

Fly Leasing Ltd
Form 20-F
March 15, 2013
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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, 2012

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	New York Stock Exchange
Common Shares, par value of \$0.001 per share	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.

28,040,305 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 Fly-BBAM refers to our subsidiary, Fly-BBAM Holdings, Ltd.; (5) the term Fly Peridot refers to our subsidiary, Fly Peridot Holdings Limited; (6) the term Fly Acquisition II refers to our subsidiary, Fly Acquisition II Limited; (7) all references to our shares refer to our common shares held in the form of American Depositary Shares, or ADSs; (8) the term BBAM LP refers to BBAM Limited Partnership and its subsidiaries and affiliates; (9) the terms BBAM and Servicer refer to BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, BBAM Aviation Services Limited and BBAM US LP collectively; (10) the term Manager refers to Fly Leasing Management Co. Limited, the Company s manager; (11) the term Fly-Z/C LP refers to Fly-Z/C Aircraft Holdings LP; (12) the term GAAM refers to Global Aviation Asset Management; (13) the term Initial Portfolio refers to our initial portfolio of 47 commercial jet aircraft acquired by our subsidiary, B&B Air Funding; and (14) the term GAAM Portfolio refers to the portfolio of 49 aircraft and other assets acquired from GAAM.

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, 2012.

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Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Fly Leasing Limited is a Bermuda exempted company that was incorporated on May 3, 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. Although we were organized under the laws of Bermuda, we are a resident of Ireland for tax purposes and are subject to Irish corporation tax on our income in the same way, and to the same extent, as if we were organized under the laws of Ireland. We are principally engaged in purchasing commercial aircraft which we lease under multi-year contracts to a diverse group of airlines throughout the world. On October 2, 2007, we completed our initial public offering (IPO), with the issuance of 18,695,650 common shares and completed a private placement of 14,907,800 common shares, each in the form of ADSs.

On October 14, 2011, we completed the acquisition of the GAAM portfolio of 49 aircraft and other assets valued at approximately \$1.4 billion. The purchase was funded with approximately \$141.7 million of unrestricted cash and the assumption of approximately \$1.2 billion of secured, non-recourse debt.

As of December 31, 2012, we owned 109 aircraft. We sold three aircraft in the first quarter of 2013 and now own 106 aircraft.

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 was 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 for \$8.75 million. Summit owned the remaining 85% interest in BBAM LP.

On December 28, 2012, we sold our 15% interest in BBAM LP for \$49.5 million to Onex Corporation and its affiliate (collectively, Onex) and Summit sold 35% of its interest in BBAM LP to Onex. Concurrent with the transaction, Onex and Summit purchased 2,191,060 newly issued common shares of Fly for an aggregate of \$25.0 million or \$11.41 per share.

Our web address is: www.flyleasing.com.

Selected Financial Data

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 our operating results for the years ended December 31, 2012, 2011, 2010, 2009 and 2008.

	(Dollars in thousands, except share data)				
	Fly Leasing Limited				
	For the years ended December 31,				
	2012	2011	2010	2009	2008
Statement of income data:					
Operating lease revenue	\$ 376,437	\$ 230,716	\$ 219,655	\$ 213,964	\$ 218,940

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Gain on sale of aircraft	8,360	9,137	13,449	11,437
Gain on sale of investment in unconsolidated subsidiary	36,882			
Gain on purchases of notes payable and sale of option to purchase notes payable			12,501	82,666
Total revenues	432,696	248,789	253,665	307,535
Total expenses	381,165	243,451	190,791	181,146
Net income	47,669	1,096	52,667	89,093
Earnings per share:				
Basic	\$ 1.81	\$ 0.03	\$ 1.86	\$ 2.89
Diluted	\$ 1.80	\$ 0.03	\$ 1.86	\$ 2.89
Dividends declared and paid per share	\$ 0.84	\$ 0.80	\$ 0.80	\$ 2.00

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Basic and diluted earnings per share are calculated: (1) for 2012, 2011, and 2010 by dividing net income, less the dividend equivalent amounts paid, by the weighted average number of basic and diluted shares outstanding for the year and (2) for 2009 and 2008, by dividing net income by the weighted average number of shares outstanding for the year. Prior to April 29, 2010, the Company did not have a share-based compensation program.

	(Dollars in thousands, except share data)				
	Fly Leasing Limited				
	As of December 31,				
	2012	2011	2010	2009	2008
Balance sheet data:					
Total assets	\$ 2,968,672	\$ 3,198,498	\$ 1,978,224	\$ 2,024,132	\$ 2,086,174
Total liabilities	2,436,670	2,755,465	1,503,320	1,539,608	1,696,761
Total shareholders equity	532,002	443,033	474,904	484,524	389,413
Number of shares	28,040,305	25,685,527	26,707,501	30,279,948	32,488,911

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

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 aircraft for lease or sale for us and for other entities, including entities in which Summit and Onex may have 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, referred 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. BBAM and Onex also may participate in other ventures that acquire and lease commercial jet aircraft. 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, Onex 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 or Onex 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.

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.

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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

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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; and

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.

In connection with the sale of our 15% interest in BBAM, we have amended our management agreement (the Management Agreement) with Fly Leasing Management Co. Limited to extend the term of the Management Agreement to December 28, 2022, with an automatic five year renewal period, unless we make a payment to the Manager equal to \$8 million, subject to potential future adjustment.

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We have the right to terminate the servicing agreement for our Initial Portfolio (with the prior written consent of the financial guaranty provider for the Securitization, which we refer to as 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; 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.

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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.

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.

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 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. In addition, manufacturers are increasing production rates of some aircraft types, which may result in an increase in the supply of aircraft. 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;

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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;

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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 and other factors leading to obsolescence of aircraft models;

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.

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.

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 debt facilities restrict our ability to incur additional debt secured by the aircraft in each of those facilities. If we are unable to raise additional funds or obtain capital on acceptable terms, our growth opportunities are limited.

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

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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

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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 had a 15% investment in BBAM LP and still have a 57% investment in an entity which currently owns four 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.

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

Although we have paid a dividend each quarter since our IPO, 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 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;

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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.

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The recent debt crisis in Europe and downgrade of the U.S. government's sovereign credit rating by Standard & Poor's Ratings Services could adversely affect our business and results of operations.

