the particular maintenance, damage and operating history of the airframes and engines;
- the number of operators using that type of aircraft or engine;
- whether an aircraft or other aviation asset is subject to a lease and, if so, whether the lease terms are favorable to the lessor;
- the age of our aircraft and other aviation assets;
- airworthiness directives and service bulletins;