The recent crisis in Europe has created uncertainty with respect to the ability of certain European Union (EU) countries to continue to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments' financial support programs and the possibility that other EU member states may experience similar financial troubles have created substantial volatility and adversely impacted financial markets. Several European banks which have been active in financing aircraft have announced their intention to scale back their aircraft related lending activities, and this may impact our ability to source debt financing for our aircraft. In addition, in early August 2011, many of the nationally recognized credit rating agencies either downgraded the U.S. long term debt rating or provided a negative rating outlook. Risks related to the recent debt crisis in Europe and downgrade of the U.S. government's sovereign credit rating have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. As these conditions persist, the ability of our lessees to meet their financial and other obligations under our operating leases could be adversely affected, which in turn could have an adverse effect on our business and results of operations.

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.

The terms of our debt facilities 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 outstanding debt;

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.

For example, commencing August 2012, B&B Air Funding was required to apply all of its available cash flow, after payment of certain expenses (including interest), to repay the principal on the Notes. The cash flow from the aircraft in the B&B Air Funding portfolio is not available to us. 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 than the current terms of the Notes.

In connection with the acquisition of the GAAM Portfolio, we assumed a debt facility provided by Norddeutsche Landesbank Girozentrale (Nord LB Facility). Beginning in November 2012, substantially all cash flow associated with these aircraft, after payment of certain expenses, have been applied to payment of interest and principal and thus are not available for distribution to us.

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We have additional indebtedness associated with other aircraft in our portfolio. Certain of these loans match the scheduled lease expiration dates. If we are unable to refinance our indebtedness and are required to apply all available cash flow from our portfolio to repay principal thereon or to make balloon payments at loan maturity, then our ability to continue paying dividends to our shareholders will be adversely affected.

In 2012, our subsidiaries entered into a \$395.0 million Term Loan. Although the Term Loan is secured by the aircraft financed thereby, we have fully guaranteed the obligations under the Term Loan, and the Term Loan is fully recourse to us. If cash flows from the aircraft secured by the Term Loan are insufficient to fund debt service, we will be required to pay all amounts due thereunder. 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.

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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 assets are the equity interests 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 may be significantly restricted from paying dividends or otherwise making funds available to us pursuant to the agreements governing their financing arrangements. If we are unable to comply with the financial and other covenants contained in these agreements, then the amounts outstanding under these debt facilities may become immediately due and payable, cash generated by aircraft financed through these facilities may be unavailable to us and/or we may be unable to draw additional amounts under these facilities. The events that could cause some of our subsidiaries to be noncompliant under their loan agreements, such as a lessee default, may be beyond our control, but they nevertheless could have a substantial adverse impact on the amount of our cash flow available to fund working capital, make capital expenditures and satisfy other cash needs. For a description of the operating and financial restrictions in our debt facilities, see the section titled *Operating and Financial Review and Prospects Financing*.

Our subsidiaries are subject to interest rate risk, which could impair their ability to make distributions to us.

Our debt facilities 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 interest rate swap arrangements were terminated early, we could be obligated to make a material payment to our counterparty.

Risks Relating to Our Aircraft Portfolio

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;

aircraft noise and emission standards;

any tax, customs, regulatory and other legal requirements that must be satisfied when an aircraft is purchased, sold or re-leased;

compatibility of our aircraft configurations or specifications with other aircraft owned by operators of that type; and

decreases in the creditworthiness of our lessees.

Any decrease in the values of and achievable lease rates for commercial aircraft or other aviation assets that may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects and our ability to meet our debt obligations and to pay dividends.

Airbus and Boeing have announced new engine variants for their narrowbody aircraft, which could decrease the value and lease rates of aircraft in our portfolio.

On December 1, 2010, Airbus announced the launch of the New Engine Option (NEO) program, which involves the offering of two new engine types one from Pratt & Whitney, a division of United Technologies Corporation, and the other from CFM International, Inc. on certain Airbus A319/A320/A321 aircraft delivering in 2016 and thereafter. Airbus proposes to charge a price premium for A319/A320/A321 aircraft equipped with these new engines. Boeing announced its re-engined aircraft on August 30, 2011. The new 737 family of aircraft will be powered by CFM International LEAP-1B engines optimized for this aircraft. The first deliveries are expected in 2017. The development of these new engine options could decrease the desirability of the current aircraft models that are not equipped with these new engines and thereby increase the supply of these types of aircraft. This increase in supply could, in turn, reduce both lease rates and future residual values for aircraft that are not equipped with the new engines.

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The advent of superior aircraft technology or the introduction of a new line of aircraft could cause our existing aircraft portfolio to become outdated and therefore less desirable, which could adversely affect our financial results and growth prospects and our ability to compete in the marketplace.

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787 and the Airbus A350, certain aircraft in our existing portfolio may become less desirable to potential lessees or purchasers. Such technological innovations may increase the rate of obsolescence of existing aircraft faster than currently anticipated by our management or accounted for in our accounting policy. In addition to new aircraft from Bombardier and Embraer, and new aircraft manufacturers, such as Mitsubishi Aircraft Corporation in Japan, Sukhoi Company (JSC) in Russia and the Commercial Aircraft Corporation of China will compete with existing Airbus and Boeing aircraft. It is uncertain how these offerings in the future could adversely impact the demand and liquidity of existing equipment. In addition, the imposition of more stringent noise or emissions standards may make certain of our aircraft less desirable and less valuable in the marketplace. Any of these risks could adversely affect our ability to lease or sell our aircraft on favorable terms or at all or our ability to charge rental amounts that we would otherwise seek to charge. The advent of new technologies or the introduction of new types of aircraft could materially adversely affect the value of the aircraft in our portfolio. In addition, our Manager and Servicer has limited experience with acquiring, leasing or selling these new aircraft types, and making investments in these new aircraft types may subject us to new and unforeseen risks, including increased difficulty in leasing or disposing of these aircraft.

Our operational costs will increase as our aircraft age, which may adversely affect the amounts available to pay dividends.

As of December 31, 2012, the weighted average age of the aircraft in our portfolio was 9.4 years. In general, the cost of re-leasing an aircraft, including maintenance and modification expenditures, increases with the age of the aircraft. The costs of converting an aging passenger aircraft to a cargo aircraft are also substantial. The incurrence of these greater expenditures as our fleet ages could adversely affect our financial results and our ability to pay dividends.

The concentration of aircraft types in our portfolio could harm our business and financial results should any difficulties specific to these particular types of aircraft occur.

As of December 31, 2012, our portfolio contains a mix of aircraft types including Airbus A319 aircraft, A320 aircraft, A330 aircraft, A340 aircraft, Boeing 717 aircraft, Boeing 737 aircraft, Boeing 747 aircraft, Boeing 757 aircraft and Boeing 767 aircraft. 89% of our aircraft are single-aisle, narrow-body aircraft, as measured by net book value. The Boeing 717 and Boeing 757 are no longer in production and Airbus has recently announced that it will cease production of the A340. Out of production aircraft may have a shorter useful life or lower residual values due to obsolescence. In addition, if any of these aircraft types (or other types that we acquire in the future) should encounter technical or other difficulties, such affected aircraft types may be subject to grounding or diminution in value and we may be unable to lease such affected aircraft types on favorable terms or at all. The inability to lease the affected aircraft types may reduce our revenues and net income to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio.

We operate in a highly competitive market for investment opportunities in aircraft and other aviation assets.

The leasing and remarketing of commercial jet aircraft is highly competitive. We compete with other aircraft leasing companies, including GE Commercial Aviation Services Limited (GECAS), ILFC, AerCap B.V., Aircraftle Advisor LLC, Air Lease Corp., Aviation Capital Group, Avolon, AWAS, Boeing Capital Corporation, CIT Aerospace, Macquarie Bank Limited, SMBC Aviation Capital, Bank of China Aviation and Jackson Square Aviation among others. We also may encounter competition from other entities that selectively compete with us, including:

airlines;

aircraft manufacturers;

financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices);

aircraft brokers;

special purpose vehicles formed for the purpose of acquiring, leasing and selling aircraft; and

public and private partnerships, investors and funds, including private equity and hedge funds.

Competition for a leasing transaction is based principally upon lease rates, delivery dates, lease terms, reputation, management expertise, aircraft condition, specifications and configuration and the availability of the types of aircraft necessary to meet the needs of the customer. Some of our competitors have significantly greater operating and financial resources than we have. In addition, some competing aircraft lessors have a lower overall cost of capital and may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. Given the financial condition of the airline industry, many airlines have reduced their capacity by eliminating select types of aircraft from their fleets. This has resulted in an increase in available aircraft of these types, a decrease in rental rates for these aircraft and a decrease in market values of these aircraft.

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Competition in the purchase and sale of used aircraft is based principally on the availability of used aircraft, price, the terms of the lease to which an aircraft is subject and the creditworthiness of the lessee. When we decide to dispose of an aircraft, BBAM, as our servicer, will arrange the disposition pursuant to the terms of the servicing agreement for that aircraft. In doing so, BBAM will compete with the aircraft leasing companies listed above, as well as with the other types of entities described above and other investors.

Many of our competitors also have order positions with Boeing and Airbus that guarantee them the delivery of new, highly desirable aircraft in the future. We do not currently have any order positions with the aircraft manufacturers.

Depreciation expenses and impairment charges could have a material adverse effect on our financial condition and results of operations.

Our aircraft have finite economic lives, their values depreciate in the ordinary course over time and their ability to generate earnings and cash flow for our business declines over time. If depreciated aircraft are not replaced with newer aircraft, our ability to generate earnings and cash to pay dividends will be reduced. In addition, we depreciate our aircraft for accounting purposes on a straight-line basis to the aircraft's estimated residual value over its estimated useful life. If we dispose of an aircraft for a price that is less than its depreciated value, then we would be required to recognize a loss that would reduce our net income during the period of the disposition and reduce our total assets and shareholders equity.

In addition, aircraft in our portfolio and any other aircraft and other aviation assets that we acquire in the future are subject to periodic review for impairment for accounting purposes. We recognized an impairment charge of \$11.4 million during the year ended December 31, 2012 on two Boeing 737-500 aircraft manufactured in 1992 and an Airbus A320-200 aircraft manufactured in 2002. In the future, if expected cash flows related to any of our aircraft are adversely affected by factors including credit deterioration of a lessee, declines in rental rates, shortened economic life, residual value risk and other market conditions, then we may be required to recognize additional depreciation or material impairment charges that would reduce our net earnings or increase our net losses. Under U.S. GAAP, once an impairment results in a reduction to the carrying value of an asset, the carrying value of such asset cannot thereafter be increased.

Aircraft liens could impair our ability to repossess, re-lease or resell the aircraft.

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges, landing charges, crew wages, maintenance charges, salvage or other obligations are likely, depending on the laws of the jurisdictions where aircraft operate, to attach to the aircraft (or, if applicable, to the engines separately). The liens may secure substantial sums that may, in certain jurisdictions or for limited types of liens (particularly fleet liens), exceed the value of any particular aircraft to which the liens have attached. Until they are discharged, the liens described above could impair our ability to repossess, re-lease or resell our aircraft.

If our lessees fail to fulfill their financial obligations, liens may attach to our aircraft. In some jurisdictions, aircraft liens or separate engine liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft (or, if applicable, the engines separately). We cannot assure you that the lessees will comply with their obligations under the leases to discharge liens arising during the terms of the leases. We may, in some cases, find it necessary to pay the claims secured by such liens in order to repossess the aircraft or obtain the aircraft or engines from a creditor thereof. These payments would be a required expense for us and would reduce our net income and our cash flows.

We cannot assure you that all lessees will comply with the registration requirements in the jurisdiction where they operate.

All of our aircraft are required to be registered at all times with appropriate governmental authorities. Generally, in jurisdictions outside the United States, failure by a lessee to maintain the registration of a leased aircraft would be a default under the applicable lease, entitling us to exercise our rights and remedies thereunder. If an aircraft were to be operated without a valid registration, the lessee operator or, in some cases, the owner or lessor might be subject to penalties, which could constitute or result in a lien being placed on such aircraft. Failure to comply with registration requirements also could have other adverse effects, including inability to operate the aircraft and loss of insurance. We cannot assure you that all lessees will comply with these requirements.

Risks Relating to Our Leases

We will need to re-lease or sell aircraft as leases expire to continue to generate sufficient funds to meet our debt obligations, finance our growth and operations and pay dividends. We may not be able to re-lease or sell aircraft on favorable terms, or at all.

Our business strategy entails the need to re-lease aircraft as our current leases expire to generate sufficient revenues to meet our debt obligations, finance our growth and operations and pay dividends to our shareholders. The ability to re-lease aircraft depends on general market and

competitive conditions. Some of our competitors may have greater access to financial resources and, as a result of

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restrictions on us contained in the terms of our indebtedness, may have greater operational flexibility. If we are not able to re-lease an aircraft or to do so on favorable terms, we may be required to attempt to sell the aircraft to provide funds for our debt service obligations or to otherwise finance our operations. Our ability to re-lease or sell aircraft on favorable terms or without significant off-lease time and transition costs could be adversely affected by depressed conditions in the airline and aircraft industries, airline bankruptcies, the effects of terrorism and war, the sale of other aircraft by financial institutions or other factors.

We rely on our lessees' continuing performance of their lease obligations.

We operate as a supplier to airlines and are indirectly impacted by the risks facing airlines today. Our success depends upon the financial strength of our lessees, our ability to assess the credit risk of our lessees and the ability of lessees to perform their contractual obligations to us. The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

competition;

fare levels;

air cargo rates;

passenger air travel and air cargo demand;

geopolitical and other events, including war, acts of terrorism, civil unrest, outbreaks of epidemic diseases and natural disasters;

increases in operating costs, including the availability and cost of jet fuel and labor costs;

labor difficulties;

economic and financial conditions and currency fluctuations in the countries and regions in which the lessee operates; and

governmental regulation of, or affecting, the air transportation business, including noise and emissions regulations, climate change initiatives and age limitations.

Given the size of our portfolio, we expect that some lessees may encounter financial difficulties or suffer liquidity problems and, as a result, will struggle to make lease payments under our operating leases. We further expect that lessees experiencing financial difficulties may seek a reduction in their lease rates or other concessions in lease terms. We could experience increased delinquencies, particularly in any future downturns in the airline industry, which could worsen the financial condition and liquidity problems of these lessees. In addition, many airlines are exposed to currency risk due to the fact that they earn revenues in their local currencies and certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to us. A delayed, missed or reduced rental payment from a lessee decreases our revenues and cash flow and may adversely affect our ability to make payments on our indebtedness and pay dividends to shareholders.

We are typically not in possession of any aircraft while the aircraft are on lease to the lessees. Consequently, our ability to determine the condition of the aircraft or whether the lessees are properly maintaining the aircraft is limited to periodic inspections that we perform or that are performed on our behalf by third-party service providers or aircraft inspectors. A lessee's failure to meet its maintenance obligations under a lease could:

result in a grounding of the aircraft;

cause us to incur costs in restoring the aircraft to an acceptable maintenance condition to re-lease the aircraft;

adversely affect lease terms in the re-lease of the aircraft; and

adversely affect the value of the aircraft.

We cannot assure you that, in the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee will be sufficient to cover the lessee's outstanding or unpaid lease obligations and required maintenance expenses or be sufficient to discharge liens that may have attached to our aircraft.

If our lessees encounter financial difficulties and we decide to restructure our leases with those lessees, this could result in less favorable leases, significant reductions in our cash flows and adversely affect our ability to meet our debt obligations and pay dividends on our shares.

We have restructured leases when lessees are late in making payments, fail to make required payments or have otherwise advised us that they expect to default in making required payments. A lease restructuring can involve a rescheduling of payments or even termination of a lease without receiving all or any of the past-due or deferred amounts. The terms and conditions of possible lease restructurings could result in a significant reduction of lease revenue which would have an adverse impact on our cash flow available for distribution and to pay dividends to shareholders. We may receive more requests for lease restructurings if any of our lessees should experience financial difficulties in the future.

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Lease defaults could result in significant expenses and loss of revenues.

In 2012, we repossessed seven of our aircraft following lessee defaults. We repossessed four additional aircraft in the first quarter of 2013 and may repossess additional aircraft in the future. Repossession, re-registration and flight and export permissions after a lessee default typically result in greater costs than those incurred when an aircraft is redelivered at the end of a lease. These costs include legal and other expenses of court or other governmental proceedings, including the cost of posting surety bonds or letters of credit necessary to effect repossession of an aircraft which could be significant, particularly if the lessee is contesting the proceedings or is in bankruptcy. Delays resulting from repossession proceedings also would increase the period of time during which an aircraft or other aviation asset does not generate lease revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to pay and that are necessary to put the aircraft in a condition suitable for re-lease or sale. We may also incur storage costs associated with any aircraft that we repossess and are unable to immediately place with another lessee. It may also be necessary to pay off liens, taxes and governmental charges on the aircraft to obtain clear possession and to remarket the asset effectively, including liens that a defaulting lessee may have incurred in connection with the operation of its other aircraft.

We may also suffer other adverse consequences as a result of a lessee default and the related termination of the lease and the repossession of the related aircraft. It is likely that our rights upon a lessee default will vary significantly depending upon the jurisdiction of operation and the applicable law, including the need to obtain a court order for repossession of the aircraft and/or consents for deregistration or re-export of the aircraft. We anticipate that when a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or performing all or some of the obligations under the relevant lease. In addition, certain of our lessees are owned in whole, or in part, by government-related entities, which could make it difficult to repossess our aircraft in that lessee's domicile. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

If we repossess an aircraft or other aviation asset, we will not necessarily be able to export or deregister and profitably redeploy the asset. For instance, where a lessee or other operator flies only domestic routes in the jurisdiction in which an aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist deregistration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft or engine. If we incur significant costs in repossessing our aircraft or are unable to gain possession of our aircraft as a result of lessee defaults, our financial condition and results of operations may be materially adversely affected.

Our lessees' failure to comply with their maintenance obligations on our aircraft could significantly harm our financial condition, results of operations and ability to pay dividends.

The standards of maintenance observed by our lessees and the condition of aircraft at the time of sale or lease may affect the market values and rental rates of our aircraft. Under each of our leases, the lessee is primarily responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and to the aircraft, including operational, maintenance, government agency oversight, registration requirements and airworthiness directives. A lessee's failure to perform required maintenance during the term of a lease could result in a diminution in the value of an aircraft, an inability to re-lease the aircraft at favorable rates or at all, or a potential grounding of the aircraft.

Failures by a lessee to maintain an aircraft would also likely require us to incur maintenance and modification costs upon the termination of the applicable lease, which could be substantial, to restore the aircraft to an acceptable condition prior to re-leasing or sale. Even if we are entitled to receive maintenance payments, these payments may not cover the entire cost of actual maintenance required. Any failure to maintain our aircraft may materially adversely affect our financial results, asset values and growth prospects.

Failure to pay certain potential additional operating costs could result in the grounding of our aircraft and prevent the re-lease, sale or other use of our aircraft, which would negatively affect our business, financial condition and results of operations.

As in the case of maintenance costs, we may incur other operational costs upon a lessee default or where the terms of the lease require us to pay a portion of those costs. Such costs, which can be substantial, include:

the costs of casualty, liability, war and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required or is insufficient in amount or scope;

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the costs of licensing, exporting or importing an aircraft, costs of storing and operating an aircraft, airport taxes, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions; and

penalties and costs associated with the failure of lessees to keep the aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals.

The failure to pay some of these costs can result in liens on the aircraft or a loss of insurance. Any of these events could result in the grounding of the aircraft and prevent the re-lease, sale or other use of the aircraft until such default is cured.

Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us and may negatively affect our business, financial condition and results of operations.

Although we do not expect to control the operation of our leased aircraft, our ownership of the aircraft could give rise, in some jurisdictions, to strict liability for losses resulting from their operation. Our lessees are required to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risks and hull war risks insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. There may be circumstances under which it would be desirable for us to maintain top-up and/or political risk coverage at our expense, which would add to our operating expenses.

Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is available at any time may be below the amount required under the initial leases and required by the market in general.

We cannot assure you that the insurance maintained by our lessees will be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations, as well as the lack of available insurance, could reduce the proceeds upon an event of loss and could subject us to uninsured liabilities, either of which could adversely affect our business, financial condition and results of operations.

Failure to obtain certain required licenses, consents and approvals could negatively affect our ability to re-lease or sell aircraft, which would negatively affect our business, financial condition and results of operations.

Aircraft leases often require specific licenses, consents or approvals. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, re-export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase or otherwise modify these requirements. In addition, a governmental consent, once given, might be withdrawn. Furthermore, consents needed in connection with future re-leasing or sale of an aircraft may not be forthcoming. Any of these events could adversely affect our ability to re-lease or sell aircraft, which would negatively affect our business, financial condition and results of operations.

Some of our leases provide the lessees with early termination options.

As of December 31, 2012, six of our leases provide the lessees with early termination options. We also could enter into leases in the future that provide lessees with early termination options. If any lease is terminated early at a time when we could not re-lease the aircraft at rates at least as favorable to us as the terminated lease, our results of operations and ability to pay dividends could be adversely affected.

Risks associated with the concentration of our lessees in certain geographical regions could harm our business.

In addition to global economic conditions, our business is exposed to local economic and political conditions that can influence the performance of lessees located in a particular region. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions.

European concentration. Revenues from 28 lessees based in Europe accounted for 45% of our total revenues in 2012. Of the 28 lessees, 6 are based in Eastern Europe. Commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures, in part as a result of the deregulation of the airline industry by the European Union and the development of low-cost carriers. In addition, European carriers may be impacted by the recent lack of economic growth in Europe and the on-going debt crisis. European countries generally have

relatively strict environmental regulations and traffic constraints that can restrict operational flexibility and decrease aircraft productivity, which could significantly increase aircraft operating costs.

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Asian and South Pacific concentration. Revenues from 14 lessees based in Asia (including India and Australia) accounted for 30% of our total revenues in 2012, and lease rental revenues from three lessees based in India accounted for 10% of total revenues. There are significant obstacles to the Indian airline industry's development, including poor aviation infrastructure, continuing losses from operations due to overcapacity and other factors, continuing government control and regulation over the industry. If this control and regulation persists or expands, the Indian airline industry likely would experience a significant decrease in growth or restrictions on future growth.

North American concentration. Revenues from five lessees based in North America accounted for 12% of our total revenues in 2012. During the past 15 years a number of North American passenger airlines filed Chapter 11 bankruptcy proceedings and several major U.S. airlines ceased operations altogether. High labor costs, high fuel costs, the strength of labor unions in collective bargaining negotiations and the September 11, 2001 terrorist attacks in the United States have imposed additional financial burdens on most U.S. airlines.

Mexico, South and Central American concentration. Revenues from four lessees based in Mexico, South and Central America accounted for 8% of our total revenues in 2012. While lessees throughout the world are affected by exchange rate fluctuations as a result of the mismatch of U.S. dollar exposure between their operating expenses and revenues, airlines in Mexico, South and Central America are particularly sensitive to this risk because of the history of currency devaluations in this region. Any strengthening of the U.S. dollar against the local currency could negatively impact the profitability of these airlines and their ability to meet their lease obligations to us. These risks are exacerbated by the potential for Mexican, South and Central American currencies to be devalued by governments as they have been periodically during the last four decades.

Middle East and Africa concentration. Revenues from four lessees based in the Middle East and Africa accounted for 5% of our total revenues in 2012. Although we currently have limited exposure to airlines based in the Middle East, continued and spreading civil unrest in the Middle East and other regions of the world may negatively impact airlines and airline travel.

The risks associated with the geographical concentration of our lessees may become exacerbated as our aircraft are re-leased to lessees or subleased to sublessees in other regions or as we acquire additional aircraft.

In addition to the geographic concentrations described above, we also have significant exposure to risks associated with conducting business in emerging markets. Emerging markets have less developed economies and infrastructure and are often more vulnerable to business and political disturbances, such as economic instability, significant fluctuations in interest rates and currency exchange rates, civil unrest, government instability, the nationalization or expropriation of private assets and the imposition of taxes or other charges by government authorities. The occurrence of any of these events in markets served by our lessees and the resulting economic instability may adversely affect our ownership interest in aircraft or the ability of lessees which operate in these markets to meet their lease obligations. As a result, lessees that operate in emerging market countries may be more likely to default than lessees that operate in developed countries. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for us to enforce our legal rights in such countries.

Further, demand for aircraft is dependent on passenger and cargo traffic, which in turn is dependent on general business and economic conditions. As a result, weak or negative economic growth in emerging markets may have an indirect effect on the value of the assets that we acquire if airlines and other potential lessees are adversely affected. For these and other reasons, our financial condition and results of operations may be negatively impacted by adverse economic and political developments in emerging market countries.

Risks Related to the Aviation Industry

Airline reorganizations could impair our lessees' ability to comply with their lease payment obligations to us.

In recent years, multiple airlines have sought to reorganize and seek protection from creditors under their local laws. Bankruptcies have led to the grounding of significant numbers of aircraft, rejections of leases and negotiated reductions in aircraft lease rentals, with the effect of depressing aircraft market values. Additional reorganizations or liquidations by airlines under applicable bankruptcy or reorganization laws or further rejection or abandonment of aircraft by airlines in bankruptcy proceedings may depress aircraft values and aircraft lease rates. Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft or re-lease other aircraft at favorable rates.

High fuel prices can adversely affect the profitability of the airline industry and our lessees' ability to meet their lease payment obligations to us.

Fuel costs represent a major expense to airlines, and fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events, regulatory changes including those related to greenhouse gas emissions and currency exchange rates.

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Fuel prices continue to have a significant impact on airline profitability. Due to the competitive nature of the airline industry, airlines may not be able to pass on increases in fuel prices to their customers by increasing fares. If they pass on the higher costs, it may adversely affect demand for air travel, which would reduce revenues to our customers. In addition, airlines may

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not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. Although fuel prices have been relatively stable, they have stabilized at prices significantly higher than historical averages. If fuel prices increase further, our lessees may incur higher costs or experience reduced revenues. Consequently, these conditions may:

affect our lessees' ability to make rental and other lease payments;

result in lease restructurings and aircraft and engine repossessions;

increase our costs of servicing and marketing aircraft;

impair our ability to re-lease the aircraft and other aviation assets or re-lease or otherwise dispose of the assets on a timely basis at favorable rates; and

reduce the proceeds received for the aircraft or other aviation assets upon any disposition.

Government regulations could require substantial expenditures, reduce our profitability and limit our growth.

Certain aspects of our business are subject to regulation by state, federal and foreign governmental authorities. Aircraft are subject to regulations imposed by aviation authorities regarding aircraft maintenance and airworthiness. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft and related equipment are continuously maintained in proper condition to enable safe operation of the aircraft. Aircraft manufacturers also may issue their own recommendations. Airworthiness directives and similar requirements typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

Each lessee generally is responsible for complying with airworthiness directives with respect to its aircraft and is required to maintain the aircraft's airworthiness. To the extent that a lessee fails to comply with airworthiness directives required to maintain its certificate of airworthiness or other manufacturer requirements in respect of an aircraft or if the aircraft is not currently subject to a lease, we may have to bear the cost of such compliance. Under many leases, we have agreed to share with our lessees the cost of obligations under airworthiness directives (or similar requirements). These expenditures can be substantial and, to the extent we are required to pay them, our cash flow and ability to pay dividends could be substantially adversely affected.

In addition to these expenditures, which may be substantial, significant new requirements with respect to noise standards, emission standards and other aspects of our aircraft or their operation could cause our costs to increase and could cause the value of our aircraft portfolio to decrease. Other governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, possibly as part of the airworthiness requirements, but also by other jurisdictions where the aircraft operate. In addition, most countries' aviation laws require aircraft to be maintained under an approved maintenance program having defined procedures and intervals for inspection, maintenance and repair. To the extent that our aircraft are off-lease or a lessee defaults in effecting such compliance, we are required to comply with such requirements at our expense.

The effects of various environmental regulations may negatively affect the airline industry. This may cause lessees to default on their lease payment obligations to us.

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and the International Civil Aviation Organization, or ICAO, have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the European Union has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional

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investments in the aircraft and engines to make them compliant.

In addition to more stringent noise restrictions, the United States and other jurisdictions are beginning to impose more stringent limits on nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines, consistent with current ICAO standards. These limits generally apply only to engines manufactured after 1999. Certain of the aircraft engines owned by us were manufactured after 1999. Because aircraft engines are replaced from time to time in the usual course, it is likely that the number of such engines may increase over time. Concerns over global warming could result in more stringent limitations on the operation of aircraft powered by older, non-compliant engines, as well as newer engines.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The European Parliament has confirmed that aviation is to be included in the European Union's Emissions Trading Scheme, although the start date has been deferred for one year to 2014. This inclusion could possibly distort the European air

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transport market leading to higher ticket prices and ultimately a reduction in the number of airline passengers. As an answer to these concerns, European airlines have established the Committee for Environmentally Friendly Aviation to promote the positive environmental performance of airlines.

Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause the lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial conditions. Consequently, such compliance may affect the lessees' ability to make rental and other lease payments and reduce the value received for the aircraft upon any disposition, which could have an adverse effect on our financial position and results of operations.

Additional terrorist attacks or the fear of such attacks or civil unrest, even if not made directly on the airline industry, could negatively affect lessees and the airline industry.

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent terrorist attacks abroad, notably in the Middle East, Southeast Asia and Europe, increased security restrictions were imposed on air travel. Costs for aircraft insurance and security measures have increased, passenger and cargo demand for air travel decreased, and operators have faced increased difficulties in acquiring war risk and other insurance at reasonable costs.

Additional terrorist attacks, even if not made directly on the airline industry, or the fear of or any precautions taken in anticipation of such attacks (including elevated national threat warnings or selective cancellation or reduction of flights), could materially adversely affect lessees and the airline industry. The wars in Iraq and Afghanistan and additional international hostilities, including heightened terrorist activity, could also have a material adverse impact on our lessees' financial condition, liquidity and results of operations. Lessees' financial resources might not be sufficient to absorb the adverse effects of any further terrorist attacks or other international hostilities involving the United States or U.S. interests, which could result in significant decreases in aircraft leasing transactions thereby materially adversely affecting our results of operations.

Epidemic diseases may hinder airline travel.

In the past, air travel has been adversely affected by the outbreak of epidemic diseases such as severe acute respiratory syndrome (SARS), avian influenza or the bird flu, and H1N1 virus or the swine flu. Outbreaks of pandemic diseases, or the fear of such events, could provoke responses, including government-imposed travel restrictions, which could negatively affect passenger demand for air travel and the financial condition of the aviation industry.

Natural disasters and other natural phenomena may disrupt air travel.

Air travel can be disrupted, sometimes severely, by the occurrence of natural disasters and other natural phenomena. For example, the tsunami in Japan and flooding in Thailand in 2011 and the spread of volcanic ash in Europe in early 2010 caused the closure of airports and flight cancellations throughout the affected area. The airline industry incurred substantial losses from these disruptions.

We depend on aircraft and engine manufacturers' success in remaining financially stable and producing aircraft.

The supply of commercial aircraft is dominated by a few airframe manufacturers, including Boeing, Airbus, Embraer, ATR and Bombardier, and a limited number of engine manufacturers, such as GE Aircraft Engines, Rolls-Royce plc, Pratt & Whitney, a division of United Technologies Corporation, IAE International Aero Engines AG and CFM International, Inc. As a result, we will be dependent on the success of these manufacturers in remaining financially stable, producing products and related components which meet the airlines' demands, providing customer support and fulfilling any contractual obligations they may have to us.

Should the manufacturers fail to respond appropriately to changes in the market environment or fail to fulfill any contractual obligations they might have to us, we may experience:

missed or late delivery of aircraft and a potential inability to meet our contractual obligations owed to any of our then lessees, resulting in potential lost or delayed revenues, lower growth rates and strained customer relationships;

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an inability to acquire aircraft and related components on terms which will allow us to lease those aircraft to airline customers at a profit, resulting in lower growth rates or a contraction in our aircraft fleet;

a market environment with too many aircraft available, potentially creating downward pressure on demand for the anticipated aircraft in our fleet and reduced market lease rates and sale prices; or

a reduction in our competitiveness due to deep discounting by the manufacturers, which may lead to reduced market lease rates and aircraft values and may affect our ability to remarket or sell some of the aircraft in our fleet at a profit or at all.

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A new standard for lease accounting is expected to be announced in the future, but we are unable to predict the impact of such a standard at this time.

In August 2010, the Financial Accounting Standards Board (FASB) issued an Exposure Draft that proposes substantial changes to existing lease accounting, which will affect all lease arrangements. In July 2011, the FASB and the International Accounting Standards Board (IASB) unanimously agreed to re-expose their revised proposals for a leases standard. The FASB 's proposal requires that all leases be recorded on the statement of financial position of both the lessee and lessor. We are unable to predict the effect the proposed change in lease accounting will have on the airline industry 's leasing arrangements.

Risks Related to the Ownership of Our Shares

We have anti-takeover provisions in our bye-laws and in some of our agreements that may discourage a change of control.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These include:

provisions that permit us to require any competitor of BBAM LP that acquires beneficial ownership of more than 15% of our common shares either to tender for all of our remaining common shares for no less than their fair market value, or sell such number of common shares to us or to third parties as this would reduce its beneficial ownership to less than 15%, in either case within 90 days of our request to so tender or sell;

provisions that reduce the vote of each common share held by a competitor of BBAM LP that beneficially owns 15% or more, but less than 50%, of our common shares to three-tenths of one vote per share on all matters upon which shareholders may vote;

provisions that permit our board of directors to determine the powers, preferences and rights of any preference shares we may issue and to issue any such preference shares without shareholder approval;

advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and

no provision for cumulative voting in the election of directors, such that all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 25% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

These provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control of our company or change our board of directors and, as a result, may adversely affect the market price of our shares and your ability to realize any potential change of control premium.

In addition, provisions in our management agreement and certain other agreements could make it more difficult for a third party to acquire our company without the consent of our board of directors or BBAM. Upon a change of control, our management agreement requires us to pay a fee equal to 1.5% of the Company 's enterprise value to our manager.

We are a Bermuda company that is managed and controlled in Ireland. It may be difficult for you to enforce judgments against us or against our directors and executive officers.

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We were incorporated under the laws of Bermuda and are managed and controlled in Ireland. Our business is based outside the United States and a majority of our directors and officers reside outside the United States and a majority of our assets and some or all of the assets of such persons are located outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon us or those persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda or Ireland against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda or Irish law and do not have force of law in Bermuda or Ireland. However, a Bermuda or Irish court may impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda or Irish law.

There is doubt as to whether the courts of Bermuda or Ireland would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, predicated upon the civil liability provisions of the U.S. federal securities laws, or entertain actions brought in Bermuda or Ireland against us or such persons predicated solely upon U.S. federal securities laws. Further, there is no treaty in effect between the United States and Bermuda or Ireland providing for the enforcement of judgments of U.S. courts in civil and commercial matters, and there are grounds upon which Bermuda or Irish courts may decline to enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal

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securities laws, may not be allowed in Bermuda or Irish courts as contrary to public policy in Bermuda or Ireland. Because judgments of U.S. courts are not automatically enforceable in Bermuda or Ireland, it may be difficult for you to recover against us or our directors and officers based upon such judgments.

As a shareholder of our company, you may have greater difficulties in protecting your interests than as a shareholder of a U.S. corporation.

The Companies Act 1981 of Bermuda, as amended, which we refer to as the Companies Act, applies to our company and differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our bye-laws, some of these differences may result in your having greater difficulties in protecting your interests as a shareholder of our company than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or our bye-laws, and the circumstances under which we may indemnify our directors and officers.

Risks Related to Taxation

If we generate ordinary earnings for U.S. federal income tax purposes, U.S. shareholders may be required to include their pro rata share of these ordinary earnings in their gross income for U.S. federal income tax purposes.

We expect that we will be treated as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for the current taxable year and future taxable years and that U.S. Holders of shares will be subject to the PFIC rules. However, no assurance can be given that we will or will not be considered a PFIC in the current or future years. The determination whether or not we are a PFIC is a factual determination that is made annually based on the types of income we earn and the value of our assets, and because certain aspects of the PFIC rules are not entirely certain, there can be no assurance that we are or are not a PFIC or that the IRS will agree with our conclusion regarding our PFIC status. A U.S. Holder of shares of a PFIC is subject to special rules and a variety of potentially adverse tax consequences under the U.S. federal income tax laws. Assuming we are a PFIC, U.S. Holders of our shares will be subject to different taxation rules with respect to an investment in our shares depending on whether they elect to treat us as a qualified electing fund, or a QEF, with respect to their investment in our shares. If a U.S. Holder makes a QEF election in the first taxable year in which the U.S. Holder owns our shares (and if we comply with certain reporting requirements, which we have done and intend to), then such U.S. Holder will be required for each taxable year to include in income a pro rata share of our ordinary earnings as ordinary income and a pro rata share of our net capital gains as long-term capital gain, subject to a separate voluntary election to defer payment of taxes, which deferral is subject to an interest charge. Such inclusion is required even if the amount exceeds cash distributions, if any. (See ITEM 10. ADDITIONAL INFORMATION Taxation U.S. Federal Income Tax Considerations)

We may face increased tax costs.

We and our subsidiaries could face increased tax costs for various reasons, including our failure to qualify for treaty benefits under the Irish Treaty, the maintenance of a permanent establishment within the United States, or the deduction of withholding taxes from rent payments. Any increase in our tax costs, directly or indirectly, would adversely affect our net income and would decrease cash available for distribution to our shareholders.

In addition, because Ireland does not have tax treaties with all jurisdictions, we may find it necessary to establish subsidiaries in other jurisdictions to lease or sublease aircraft to customers in those jurisdictions. Such subsidiaries may be subject to taxation in the jurisdictions in which they are organized, which would reduce our net income and have an adverse impact on our cash flow available for distribution to our shareholders.

In addition, any increase in Irish corporate tax rates could have an adverse impact on us. The recent economic instability in Ireland and the EU led bailout of Ireland have led to speculation that Ireland could be required to increase its corporate tax rate at some point in the future.

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The tax rate applicable to us would be higher than we expect if we were considered not to be carrying on a trade in Ireland for the purposes of Irish law.

We are subject to Irish corporation tax on our net trading income at the rate of 12.5%. Under Irish tax law, non-trading income is taxed at the rate of 25% and capital gains are taxed at the rate of 33%. We believe that we carry on sufficient activity in Ireland, directly through our board of directors and indirectly through the services of our Manager, BBAM LP and our Servicer, so as to be treated as carrying on a trade in Ireland for the purposes of Irish tax law. If we or any of our Irish tax-resident subsidiaries were considered not to be carrying on a trade in Ireland, we or they may be subject to additional Irish tax liabilities. The application of a higher tax rate (25% instead of 12.5%) on taxable income could decrease cash available for distribution to our shareholders. In addition, we cannot assure you that the 12.5% tax rate applicable to trading income, the 33% tax rate applicable to capital gains or the 25% tax rate applicable to non-trading income will not be changed in the future.

ITEM 4. INFORMATION ON THE COMPANY

Fly Leasing Limited is a Bermuda exempted company that was incorporated on May 3, 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. We are principally engaged in purchasing commercial aircraft which we lease under multi-year contracts to a diverse group of airlines throughout the world.

Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Although we are organized under the laws of Bermuda, we are resident in Ireland for Irish tax purposes and thus are subject to Irish corporation tax on our income in the same way, and to the same extent, as if we were organized under the laws of Ireland. Our principal executive offices are located at West Pier, Dun Laoghaire, County Dublin, Ireland. Our telephone number at that address is +353-1-231-1900. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711. Our web address is: www.flyleasing.com.

On October 2, 2007, we completed our initial public offering with the issuance of 18,695,650 common shares and completed a private placement of 14,907,800 common shares, each in the form of ADSs. These shares have all been registered.

On October 14, 2011, we completed the acquisition of the GAAM portfolio of 49 aircraft and other assets valued at approximately \$1.4 billion. The purchase was funded with approximately \$141.7 million of our unrestricted cash and our assumption of approximately \$1.2 billion of secured, non-recourse debt.

As of December 31, 2012, our portfolio consisted of 109 aircraft. Since December 31, 2012, we have sold three additional aircraft.

Our Relationship with BBAM

BBAM is a leading commercial jet aircraft servicer. BBAM and its affiliates assist us in acquiring, leasing and re-marketing aircraft, manage our day-to-day operations and affairs and act as Servicer for our portfolio of aircraft and related leases.

We engage BBAM and its affiliates as Manager of our company and Servicer for our aircraft portfolio under management and servicing agreements. Our Manager manages our company under the direction of its chief executive officer and chief financial officer, who are exclusively dedicated to our business and BBAM assists our Manager in acquiring and disposing of our aircraft, markets our aircraft for lease and re-lease, collects rents and other payments from the lessees of our aircraft, monitors maintenance, insurance and other obligations under our leases and enforces our rights against lessees. BBAM is among the largest aircraft leasing companies in the world, as measured by the number of owned and managed aircraft in its portfolio.

On April 29, 2010, the management team of BBAM, 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 BBAM, the Manager and certain other companies that manage and service Fly and its aircraft portfolio.

On April 29, 2010, we purchased through our wholly-owned subsidiary, Fly-BBAM, a 15% interest in BBAM LP for \$8.75 million. BBAM LP provides management and administrative services to Fly, including servicing of its aircraft portfolio. Summit owned the remaining 85% interest in BBAM LP. Also as part of the transaction, Summit acquired 1,000,000 Fly shares from Babcock & Brown.

On December 28, 2012, we sold our 15% interest in BBAM LP to Onex for \$49.5 million. Summit also sold a 35% interest in BBAM LP to Onex resulting in Onex owning 50% of BBAM LP and Summit owning the remaining 50%. Concurrent with the transaction, Summit and Onex

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invested \$5.0 million and \$20.0 million, respectively, for a total of \$25.0 million in 2,191,060 newly issued common shares of Fly. The new shares were sold at a per share price of \$11.41, which represents a 5% discount to the volume-weighted average price of Fly's common shares in the five-day period ended November 29, 2012. The shares are subject to lock-up provisions, and we have agreed to register these shares with the Securities and Exchange Commission pursuant to a registration rights agreement.

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As of December 31, 2012, our aircraft portfolio consisted of 109 commercial jet aircraft with 103 narrow-body passenger aircraft (including two freighters) and six wide-body passenger aircraft.

As of December 31, 2012, we had 59 Boeing aircraft and 50 Airbus aircraft in our fleet. The aircraft in our portfolio were manufactured between 1990 and 2011 and have a weighted average age of 9.4 years as of December 31, 2012. We estimate that the useful life of our aircraft is generally 25 years from the date of manufacture. In the case of a freighter, the remaining useful life is determined based on the date of conversion and in such case, the total useful life may extend beyond 25 years from the date of manufacture.

The following table presents the aircraft in our portfolio as of December 31, 2012:

Lessee Name	Aircraft Type	Airframe Type	Date of Manufacture
1. Aeromexico	B737-700	Narrowbody	2006
2. Aeromexico	B737-700	Narrowbody	2005
3. Aeromexico	B737-700	Narrowbody	2005